

Buying and Merchandising in a Multi-Channel Retailing World

Why retailers should consider transforming their traditional buying and merchandising functions in the context of a multi-channel business environment.



Introduction

Background

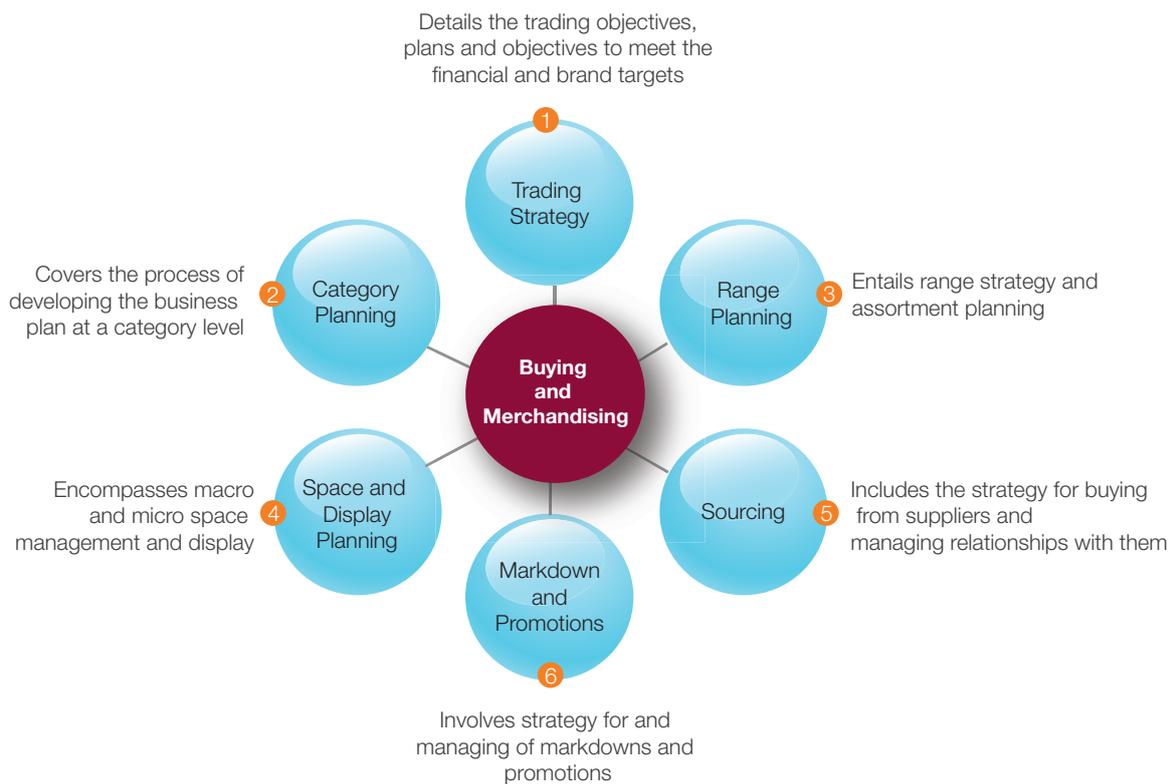
Driven by rapidly changing consumer behaviour and a growing market for online retail, retailers in the UK and elsewhere in the world are embracing the concept of multi-channel retailing. Consumers now expect a seamless customer experience across multiple channels such as stores, online, mobile and catalogues. Further, research by Verdict Retail indicates that online retail spending in the UK was £8 bn in 2005, making up for 3.9% of the

total retail market. By 2014, this spend is expected to increase to £34 bn, thereby accounting for 10.7% of the overall market. Moreover, multi-channel customers have been found to be worth 5 – 10 times more than their single channel counterparts, hence serving such customers is in the interest of retailers. However, in order to fulfil the multi-channel promise to their customers at the front-end, retailers need to transform their buying and merchandising functions in the back-end.

Approach

This paper analyses 6 key activities of the buying and merchandising function with a view to determining the scale of change required in the operating model to become truly multi-channel and the potential benefits of doing so. Aspects covered to assess the scale of change are organisation design, performance management (e.g. KPIs), processes and data, and technology. Potential benefit areas include sales, gross margin, operating expenses and working capital requirements.

Figure 1: Buying and Merchandising Activities



Buying and Merchandising Activities

Trading strategy

Truly multi-channel retailers should consider operating as a single business with a single trading strategy, regardless of the number of channels they use to reach out to consumers. This is required to minimise conflict between the physical and digital channel and to ensure that channels work together towards a common objective i.e. to increase sales and enhance customer experience. Doing so will also lead to lower administrative expenses as compared to maintaining a trading strategy for each channel.

In order to make this happen, the organisation design will need to be altered in favour of having a single team owning the trading strategy for all channels. Also, historical data across channels will need to be integrated to aid planning for the single, multi-channel business. However, no change in performance management or technology will be needed. Overall, with a relatively low scale of change to the existing operating model, considerable benefits can be realised. Hence, implementing a single trading strategy is a “quick win” for retailers with multi-channel aspirations.

Category planning

In a multi-channel world, retailers should think about having a single, joined-up category plan irrespective of the number of channels in order to tie back to the single trading strategy to align channels towards a common objective. Category roles (e.g. fresh fruits and vegetables as a destination / impulse category and newspapers and magazines as a convenience / impulse category) should be applied consistently across channels so that they are aligned to consumer demands.

Case Study – John Lewis Partnership

In the year 2000, John Lewis commenced its online journey when it launched a department store website and set up a dedicated team to handle online operations. Following years of successful growth, in 2011, the retailer integrated the buying and merchandising functions to adopt a truly multi-channel organisational structure for the physical and digital channels.

John Lewis

Case Study - Sainsbury's

Sainsbury's has set up an online merchandising team that works with core buying teams and suppliers to share sales data by channel, manage online promotions and provide insights to improve sales and customer engagement.

Sainsbury's

Figure 2: Potential Benefits of becoming truly Multi-Channel

Activity	Sales	Gross Margin	Operating Expenses	Working Capital	Overall
1. Trading Strategy	●	N/A	●	N/A	●
2. Category Planning	●	●	○	N/A	●
3. Range Planning	●	N/A	●	N/A	●
4. Space and Display Planning	●	N/A	●	N/A	●
5. Sourcing	●	●	○	●	●
6. Markdowns and Promotions	●	●	N/A	●	●

● High ● Medium ○ Low

Further, consistent metrics should be used to measure performance of each channel with the objective of minimising cross-channel conflict, eventually leading to higher sales and margin for the multi-channel business.

As in the case of the trading strategy, an integrated category plan will have an impact on the organisation design to have a single team owning the joined-up category plan and coordinated data and processes to enable data across channels to be consolidated into the plan. In addition, performance management will be significantly impacted as joint KPIs should be put into place to drive the right behaviours across channels.

Range planning

Multi-channel retailers should consider utilising the digital channel to offer a wider and deeper assortment as it is not subject to the same physical constraints as physical channels in order to increase sales. Furthermore, the digital channel can be used as a platform to test new ranges as it allows more flexibility to change assortments in a timely fashion and with minimal operational impact, thereby, leading to higher sales for the multi-channel business.

Retailers should also evaluate adopting a single range architecture, a single product hierarchy and a single product master file, allowing for flexibility to leverage channel-specific characteristics. Doing so will not only ensure that the foundation for range planning is consistent across channels, but also drive efficiencies by reducing the work and costs involved in maintaining separate files, along with reducing the potential for error.

However, range planning in the multi-channel context involves substantial changes to retailers' operating model. Range planners for the physical and digital channels should work closely

together to ensure that the principles of range planning are applied consistently across channels and learning is transferred from one channel to another. The performance management system will need to ensure that metrics are in place to drive the necessary behaviours for the physical and digital teams to work with each other.

Furthermore, the assortment planning process is significantly different for the physical and digital channels, relying on factors such as catchment population, store area, category-wise sales productivity and gross margin etc for the former and on customer profiles, customer interactions with website, online shopping behaviour etc for the latter. In addition, the number of SKUs in the digital channel can be considerably higher, leading to high a scale of change in the data that is required to be captured. Moreover, as SKUs handled per buyer can be much higher in case of the digital channel, more automated ranging systems are required, thereby, leading to a high scale of change in the technology required to manage the assortment planning process.

Space and display planning

In the multi-channel world, retailers can apply the same principles for space and display planning (e.g. adjacencies, ease of navigation etc) across channels in order to offer a consistent customer experience, leading to higher sales. Also, retailers can introduce digital elements into stores (e.g. digital kiosks), thereby, further enhancing the overall customer experience. Retailers can also introduce digital elements into independent locations (e.g. Tesco's 'virtual fridge' at Gatwick airport), enabling them to not only improve the customer experience but also lower operating expenses (as operating an interactive virtual store costs considerably lower than operating a physical store).

Space and display planning in a multi-channel context has several implications on a retailer's operating model. The organisation's ways of working will need to change such that physical and digital teams work together to apply the principles of space and display planning consistently across channels, even though they may perform different tasks to get different outcomes.

As in case of range planning, the performance management system will need to drive the requisite behaviours for the physical and digital teams to work with each other.

Space and display planning relies on store clustering, planograms, signage etc for the physical channel and website design and layout, search-and-merchandising etc for the digital channel. As the processes in the two channels are significantly different, the scale of change required to become truly multi-channel from a process perspective is high.

Case Study – Tesco's 'virtual fridge'

In the year 2012, Tesco introduced a 'virtual fridge' at Gatwick airport. The fridge allowed travellers to scroll through the touch interactive digital displays, scan the barcodes with their smartphones to add products to their online baskets, book a home delivery time slot and check out. Their shopping would then be delivered when they returned from their trip.

The Tesco logo consists of the word "TESCO" in a bold, red, sans-serif font. Below the text are four horizontal blue wavy lines that resemble a stylized barcode or a series of waves.

Sourcing

For sourcing in a multi-channel business environment, retailers should consider having a single lead buyer engaging with suppliers, taking into account the requirements of all channels where the range is shared. In this manner, they can drive sourcing efficiencies by leveraging buying power across channels, thereby enhancing gross margin. In addition, higher buying volumes and the associated bargaining power allows them to obtain better credit terms from suppliers, thereby, improving working capital management. Furthermore, collaborating with suppliers to share sales data from the online channel can positively impact future sales.

To make this happen, the organisation structure will need to change to ensure that a single lead buyer is accountable for buying for the single multi-channel business. The physical and digital teams will need to work closely with each other in order to have a single lead buyer.

Joint KPIs will need to be established across different channels to avoid cross-channel conflicts. Finally, processes will need to be aligned to make sure that a joint business plan is prepared to buy for the multi-channel business and a single sign-off process with suppliers is put into place.

Markdowns and promotions

In the multi-channel world, retailers should consider moving to a single view of inventory across all channels, which would allow them to transfer slow moving stock from one channel into another in order to meet sales demand. Promotions in one channel can also be used to drive sales in another (e.g. sending push notifications to consumers' mobile phones for promotions available in nearby stores). Apart from increasing sales, these practices can lead to improved net margin as well as lower working capital requirements as fewer inventories will be marked down.

Case Study – Argos

In the year 2001, Argos invested in modernising its inventory management processes and information system. This enabled the retailer to have a single view of inventory of 18,000 product lines released biannually with a footprint of over 700 physical stores, ultimately leading to lower inventory costs.



Figure 3: Scale of Change required to become truly Multi-Channel

Activity	Organisation Design	Performance Management	Processes / Data	Technology	Overall
1. Trading Strategy	●	N/A	◐	N/A	○
2. Category Planning	●	●	◐	N/A	◐
3. Range Planning	◐	◐	●	●	●
4. Space and Display Planning	◐	◐	●	N/A	◐
5. Sourcing	◐	●	◐	N/A	◐
6. Markdowns and Promotions	◐	●	◐	●	●

● High
 ◐ Medium
 ○ Low

However, in order to make this happen, sophisticated inventory management systems are required to ensure full visibility of inventory for transferring slower moving stock from one channel to another. Teams should be accountable for markdowns and inventory across channels via joint KPIs. Finally, as promotions can be integrated across channels, consumer and sales data for one channel should be easily accessible in another.

Putting it all together

Based on Figures 2 and 3 on pages 3 and 5 respectively, each of the 6 buying and merchandising activities are represented in Figure 4 below. The chart compares each activity relative to the other 5 activities based on the scale of change that is required to become truly multi-channel with respect to that activity and the potential benefits thereof.

For example, becoming truly multi-channel with respect to trading strategy leads to a lower potential benefit for retailers albeit with a lower scale of change. Hence, trading strategy has been identified as a “quick win”. At the other end of the spectrum, becoming truly multi-channel with respect to markdowns and promotions will result in relatively higher potential benefits for retailers, but will also entail a higher scale of change and should hence, be pursued at a later stage.

Figure 4: Potential Benefits and Scale of Change Matrix



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