

**MULTICHANNEL
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EXECUTIVE SUMMARY:

INVENTORY MANAGEMENT



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Managing Inventory in an Omnichannel World

BY ERIN LYNCH

 @LYNCHMCM

 GPLUS.TO/LYNCHMCM



In the ecommerce world, managing inventory can be quite the head scratcher. It's now about crosschannel visibility and getting your products to the consumer whenever and however they want it, no matter where they shop.

Simply put, if you don't have an effective inventory strategy in place, you will see your financials tied up in slow moving inventory, you will see an increase in picking errors, and quite possibly, missed sale opportunities due to out-of-stock goods.

So, how do you know if your inventory management solutions are up to par? The best way to find out is to ask yourself these five questions:

1. Are you able to track what is available for sale versus what is on hand?
2. Can you effectively allocate inventory by channel?
3. Can you determine and monitor the minimum amount of inventory to keep?

4. Can you identify and track items used in assembled packages, such as gift baskets, and track them properly?
5. Do you have visibility into excess and obsolete stock, and do you have a targeted action plan in place to sell off or reduce this inventory?

If you answered no to any one of these questions, it's time to start revisiting your inventory management plan and the first step is to understand that it is not solely an operations issue. A truly successful inventory plan should have all hands on deck, including the marketing, catalog, ecommerce, and merchandise departments.

Preparing for Peak

At least one point during the year, most retailers will see an increase in purchases from their inventory. This could happen during any peak season or when a product you sell suddenly becomes a must have. No matter what your peak season is,

your entire operation better be prepared to meet customer's expectations.

Peak is a perfect example of how poor inventory plans can affect sales. But if you manage your inventory against a promotional calendar, everyone within the ecommerce team will come out a winner. Not only will your purchasing team understand when to buy and how much to buy, your fulfillment provider will know when to get the warehouse ready for peak, and your contact center can prepare for increased volume. When creating a promotional calendar, in order to get optimum results, it's vital to factor in last year's sales forecasts as well.

Carrying extra inventory can definitely help, but your main focus should be on integrating your front and back end. If your back-end and front-end coincide, your customers will be able to see, in real time, what's in stock and what isn't.



Outsourcing Fulfillment from Local to Global

We are living in an interconnected, borderless world, thanks to the internet. And merchants are facing struggles about getting their products to the consumer the fastest way possible regardless of location. But if there is the slightest problem in the shipment, it can lead to major problems within your business. To be fully integrated, you can't forget your supply chain since it could affect your ability to satisfy your customers.

Today's connected customer is looking for omnichannel options and same-day delivery. To meet these new demands, retailers need global inventory visibility that will allow them to see what's available where and how to ship it quickly, for the lowest cost possible. This will also ensure that one specific location isn't overwhelmed with orders.

Drop shipping can be a great way for retailers to meet customer demand when your ecommerce company has items that are unrealistic to keep in a warehouse. Reasons for drop shipping can be because the SKUs take up too much space in the warehouse, there is sporadic consumer

demand for certain products, or there is even an additional expense to even carry it. Whatever the reason a merchant might be even considering drop shipping, it generally can allow a wider variety of products to better satisfy your customer.

According to Multichannel Merchant's MCM Outlook 2013 survey, the percentage of merchants who drop ship has dropped slightly, but the percentage of merchandise that actually drop ship has gone up. The 2013 results state that 54.3% of respondents said they drop ship an average of 17.66% of its merchandise. In 2012, 61.7% of respondents said they drop shipped an average of 12% of its merchandise.

When used correctly, a drop-shipping strategy can reduce distribution and fulfillment costs and even improve service levels within the supply chain. However, if the rules of engagement between the retailer and vendor are not clear, drop shipping

can hurt profitability and jeopardize the customer's overall experience and loyalty.

Drop shipping, more often than not, is a great fit for large or heavy items, or as stated above, sporadic moving SKUs. But when it comes to figuring out if it's even feasible or cost effective to do in the first place, it all comes down to data.

Before even thinking about drop shipping, it's important to compare cost, services and other factors between in-house and vendor fulfillment. According to supply chain strategists, cost comparisons include the cost of holding and shipping inventory in-house versus the total cost of drop shipping from the vendor. But there are also some not so obvious factors including order lines, SKU affinities, regional SKU, and service level profiles. It should also be noted when calculating costs, that the customer is still going to pay the same competitive price regardless of fulfillment source. But there can be a risk when a merchant decides to drop ship, which is why it is important for retailers to stay in constant communication with their vendors. Whichever fulfillment provider you choose, always remember that they are an extension of your brand. Make sure that they understand your inventory plans, promotional plans, product information, and overall company culture.

You might find that a vendor cannot deliver quality customer service that meets your own standards which could ultimately hurt your brand as a whole. To combat a poor customer experience, retailers should take as much control of the shipping process as possible in order to still appear visible to the consumer. This can be done by offering messages to the consumer via SMS or email about the shipment and by placing your brand on the packaging both

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inside and outside of the box.

Retailers might want to consider testing the vendors by ordering products to be delivered to their own homes. These random checks help identify service issues, but can also provide feedback to vendors.

Opening Inventory Across All Channels

Shopping habits, devices, and locations are interchangeable in the customer's eyes, which is why it's imperative for merchants to offer a wide variety of omnichannel fulfillment options such as ship-from-store, ship-to-store, and buy online and pick up in-store. However, since ecommerce has now become synonymous with omnichannel, merchants' efforts should also focus on a variety of fulfillment options.

When focusing on omnichannel fulfillment, retailers can expect to see a boost in conversion rates anywhere between 2% and 20%. But by offering various fulfillment options to your customer it will most definitely boost your customer satisfaction rates and could help increase long term customer value.

However, none of these fulfillment options will ever be successful if your inventory systems across all channels are not up to par.

In order to master omnichannel, inventory needs to be a visible everywhere, from online, in-store, and in the distribution centers, from the moment a purchase is even considered by the consumer. By doing so, it can reduce stranded inventory, result in fewer markdowns, and provide a higher customer service rating. Connecting the dots between your store and your site will also increase engagement, customer satisfaction and result in sales.

Retailers such as Nordstrom and Toys 'R' Us have been offering ship-from-store to customers for quite some time, but one retailer in particular that has been making ship-from-store a major focus within the past two years is Macy's. In fact, Macy's recently announced plans to see a total of



500 stores double as fulfillment centers by the end of 2013. According to Macys, these mini distribution centers drive incremental sales, increase inventory turn, and improve gross margin.

Associate ordering systems in the traditional bricks-and-mortar store, also known as AOS, along with kiosks, can open up your inventory across all channels by allowing in-store customers to search and order products that might not be available in a physical store.

The overall goal of omnichannel inventory should be to bring the online experience to the traditional store. Brick-and-mortar shoppers, even though they are in a physical location, should feel as if there is a limitless amount of SKUs before them. This move will not only keep the customer in-store, but will also secure a sale and reduce the risk of the shopper going to your competitor.

Slow Moving Inventory

Slow moving inventory is an issue that retailers never want to have, but more likely than not, will. But that doesn't mean you have to let slow moving inventory collect dust. You can use it to either turn a profit or gain valuable customer appreciation.

Slow moving inventory can be defined as SKUs that haven't moved in 90, 120, or 180 days depending on the products you sell. The number of pieces could also range from one or two to the thousands.

Most retailers let slow SKUs sit and hope it might be useful at another time. But more often than not, it just becomes an extra expense for the warehouse. But there are ways to combat the dust collecting and turn those slow movers into profit builders. If you are a retailer and find yourself with one or two products that are not moving, look to your data. There is a high possibility you might be able to promote those products to customers you know have purchased something similar in the past. You can then work with your marketing team to offer the customer a promotion of the product at a discounted price.

If you have smaller items such as lotions or creams, put some in already existing orders with a note thanking them for their business.

For the SKUs that come in the hundreds or the thousands, retailers can look to using their own outlet stores (if they have them) and offer the products at discounted rates. Or retailers can move those products to existing discount business such as dollar



stores or an off-price retailer like TJ Maxx to help move, and hopefully sell out, of the products.

But probably the most important advice on how to handle slow moving inventory is to know it is there. Disregarded or forgotten inventory in a warehouse could mean losing out on a sale and wasting warehouse space. To counter, retailers should have an ongoing counting program inside the warehouse where slow moving inventory can be identified on a monthly, quarterly, and annual basis.

Moving Returned Inventory Fast

Once a return has been made and finalized, the goal for every merchant should now be to get that item back in the inventory as soon as possible. This is why the timing of a return is critical. So how can you ensure a quick turnover when it comes to returned inventory? Merchants can provide accurate forecasts to the fulfillment center to ensure proper staffing levels and to shrink lead processing times. To streamline the put away process, merchants can

utilize a centralized returns active area rather than consolidating returned items throughout the pick module, thus reducing travel time. Warehouse management logic would then direct all future demand allocations within the returns area first in order to follow true first in, first out rules.

Company Culture

It doesn't matter if you drop-ship or do everything in house, the most important part of inventory management comes from the company culture instilled upon by the merchant to all employees across all departments.

Merchants need to develop policies that vendors, merchandisers, and warehouse staff understand and can adhere to. This policy should be the blueprint to company protocol on the way products are received, shipped, stocked, counted, and picked. This could include shipping guides, product specification sheets, packaging and stock instructions, and billing guidelines. When you have these types of guidelines in place, your inventory management system should reflect the most up-to-date information and ensure smooth sales.

More importantly, when you create an ecommerce company that has an "always open" motto, it will not only increase customer satisfaction, but boost your bottom line. ■

The following Multichannel Merchant articles by staff and industry experts were sourced for this executive research summary. Please click on the article titles to learn more:

- [What to Do with Slow Moving Inventory](#)
- [How to Reach the Crosschannel Consumer this Holiday](#)
- [Boosting Engagement through Returns](#)
- [Merchants See Increased Satisfaction with Omnichannel Fulfillment](#)
- [Why Omnichannel Fulfillment Matters](#)
- [5 Questions for Your Holiday Readiness Checklist](#)
- [Drop Shipping Remains a Big Opportunity for Merchants](#)
- [3 Priorities for Effective Drop Shipping](#)
- [4 Tips for Effective Inventory Management](#)
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