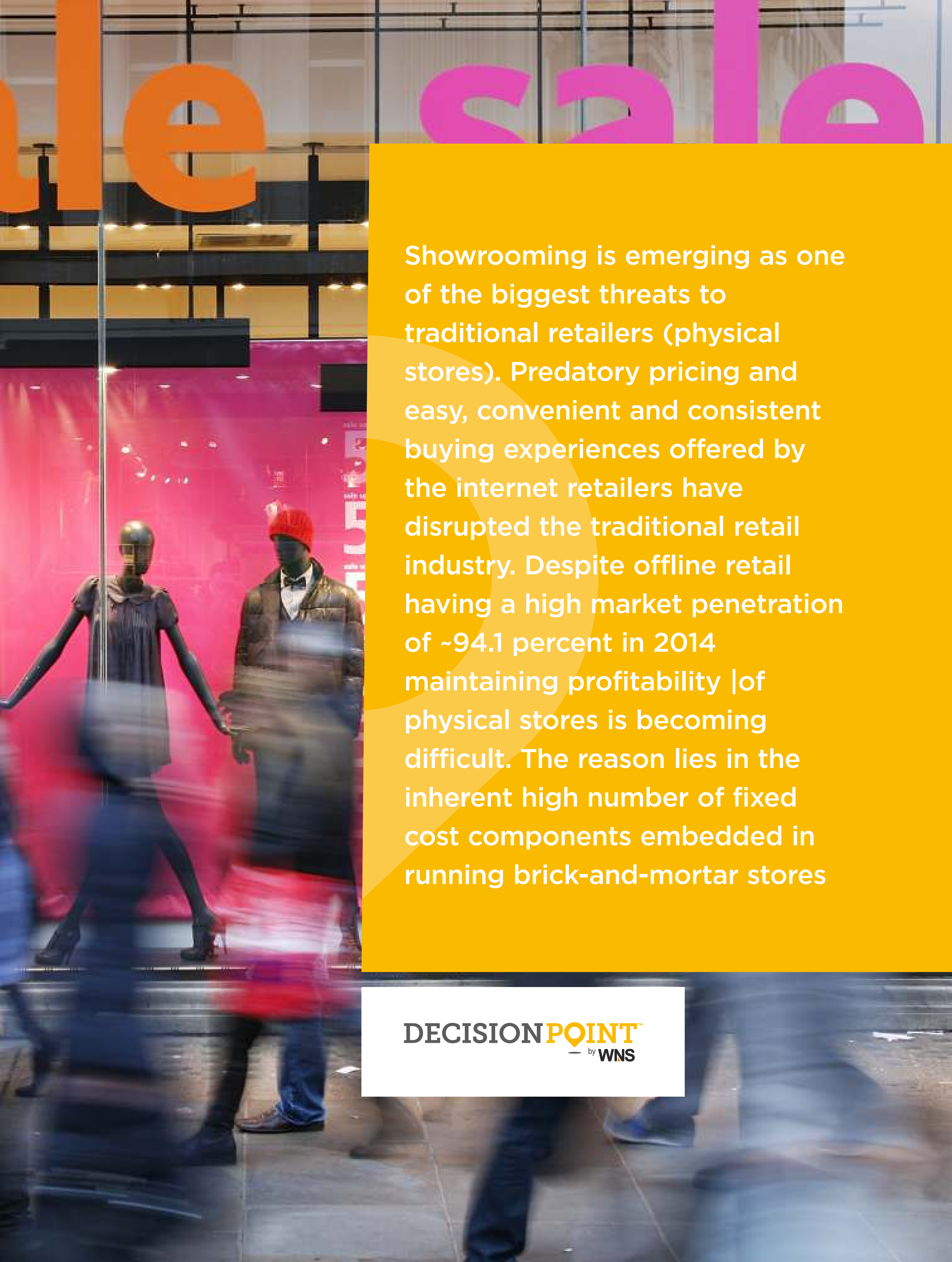
WINNING THE OMNI-CHANNEL RETAIL RACE

TRUE VALUE OF OMNI-CHANNEL RETAIL

DECISIONPOINT™ by WNS



Showrooming is emerging as one of the biggest threats to traditional retailers (physical stores). Predatory pricing and easy, convenient and consistent buying experiences offered by the internet retailers have disrupted the traditional retail industry. Despite offline retail having a high market penetration of ~94.1 percent in 2014 maintaining profitability |of physical stores is becoming difficult. The reason lies in the inherent high number of fixed cost components embedded in running brick-and-mortar stores

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SHOWROOMING - BIGGEST THREAT TO PHYSICAL RETAIL STORES

With majority of mobile users owning smartphones and multitude of customers carrying the Internet in their pockets, the use of mobile devices in-store to compare product prices has become very popular. Customers visit the physical stores to see and try products in person, but ultimately intend to order them online (which increasingly involves mobile touch). Looking at a typical example, John goes into a retail mall to buy an Internet router. He visited two stores to buy the same product, and both quote him $100 as the final price. He checked a number of e-commerce websites (including mobile optimized sites) for the same product and, to his surprise, finds that there is a price difference of more than 25 percent. John foregoes buying from either store in favor of ordering the product online.

Showrooming, as displayed in John's behavior, is emerging as one of the biggest threats to traditional retailers (physical stores). Predatory pricing and easy, convenient and consistent buying experiences offered by the Internet retailers have disrupted the traditional retail industry. Despite offline retail having a high market penetration of ~94.1 percent in 2014[i], maintaining profitability of physical stores is becoming difficult. The reason lies in the inherent high number of fixed cost components (as seen in Exhibit 1) embedded in running brick-and-mortar stores. Therefore, even if sales reduce by a meager four-five percent, the chances of maintaining margins become extremely thin, as fixed costs will still be incurred.

Exhibit 1

Key Costs in a Retail Store

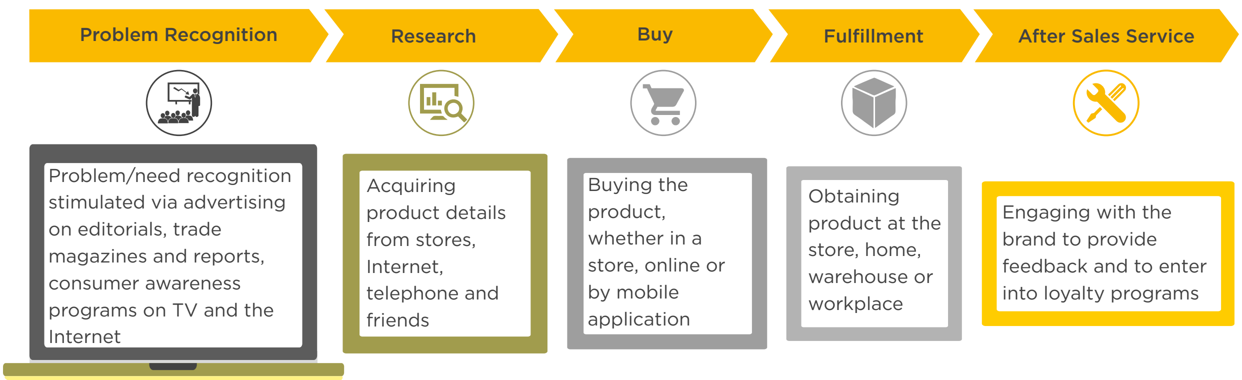
Key Costs	Type	Description
Costs of Goods Solid (COGS)	Variable	Comprises the majority of business costs but gross margins are generally fixed
Warehousing and Logistics	Fixed/Variable	Costs related to transit, storage and packaging (variable)
Advertising and Promotion	Fixed/Variable	Expenses related to advertisements, loyalty management, discount offers, etc.
Rent	Fixed/Variable	Store leases typically contain percentage rent provisions that are based on store sales, however, most of the portion is generally fixed
Electricity and Other Utilities	Fixed	Costs related to electricity, telephone and water
Floor Staff Costs	Fixed/Variable	Some portion of the costs could be on a commission basis but the majority is likely to be fixed
Depreciation of Furniture and Fittings	Fixed	Capital invested in furniture and fittings depreciates periodically
System Costs	Fixed	Expenses related to technology including hardware, software, services and administration

Source: WNS DecisionPoint™ Analysis

To make matters worse, the customer's purchase journey has totally transformed and is very unpredictable due to the advent of online shopping. The increase in customer touch-points (mobile apps, websites, social media, interactive voice response systems) apart from physical stores, have made the buying decision journey more complex, right from stimulation to research, purchase, fulfillment and after-sales service. Customers switch channels continuously, especially when searching for information on products and while buying.

Exhibit 2

Customers Purchase Journey



Source: WNS DecisionPoint™ Analysis

To overcome this situation, many brick and mortar retailers adopted a multi-channel strategy for selling products, i.e. selling products through various channels such as physical stores, online websites and mobile applications. Each channel was managed and operated separately (in terms of customer relationship management, ordering, inventory, and so on), resulting in higher overall investments and inconsistent customer experiences across channels.

Omni-channel retailing has emerged to address the drawbacks of multi-channel retailing and the unpredictable buying behavior of customers. In an omni-channel model, irrespective of how, where, when or why consumers interact with the retailer, they are offered the same product selection, purchase and fulfillment options and level of service.

Omni-channel retailing is becoming the new normal in the retail industry and this means that companies, who are accustomed to delivering through either a single channel or through multiple disconnected channels, need to rethink their strategy of customer engagement.

The whole objective of omni-channel retailing is to enhance revenue growth and profitability amid high market saturation and rising Internet penetration, thereby, enhancing economic profit (Economic Value-Added or "EVA").

This research report attempts to identify the relationship between EVA and omni-channel retailing and draws up the implementation blueprint for delivering 'one' customer experience. Understanding the strategy roadmap (goals envisioned, execution capabilities for cross-channel buying, returns management, etc.) and infrastructural requirements (uniform product and price information across channels, single view of inventory and orders across the enterprise, aligned finance and supply chain processes) for being an omni-channel retailer is a necessary precursor for identifying the aforementioned relationship. The following report highlights all these points and lays down a clear roadmap for a converged retailing experience.

OMNI-CHANNEL RETAILING - THE EVOLUTION

Increased internet usage and the rising penetration of mobile devices has redefined the customers purchase journey at every step, from building awareness, to driving consideration, and ultimately inspiring purchase. This has led to huge growth in the online sales market globally (refer Exhibit 3) as customers demand products anywhere, anytime and from any device.

Exhibit 3

E-Retail Sales, Global

Key Costs	2013	2014	2015F	2016F	2017F	2018F
E-Retail Market Size ($ Billion)	694.8	839.8	994.5	1,155.7	1,328.0	1,506.0
E-Retail Market Size Growth (YoY %)	17.38%	17.66%	17.81%	17.95%	18.05%	18.12%

Source: Euromonitor; F-Forecast

Despite a high growth rate of ~18 per cent within the E-Retail market, the overall retail industry (including E-Retail) only grew by a paltry 5.3 percent in 2014[ii], indicating that it is a two-paced growth paradigm.

An increasing preference for online buying has led to a huge number of retail store closures around the globe. RadioShack, running more than 1,700 electronic goods outlets in America, filed for bankruptcy in February 2015 prior to being acquired by a hedge fund, Standard General.[iii] Wet Seal, an American clothing retailer, closed 338 stores in January 2015 to concentrate on its online business.[iv] After a week or so, Wet Seal filed for Chapter 11 bankruptcy protection. Abercrombie & Fitch, another mall staple, closed ~60 stores in 2015 as leases expired.[v]

As per Business Monitor International, a Fitch group company, there were around 3,500 shop closings announced in Q1 2015 in the U.S. alone, holding around 0.1 percent of the country's stock[vi]. Most of the downsizing was announced by fashion, household goods and consumer electronics retailers.

So does that mean the end of store based buying? No. Approached correctly, the online retail boom is a blessing in disguise for the wounded brick and mortar retailers. Traditional retailers have already focused or are in the process of strengthening their omni-channel capabilities in a bid to capitalize on the rising online retail market and ensure a seamless, on-demand customer experience. The idea behind this is to create a competitive advantage (in relation to online retailers), leveraging stores' fulfillment capabilities, with stores acting as a warehouse.

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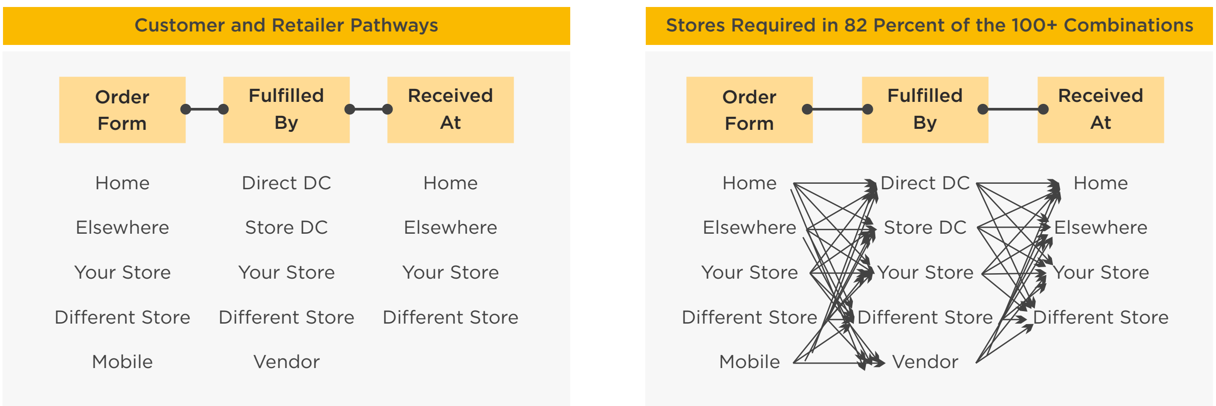
Traditional retailers' supply chain costs are roughly three times lower than pure play e-commerce companies considering the fulfillment capabilities[vii]. Beyond profitability, the increasing convenience of "buy online and pickup/ship from store" should maintain stores' significance.

Moreover, stores present significant cross-selling and up-selling potential when a customer comes for pick up. The following figure (Exhibit 4) further highlights the importance of stores in ordering, fulfilling and receiving orders. There could be more than 100 different ways of ordering, fulfillment, and receiving products based on various channels depicted in Exhibit 4. ~82 percent of the ordering/fulfillment/receiving decisions involve stores and 70 percent create store visits, making stores integral to the retailing business[viii].

Exhibit 4

Omni-Channel Universe



Source: Hudson's Bay Company, Bank of America Consumer & Retail Conference March 2015

In addition, stores are increasingly being equipped with technology to generate data and personalize the customer experience.
For example:

a) In-store touch screens provide customers with the full range of available products, a concept known as endless aisles

b) Magic mirrors offer product information, recommendations, and virtual fittings

c) Staff armed with customer data can practice clienteling, an approach by which they use data on individual customers' preferences and buying habits to create a customized in-store experience

d) In-store navigation apps provide indoor turn-by-turn directions to help customers locate the products they are searching for

e) Staff with mobile point of sale systems eliminate customer frustrations by allowing them to check out anywhere and avoid waiting in line

Other technologies such as mobile wallet, loyalty apps and customer tracking are also increasingly gaining popularity in stores across the customer's buying journey.

Physical stores are not the only ones implementing or strengthening their omni-channel initiatives. The need to possess omni-channel capabilities for pure-play e-commerce companies arises because of such stores' high involvement in buying and fulfillment decisions. In the age of free shipping, brick and mortar retailers have the existing infrastructure to leverage omni-channel capabilities and economies of scale to operate at higher profitability in relation to e-commerce companies. Key areas where store operators hold cost advantage over online companies include:

1) Handling costs: Physical store operators generally tend to order in bulk and bear less handling costs as compared to expensive pick and pack shipping for E-Retailers.

2) Shipping costs: Traditional retailers utilize economies of scale while shipping goods from distribution centers (DCs) to store. On the other hand, with the e-commerce direct to consumer approach, shipping parcels (from distribution centers) one at a time can be very costly. With integrated inventory, online orders can be shipped quicker from store to customer and are comparatively cheaper (compared to online companies) even after considering the handling costs and trucking costs from vendor to DC and DC to store respectively. For obvious reasons, buy online, pick-up in store (BOPS) results in no incremental shipping costs for the traditional retailer. In fact, BOPS may enhance cross-selling and up-selling opportunities in comparison to direct to consumer sale online.

Moreover, Internet penetration is still low in most parts of the world, and cognitive knowledge – about products, service offerings, and such – of all websites is even lower. Online retailers, such as Zalora[ix] (a fashion retailer) and FirstCry[x] (baby and kids' products), have already started integrating their 'click' and 'mortar' experience. Amazon opened its first offline store in the U.S. in February 2015.[xi] Flipkart, an Indian e-commerce company, launched 20 offline stores in July 2015 and planned to expand it to 100 by March 2016.[xii] Warby Parker and Bonobos are other notable examples of online retailers, who have opened offline stores.

OMNI-CHANNEL MANAGEMENT – THE RISE OF NEW LEADERS

With the convergence of digital and physical shopping channels increasing the buying power of consumers more than ever before, retailers, who want to deliver on the promise of limitless product delivery (fulfillment) concerning time and place at the lowest cost, need to drive synchronization and alignment across all channels.

The retail organization needs to be restructured in order to support the omni-channel model. Generally, in successful omni-channel retail, a leader is assigned the responsibility of providing a unified vision and accomplishing the integration. For instance, Macy's has hired a Chief Omni-Channel Officer **(COCO)**, to oversee systems and technology, and logistics and related operations integration across various customer-facing channels. Other retailers such as Finish Line and The Bon Ton stores, have also created COCO positions. Office Depot, American Eagle Outfitters and Zumiez are a few more retailers who have created omni-channel related positions. And, as retailers become more keen to establish a proactive, agile and responsive operating model to deliver a consistent brand experience across channels, the industry expects an even greater number of executives with omni-channel titles and similar roles to emerge over the next few years.

SENIOR MANAGEMENT SPONSORSHIP KEY TO OMNI-CHANNEL OVERHAUL

Omni-channel retailing leads to many changes, and a good omni-channel leader must work in close collaboration across the retail business. Managing the complex shift to omni-channel retailing starts at the top, with leaders making clear to everyone the goals and objectives of the restructuring (see Exhibit 5).

Exhibit 5

Omni-Channel Change Management – Executive Sponsorship and Internal Collaboration is Key

Organizational Structure	Information Technology	Supply Chain	Business Process
▪ Chief executives assign omni-channel responsibilities to a designated person (e.g. COCO) ▪ Omni-channel leader, in conjuction with CXOs, redesign organizational structure in such a way that channel specific talent requirements (mainly operational) remain intact. For example, store and online merchandising, customer service and loyalty management could be centralized	▪ Aids in providing unified view of customers and inventory ▪ Standardizes the data generated by legacy (stores) and online-specific systems ▪ Implements advanced data (customer, SCM) analytics capabilities	▪ Offers a range of fulfillment options ▪ Restructures distribution centers to make delivery more agile ▪ Makes procurement and logistics operations effective ▪ Develops inventory optimization strategies (e.g. combine fulfilment centers and distribution centers)	▪ Revamp internal financial reporting and sales incentive structure ▪ Integrate contact centers with omni-channel strategy ▪ Ensure that channel switch by customer is seamless

Appointed Omni-Channel Leader Lays Down The Goals and Objectives

Source: WNS DecisionPoint™ Analysis

The above objectives mainly target improving the back-end to front-end operations (Exhibit 6) in order to support the company's omni-channel ambition.

Exhibit 6

Functional Impact – Omni-Channel Change Management

Key Enablers		Key Functions		Seamless Customer Experience Across Channels
Executive Sponsorship		Universal CRM		Stores
IT (Including Data Analytics)		Optimal Order Management System		Web
Supply Chain Network		Unified Merchandising		Mobile
Adaptive Business Processes	Influencing	Integrated Inventory	To Ensure	Kiosks
		More Fulfillment and Delivery Options		Telephone
		Common Sales and Marketing		Social Media
		Centralized Data Analytics		Catalogs

Source: WNS DecisionPoint™ Analysis; CRM-Customer Relationship Management

OMNI-CHANNEL IMPLEMENTATION – THE REQUIREMENTS

Apart from having flexible front-end operations – sales, marketing, customer care and customer facing technologies (mobile, kiosks and web-stores) – retailers need a robust back-end infrastructure that includes customer relationship management, order management, catalog management, inventory allocation and assortment, and reverse logistics. Back-end systems form the backbone of omni-channel retailing. Disparate platforms, processes and IT architectures, if any, should be consolidated and standardized to remove inefficiencies. Back-end capabilities should be integrated with front-end operations and technologies across all customer touch-points to create robust customer engagement. Some of the important back-end operations are listed below in Exhibit 7:

Exhibit 7

Key Back-end Capabilities to Support Effective and Efficient Omni-Channel Operations

Key Back-End Capabilities	Observations	Examples
Efficient Transportation Management System	▪ Companies need to improve route planning of fleet while reducing delivery miles and transportation costs ▪ Omni-channel retailers should develop/use advanced analytics-based supply chain systems	▪ Post installation of an analytics-based SCM system, John Lewis Partnership saw a 500 percent uptick in service take-up across its network[xiii]
Real-time Inventory Visibility	▪ Companies need to have a clear view of their inventory across distribution centers (DCs) – for both online and offline. The product tagging should be consistent across all channels ▪ Most retailers use radio frequency identification (RFID) technology to track and integrate inventory at various locations	▪ With the move to 100 percent RFID tagging in 2014, Mark and Spencer's inventory accuracy improved by up to 50 percent and out-of-stocks cut by 30-40 percent[xiv]
Integrated/ Centralized Inventory Management System	▪ Companies need to have integrated/centralized inventories for both online and offline modes to reduce opportunity losses and maximize return on inventory	▪ By pooling its online and offline inventories in China, Burberry was able to reduce average delivery time for online orders in China from about 10 days to less than three days[xv]
Effective Fulfillment	▪ Retailers need to have cross-channel algorithms and rule-based processing in order to optimize order distribution and fulfillment options ▪ All the above conditions need to be met to fulfill orders effectively	▪ There was a 30 percent increase in online sales since American Apparel started using stores as backup fulfillment centers[xvi]
Robust Data Analytics	▪ Companies need to be proactive enough to assess from where demand is originating and flexibly respond to customers' switching behavior across channels and geographies	▪ Big Data and analytics helped Macy's boost store sales by 10 percent in 2013 versus 2010 when they still relied on excel spreadsheets to analyze data[xvii]

Robust Data Analytics	▪ Data analytics tools and technologies help attain the above actionable insights across operations and customers, and predict future trends	▪ Sterling Jewelers harnessed customer analytics for its digital channels, which increased sales by 49 percent YoY in the 2012 holiday season in the Us[xviii]
Integrated CRM	▪ Companies need to unify online and offline customer IDs and then find out when, where, how and what customer interacts with/purchases ▪ Companies need to collect data and leverage it to personalize offers and interactions	▪ As per eMarketer estimates, impulse online buying grew by 17.9 percent YoY in 2013[xix] ▪ Appropriate use of real-time data (via in-store analytics technologies) could also aid store managers convert show-roomers to loyal customers
Integrated Order Management System	▪ Companies need to combine all of the above to provide a single/integrated buying mechanism for all channels that will help retailers to create a consistent buying experience ▪ The integrated system receives the order, stores customer data, makes real-time inventory visibility possible, optimizes order distribution and fulfillment options across all scenarios, reduces cost of carrying inventory, and ensures end-to-end order execution	▪ The solution enabled one of the popular retailers to increase customer visibility, quickly expand into new geographies, forecast and budget enterprise needs, and fast-track growth, all while maintaining brand consistency[xx]
Revamp Finance Processes	▪ Finance processes need to be revamped based on the goals laid down by senior management ▪ In an omni-channel world, where it is difficult to identify the source of a sale, calculating rent, sales incentives and taxes becomes complex	▪ At Macy's, in a "search and send" transaction, credit (for incentive calculation) is not given to the store that supplied the inventory but the channel that originated the search[xxi]
Integrated Marketing/Sales and Merchandising (Front-End)	▪ Integrated back-end operations (helping create unified viewing of customers and inventory) should help in: - Providing consistency in pricing, promotional discounts, product assortment, loyalty program, across all the channels - Better in-store and online shopping experience through improved digitization, including click and collect, mobile and loyalty apps, automated payments and rewards system - Reducing the cost of carrying inventory	▪ Many of the companies, including Walmart, Urban Outfitters and GAP, have launched in-store pickup for online orders ▪ Smartphone apps have been developed by many retailers to provide easy mobile navigation, including tracking user reward points, locating nearby stores, finding in-stock items in a particular region, scanning barcodes, and utilizing beacon messages. Some notable examples of retailers with some or all of the above functionalities include Kohl's and American Eagle ▪ Digitizing payment options in-store is another popular strategy gaining traction among omni-channel retailers. Additionally, they provide the option of storing credit card information, shipping addresses and reward points to make checkouts easier

Source: WNS DecisionPoint™ Analysis

Retailers should leverage common Web services to integrate back-end systems with front-end operations Application programming interface aids provide order history, customer data, inventory availability and pricing related information consistently across all customer touch-points. This strong visibility and information sharing of customer and inventory data across channels enables a seamless customer experience. Retailers with omni-channel ambitions have been aggressively investing in IT and supply chain functionalities in light of this requirement. Apart from integrating the inventory and customer related information systems, the investments are also focused around having

1) **more customer touch-points** – online, mobile, stores, drive-throughs, lockers, kiosks

2) **more and aggressive delivery options** – same day delivery, pick-up within 2 hours, after hours delivery, time slot deliveries

3) **digitized payment options** – Apple Pay, PayPal and others, and a proprietary mobile wallet (in mobile apps)

4) **flexible delivery points** – curbside, train stations, workplace, home

5) **additional pick-up services** – reserve online, self-collect, drive-through, endless aisle

Big retailers have earmarked huge investments for augmenting omni-channel capabilities.

Exhibit 8 highlights the investment plans of these players.

Exhibit 8

Key Omni-Channel Initiatives by Select Retailers

Walmart	▪ **Investing in three areas:**
	▪ Global technology and e-commerce platform, Pangaea
	  ▪ Will make checkout faster and easier for customers
	  ▪ Also serves as the backbone to an integrated experience across e-commerce websites, brick-and-mortar stores and mobile applications
	  ▪ Allows to further expand online assortment from five million to 10 million stock keeping units
	▪ Next generation fulfillment network
	  ▪ Combines new large-scale fulfillment centers with DCs and stores, all connected by Walmart's transportation network
	  ▪ Has built-in algorithms that dictate the assortment that needs to be placed in different nodes, and from which node an order should be shipped
	▪ Integrate digital and physical stores, enabled via Pangaea
	  ▪ Planned to open 9-12 new and relocated clubs, and remodel 55- 60 clubs in FY16, while simultaneously investing in innovation at SamsClub.com (Sam's Club is the wholesale arm of Walmart)

Macy's Inc.	**Macy's adopted the omni-channel strategy in 2009 and has made the following strides:** ▪ Restructured merchandising and marketing with an omni-channel view of customer, inventories and business ▪ Brought all technology functions under one senior leader **In 2014:** ▪ Accomplished *Buy Online Pickup in Store* ▪ Same-day delivery test was successful

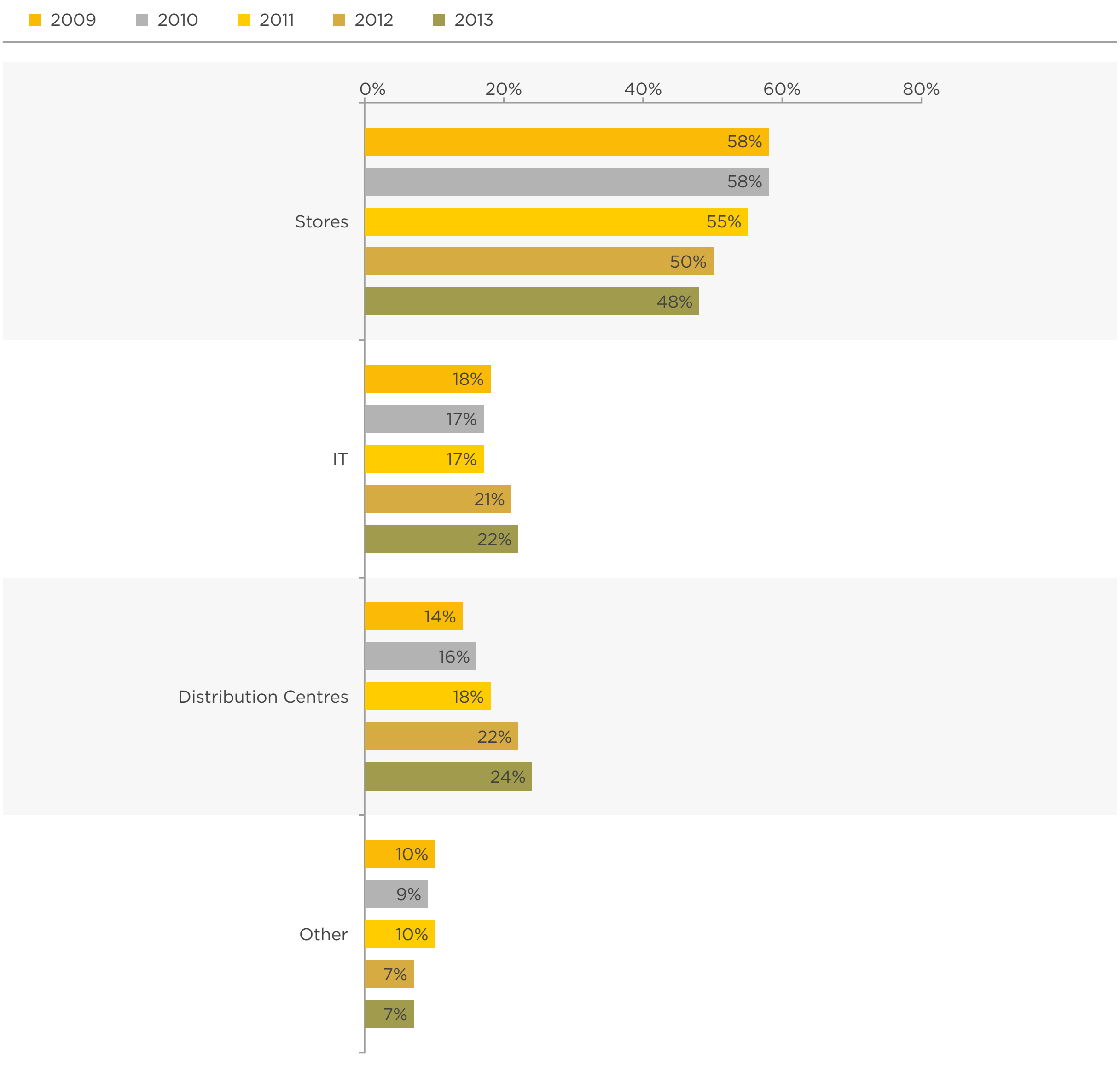
Macy's Inc.	**In 2015:** ▪ Entered a new phase in omni-channel retailing, where the company aims to create a larger relationship with the existing customers and make inroads into customers, who have not traditionally shopped with either Macy's or Bloomingdale's (American chain of luxury department stores owned by the Macy's) · Plans to leverage new channels-based acquisition of BlueMercury – one of America's largest and fastest-growing luxury beauty products and spa services retailers
Nordstrom	**Expects to invest $4.3 billion over the next 5 years:** ▪ Technology is 35 percent of the capital expenditure (CapEx) plan · Working on a merchandising solution that enables growth and a seamless integration across multiple channels · Also included the expansion of its fulfillment network to not only support a $2.5 billion online business (FY15) that is anticipated to grow by over $1 billion in the next several years, but also enable an integrated customer experience across physical and digital stores
Target	**Planned to spend CapEx of minimum $2 billion in 2015, half of which is likely to be on IT infrastructure and supply chain:** ▪ A lot of the IT spending will be on the core infrastructure of the company to make it more omni-channel capable · Combining two inventory systems and the order management system · Integrating back-end systems for customers across channels

Source: Latest Annual Company Filings(FY14 or FY15)

Retailers are integrating back-end systems to manage all types of data, including those related to inventory, customer and fulfilment in order to create an omni-channel experience. The IT and distribution shares of specialty retail capital expenditures increased ~10 percentage points between 2011 and 2013 (see Exhibit 9). Omni-channel related CapEx (for specialty retailers) accounts for 45 percent of all investment spending after increasing 20 percent YoY in FY13.

Exhibit 9

Speciality Retail CapEx Share



Source: Morgan Stanley Estimates

UNDERSTANDING OMNI-CHANNEL BEHAVIOR DURING THE CUSTOMER PURCHASE JOURNEY IS CRITICAL

Along with creating a unified view of inventory and customers, equally critical for omni-channel retailing is to correctly recognize the customer behavior during the purchase journey and its relation to socio-demographics and psychographics. There could be many factors apart from demographics, which could influence omni-channel shopping behavior, such as channel knowledge, shopping orientation, service and product experience, channel-risk perceptions, price-search intentions, search effort, delivery time and more. For example, young and innovative consumers are likely to have a higher use of online channels, including social media, in their buying journey. Consumers with higher incomes are more likely to use mobile applications for research and buying. Once the relationship is identified between socio-demographics/ psychographics and omni-channel shopping behavior, various typologies (customer segments) could be created based on similar preferences, buying habits, reactions to marketing activities and such. Retailers should consider these typologies in order to offer the right mix of information during the customer purchase journey through various channels, including mobile applications and social media networks.

A key requirement to understanding omni-channel shopping behavior and imparting right information to right customers via right channel is to have an integrated CRM for all customer interactions including purchases across channels. Almost all the retail organizations now have the capability to handle telephone conversations, tweets, emails, Facebook responses, live chat in mobile/Web etc. The enterprises need to place greater importance on the two-way exchange of value between customer and enterprise in terms of interactions, transactions and service cases to provide right information via right channel. In response to this, many of the retail organizations have invested in a variety of CRM tools and technologies related to customer service and support, such as those related to social CRMs, web/mobile campaign management and tracking, content management and analytics solutions. But the main test is to connect these tools with the right business processes, rule engines, real-time decisions, and interaction-routing engines to enable a seamless customer experience. IT, marketing, sales, logistics, customer service and other departments will need to work together to make this happen. Integrating all these CRM tools and technologies will aid retailers in creating a single customer view and help them personalize service/product offerings (price, quality, design, color etc.) using data analytics tools and technologies. In addition to all this, providing employees (customer-care representatives, in-store sales person etc.) with relevant skills, knowledge and technologies and tools to access customer data is necessary. No amount of technological innovation can change anything without proficient employees using it.

Key activities carried out by omni-channel retailers to ensure seamless customer experience

- **Imparting regular training on omni-channel customer engagement to customer care representatives, in-store sales persons, product delivery people and other customer-facing personnel so that they can provide a personalized and context-appropriate experience**
- **Matching right customer with the right employee who has the relevant skills to handle precise needs of each client**
- **High utilization of customer data from past interactions for current/future engagement**
- **Regularly measuring the performance of above programs via financial and operational metrics**

OMNI-CHANNEL RETAIL AND ECONOMIC PROFIT – THE CONNECTION

Target Corporation ("Target") has identified that a customer, who shops both in-store and digitally shops three times more frequently, generating three times more sales and over 2.5 times more margin dollars, compared to a store-only customer. Not only that, Target also found out that in-store sales from multi-channel customers was much higher than from in-store only customers. This clearly shows that omni-channel retailing is likely to enhance revenue growth. However, the analysis does not factor in the investments made and the associated opportunity costs. WNS DecisionPoint™ developed an omni-channel coefficient to ascertain the omni-channel readiness of a company and compared that with the economic value added (EVA) of that company, to assess the connection between the two.

- WNS DecisionPoint™ considered 10 parameters related to improving in-store and online experience (including buy online pick-up in store, ship from store, store inventory viewing via mobile, same day delivery, home delivery for out-of-stock products (in store), return online purchases to store, mobile navigation (including store locator), reserve store inventory online, interact with brand on social media, and self-checkout (including via phone)) to derive an **omni-channel coefficient** (OCC)
- The OCC will help identify the readiness of retailers to provide consistent brand messaging, continuous engagement and seamless experience across channels
- These parameters (OCCs) might not be available for every store belonging to the companies, but they give a directional indication about their omni-channel retailing pursuits
- Please note that there could be additional readiness variables that may impact the OCC
- We have calculated the EVA of the companies in focus and tried to ascertain whether a higher OCC has been able to generate a higher economic value for the shareholders

Let's see the connection between omni-channel retail and EVA in Exhibit 10.

Exhibit 10

Omni-Channel Retail and Economic Value Creation

Company	Format Type (Based on Main Revenue Contributor)	Online Sales as a % of Overall Revenue (Latest Available)	4Yr CapEx as a % of Sales Average	Omni-Channel Coefficient (OCC)
Cencosud	Hypermarket		5.00%	Follower
Metro AG	Hypermarket		1.70%	Follower
ANF	Speciality Retail-Apparel	23.0%	6.00%	Follower
GAP	Speciality Retail-Apparel	16.0%	4.10%	Follower
John Lewis Partnership	Food Retail	16.9%	4.60%	Follower
Whole Food's Market	Food Retail		4.20%	Follower
Macy's	Department Store	12.0%	2.00%	Innovator
Nordstrom	Department Store	15.0%	5.40%	Innovator
Kohl's	Department Store	11.0%	4.00%	Innovator
Walmart	Hypermarket	3.0%	2.80%	Innovator
Urban Outfitters	Speciality Retail-Apparel	26.0%	6.70%	Innovator
American Eagle Outfitters	Speciality Retail-Apparel	19.0%	5.40%	Innovator
Dillard's	Department Store		1.90%	Risk Averse
M&S	Department Store	7.8%	5.40%	Risk Averse
Aeon	Hypermarket		5.90%	Risk Averse
Carrefour	Hypermarket	1.4%	2.70%	Risk Averse
Neiman Marcus	Speciality Retail-Apparel	20.0%	3.20%	Risk Averse
Groupe Casino	Food Retail	9.2%	3.30%	Risk Averse
Loblaw	Food Retail		2.80%	Risk Averse
Tesco	Food Retail		4.15%	Risk Averse

Company	4 Yr ROC Average	4 Yr EBIT Margin Average	4Yr Capital Turnover Average	4 Yr WACC Average	EVA (ROC-WACC)
Cencosud	4.4%	4.8%	1.42	6%	-1.34%
Metro AG	6.7%	2.3%	4.85	4%	2.52%
ANF	8.8%	6.4%	2.16	5%	3.56%
GAP	27.5%	12.0%	3.66	21%	6.32%
John Lewis Partnership	9.0%	4.8%	3.06	9%	0.50%
Whole Food's Market	14.7%	6.6%	3.86	12%	3.18%
Macy's	12.6%	9.7%	2.08	11%	1.71%
Nordstrom	15.5%	10.7%	2.33		3.50%
Kohl's	10.7%	9.8%	1.75	10%	0.80%
Walmart	12.7%	5.8%	3.51	11%	1.88%
Urban Outfitters	17%	12.4%	2.13		-0.51%
American Eagle Outfitters	14.5%	8.9%	2.63	5%	9.80%
Dillard's	11.3%	7.8%	2.32	12%	-0.60%
M&S	9.8%	7.7%	2.02	10%	-0.50%
Aeon	3.7%	3.0%	1.77	3%	0.72%
Carrefour	6.2%	2.9%	3.47	7%	-0.96%
Neiman Marcus	5.9%	8.4%	1.10	3%	-2.60%
Groupe Casino	5.2%	4.6%	1.78	9%	-1.09%
Loblaw	5.7%	3.9%	2.28	6%	-0.65%
Tesco	5.4%	3.8%	2.35	6%	-0.53%

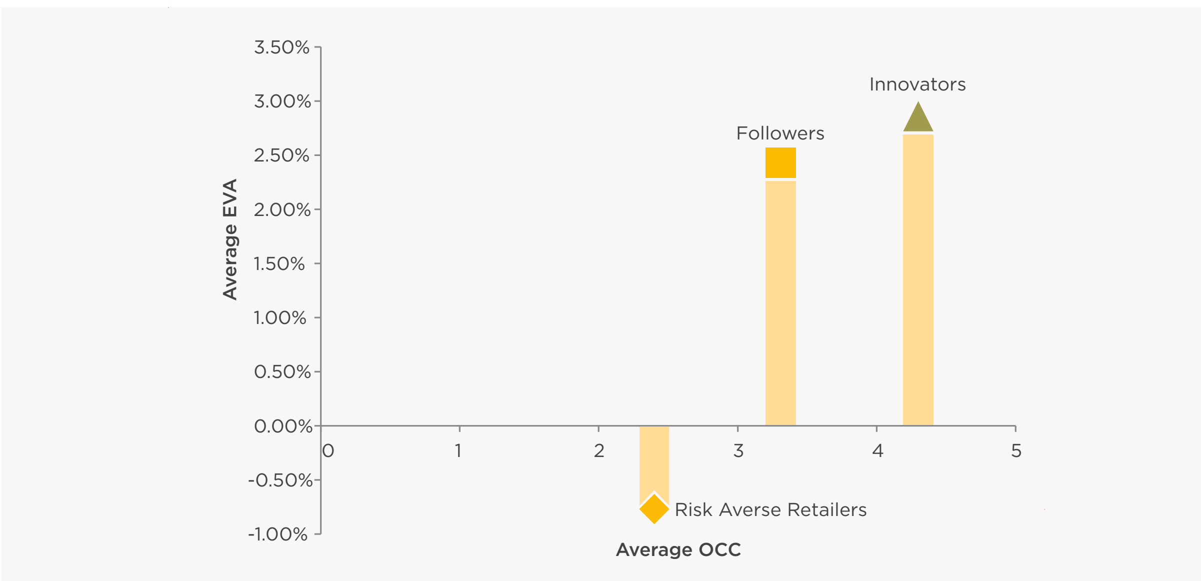
Source: WNS DecisionPoint™ AnalysisFinancial Data (FY14/15 whichever is applicable)- Capital IQ and Thomson One; OCC only captures the omni-channel capabilities, not their level of adoption across stores; EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization; ROC – Return on Capital; WACC – Weighted Average Cost of Capital; Relevant assumptions have been made; Green signifies better and red signifies worse than average for that parameter.

Unsurprisingly, most of the Innovators (OCC between four and five) and Followers (OCC between three and four) led from the front, in terms of economic value accretion, while most of the risk averse retailers (OCC<3) reported value erosion – **proving that omni-channel retailing is really value accretive (See Exhibit 11).**

On an average, the innovators added 2.9 percentage points (PPs) value, and followers reported 2.46 PPs increase while the risk averse conceded -0.67 PPs from their investors' wallet. For Innovators, the value accretion was primarily the result of a better EBIT Margin with five out of the six Innovators reporting higher than average numbers. This is because of higher customer retention and conversion (high online/store visits turning into a sale) ratio, given the seamless experience that advanced omni-channel capabilities provide to customers, leading to reduction in selling and marketing costs. According to a Cowen Customer Tracking Survey, Walmart's monthly conversion (based on 12 months moving average) has gone up from 32.5 percent in December 2013 to 34.6 percent in February 2015. Macy's witnessed an uptick of 4.7 percentage points to 32.8 percent during the same period. Four out of the six Followers reported higher capital turnover ratio than average. They tend to generate higher revenue per unit of invested capital as increasing number of consumers are now being able to leverage omni-channel capabilities and, hence, spending is more, leading to higher capital utilization. EBIT margins are lower for the Follower group since investments in omni-channel capabilities is on the rise (four out of the six Followers have lower than average numbers).

Exhibit 11

Relationship Between OCC and EVA



Source: WNS DecisionPoint™ Analysis

To further highlight the connection between omni-channel retail and economic profit, let's study Target Corporation's (whose omni-channel initiatives have been explained briefly above) evolution as an omni-channel retailer and the corresponding change in economic profit, as evident in Exhibit 12 and 13.

Exhibit 12

Evolution of Omni-Channel Capabilities in Target Corporation

	FY 2010	FY 2011	FY 2012
Omni Channel Initiatives	Operated large- format general merchandise and food discount stores Online business offered research and location tools to locate products in stores	Decided to migrate its online presence from Amazon's operated platform to a proprietary one Online shopping sites offered similar merchandise categories to those found in stores, excluding food items and household essentials	Offered full versions of website (Target.com) and applications for mobile phones and tablets Used social media as a way to interact with guests and enhance their shopping experiences Opened five City Target stores – these stores are about 25 percent smaller than a general merchandise store. In this format, the physical stores are fully integrated with digital channels Through small pilots in Minneapolis and San Francisco, Target tested pay online and pickup in store, pay in one store and pickup at another store and pay online and have items shipped from a store, including the option for same-day delivery
	FY 2013	**FY 2014**	**FY 2015**
Omni Channel Initiatives	Launched free wireless Internet in-store Focused on creating in-store guest experiences and testing new technologies that enhanced mobile product search, maps and shopping lists More integration across inventory and supply chain	Equipped stores and issued Target-branded smart chip credit and debit cards Aggressively started using customer insights/analytics to base merchandising and promotional strategies Launched Cartwheel, a mobile savings tool Launched in-store pickup chain-wide at the beginning of November 2013 Added dedicated service in-store (with proper training and technology to solve problems) to key categories like beauty, baby and electronics Developed a separate smaller format called Target Express ~ 20K sq. feet, 10-15 percent of the size of general merchandise stores	Changed order threshold for free shipping from $50 to $25 with virtually no exclusion Added mannequins at the apparel floor pad in more than 600 stores Partnered with Snapchat to share exclusive behind-the-scenes content with customers Established an Enterprise Growth Initiatives team based in Minneapolis and San Francisco to identify, evaluate and conceptualize new products, services, and even technology platforms. The company identifies what wholesale opportunities exist for their own brands and international markets to figure out where to play in the Internet of Things (IoT)

Source: Target Corporation

Exhibit 13

Status of Key Initiatives in Target Corporation as of October 2015

Target Express	Opened ~8 stores in 2015
Enterprise Growth Initiatives Team	Opened an experimental store in San Francisco in September 2015 called Open House. Of the 35 (IoT) products on display and for sale at Open House, only about a dozen were currently sold by Target
Mannequins	Available in more than 1,000 stores
Cartwheel	Cartwheel was a billion dollar business
Data Analytics	Centralized all data and analytics capabilities together under a newly created Center of Excellence in Minneapolis Also launched a social media command center, known as Guest Central, to track customer sentiments, trending topics and for engaging with guests The command center funnels qualitative and quantitative insights to the Guest Center of Excellence to steer customer experience management
Personalization Engine	Engine combines in-store and online purchase and browsing data to recommend products Target.com rolled out the engine during the last quarter of 2014 and saw digital conversion increase ~30 percent YoY
Store Pickup	12 percent to 15 percent of digital orders were fulfilled in-store In key seasonal moments, like the final days before Christmas, store pickup orders spiked, accounted for almost 50 percent of all digital transactions
Ship-from-Store	Launched in 2014, ship-from-store was implemented in 139 stores by end of October 2014 Intended to expand ship-from-store capabilities to at least 350 more stores by October 2015
Other Fulfillment Options	Explored new ways to get products to guests like curbside pickup and rush delivery

Source: Target Corporation Company Fillings and Press Releases (Data as of October 2015)

Target's omni-channel retailing pursuit started gaining traction from FY 2012 onwards. The results of the initiatives were visible during the last few years with Target maintaining return on capital (ROC) levels above 10 percent (despite heightened competition from e-commerce companies) and being consistently able to enhance EVA especially during FY 2014 and FY 2015 (Refer Exhibit 14). This could be primarily attributable to its improving omni-channel capabilities leading to higher customer spending (Target's omni-channel customers spend 3x more than customers buying from stores only) resulting in improved capital utilization.

Exhibit 14

Relationship of Target's EVA with Omni-Channel Capabilities

	FY2011	FY2012	FY2013	FY2014	FY2015	LTM (ending Aug 1, 2015)
ROC	10.2%	10.4%	10.7%	10.4%	10.3%	11.3%
EBIT Margin	7.7%	7.7%	7.9%	7.3%	6.3%	7.0%
Capital Turnover (x)	2.16	2.16	2.17	2.26	2.61	2.75
WACC	9.8%	9.3%	8.9%	6.1%	6.1%	6.1%
EVA	+0.4%	+1.1%	+1.8%	+4.3%	+4.2%	+5.2%
Omni-Channel Capabilities	Rising Omni-Channel Capabilities (Refer Exhibit 12 and 13)					
		Low			High	

Source: WNS DecisionPoint™ Analysis; LTM-Last Twelve Months; Finacial Data is taken from Capital IQ and ThomsonOne

Target believes that digital engagement creates additional store trips and sales (and therefore more profits) as the customer develops a deeper relationship with the company, making the case for omni-channel retailing even stronger.

A variety of other examples could also be quoted to depict the gradual enhancement in shareholder value when the retailers start moving up on the omni-channel capabilities scale. The above-mentioned retailers (Innovators, Followers and Risk Averse retailers) might not have implemented omni-channel capabilities in all the stores as of now, but they are rapidly adopting the same across their operations given its benefits.

SUPPORTING OMNI-CHANNEL – THINGS TO CONSIDER

For an omni-channel strategy to work, a customer's purchase journey must be mapped out to personalize communication effectively across each buying step to make the consumer feel more valued. Before using data analytics, retailers need to have a unified view of their customers to shell out personalized offers (including loyalty schemes) and offer the right information across all channels. Robust SCM systems including logistics and inventory management are also needed to support the limitless product delivery model concerning time and place. The following table (Exhibit 15) highlights the things that need to be in place including the aforementioned areas to support the omni-channel retail model.

Exhibit 15

Supporting Omni-Channel Model – Key Things to Consider

Objective	Financial Impact for Traders	What Retailers are Doing/can Do?	Operational Levers
Limitless Product Delivery Model with regards to Time and Place	Increase in Shipping & Logistics costs Increase in CapEx	Shipping charges are offered as pass-through expenses to customers Creating a threshold buying level for free shipping. For example, free shipping on purchases above $50. Suitable for retailers selling low/medium priced products Free shipping - Retailers selling high value luxurious products Offering a range of fulfillment options	Optimize costs related to logistics and inventory via analytics based SCM system Improve route planning of fleet Centralize inventory to ship products quicker when ordered online
Consistent Brand Experience across all Channels	Increase in Selling & Marketing costs Increase in IT expenses Increase in CapEx	Generate a unified customer view that considers every interaction Offering the same product selection, information and fulfillment options, and level of service to all customers	Retailers need to unify customer view across channels and then find out when, where, how and what customers purchase based on data analytics tools and technologies After that, the retailers need to create clusters of customers centered on insights related to similar preferences and behavior Then, retailers can offer the right mix of information, product offerings, purchase and fulfillment options to the right set of

Objective	Financial Impact for Traders	What Retailers are Doing/can Do?	Operational Levers
			customers through right channels Implementing in-store technologies like magic mirrors, clienteling, endless aisle and in-store navigation Training staff working in contact centers and in stores to offer same information related to product, price and promotion
Internal Change Management	Increase in General and Administrative (G&A) costs Increase in CapEx	Assigning omni-channel responsibilities to a designated point of contact Revamping finance processes to identify the source of a sale to derive incentives, calculating rent, sales incentives and taxes	Omni-channel leaders should internally collaborate with departments like IT and SCM to conduct necessary planning and foreseeing integration of back-end and front-end systems Compensation methodology needs to be carefully designed across all channels in order to incentivize sales associates fairly based on the impact created during the customer decision journey

Source: WNS DecisionPoint™ Analysis

AN OMNI-CHANNEL FUTURE – THE ROADMAP

Omni-channel retailing adoption is synonymous with economic profit creation, as seen above. While most companies have already started their journey towards omni-channel retailing, all the companies should have a clear roadmap to achieve the desired end state. Below are the key steps companies should be taking to make their way toward a fully implemented omni-channel retail model:

- Assign omni-channel responsibilities to a designated point of contact with well-defined financial targets
- Redesign organizational structure in such a way that channel specific requirements (mainly operational) remain intact
- Assess the readiness of the IT, SCM and Shared Services team to implement omni-channel capabilities (both back-end as well as front-end) by conducting internal and external benchmarking
- Develop a transformation strategy to move to the desired level and realign process and technology investments to drive synchronization and alignment across all customer channels – appoint an in-house implementation team or engage with external consultants
- Decide on the functions that need to be outsourced or retained in-house. Common outsourceable processes include data analysis (customer, marketing, sales and supply chain management), finance and accounting, omni-channel customer relationship management, trade promotion optimization and management services. On the IT and SCM side, installation of transport management systems, order management systems and data analytics tools and technologies can be managed by specialist third party service providers
- Consistently track and measure the progress of omni-channel progress across channels using relevant key performance indicators and objectives

By doing all this, companies will achieve a converged retailing experience, have more satisfied customers, and increase economic value added.

About DecisionPoint

Making key decisions that improve business performance requires more than simple insights. It takes deep data discovery and a keen problem solving approach to think beyond the obvious. As a business leader, you ought to have access to information most relevant to you that helps you anticipate potential business headwinds and craft strategies which can turn challenges into opportunities finally leading to favorable business outcomes.

WNS DecisionPoint™, a one-of-its kind thought leadership platform tracks industry segments served by WNS and presents thought-provoking original perspectives based on rigorous data analysis and custom research studies. Coupling empirical data analysis with practical ideas around the application of analytics, disruptive technologies, next-gen customer experience, process transformation and business model innovation; we aim to arm you with decision support frameworks based on points of fact. Drawing on our experience of working with 200+ clients around the world in key industry verticals, and knowledge collaboration with carefully selected partners, including Knowledge@Wharton, each research asset draws on “points of fact” to come up with actionable insights which enables ‘bringing the future forward’.

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