7 Omni-channel Lessons Learned from the World's Top Brands

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Companies are investing in omni-channel distribution operations to drive competitive advantage and grow revenue. Omni-channel DCs promise better utilization of labor and inventory by leveling off the peaks and valleys of individual channels. And they often make it easier to justify DC automation. But omni-channel DCs bring complexities of their own. Are you ready to make the move to shared inventory across all your channels? Do you know what you need to do to prepare your organization for omni-channel transformation? Do your people have the skills they need to operate a true omni-channel DC? In this article, we'll share lessons learned from working with some of the world's top retailers in designing and operating their omni-channel DCs.

Omni-channel is Complex

Combining multiple channels in a single distribution operation is not a simple task.

- eCommerce demands speed and accuracy in an environment that is subject to frequent changes in promotions and daily fluctuations in volume (up to 8-15x during peaks).

- Wholesale wants the ability to each pick every SKU and to postpone allocations until the last minute, with multiple launches spiking volume throughout the year and unique VAS requirements for each customer.

- Retail wants smaller, more frequent deliveries to stores with store-ready merchandise, labeled and sequenced for easier put away.
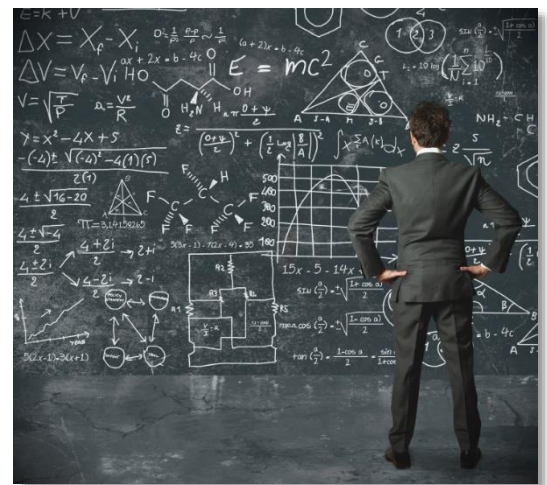
All of this makes for a very complex operating environment. When trying to support all of these complicated requirements in a single DC, the design must be carefully managed or you can easily over-engineer a solution that is too complicated for the hourly associates or supervisors who need to make it work.

Lesson 1: It's All About the Inventory

One common pool of inventory is the hallmark of a true omni-channel DC. Shared inventory provides flexibility to chase demand, regardless of which channel it comes through. But it's not as seamless as you might think. Sometimes products must be packaged differently for different channels; for example, hangers for retail or wholesale and polybags for eCommerce. The trouble comes when a channel receives more demand than it was allocated inventory. **Converting a SKU from wholesale to eCommerce might require undoing a VAS process to allow the product to be made available to that channel.**

Buyers across all channels must work together and agree on how to buy so they feel comfortable that they can support their channel while reducing the overall level of safety stock across the organization. How do you provide visibility to the inventory once it's been allocated to a specific channel?

Building flexibility to quickly realign inventory when demand comes from unexpected places requires sophisticated systems and rules that many retailers have yet to implement. That means you may first have to do some systems work to bring the inventory together systemically on the front end. Or if inventory designated for specific channels will remain on separate systems, you'll need to get very clear about processes for transferring inventory from one to another.

One retailer found that due to an aggressive schedule, they weren't able to complete the systems integration before going live with the DC, so they started out with wholesale and retail inventories in a different system than the eCommerce inventory. Moving SKUs from one channel to another in order to prioritize the most profitable orders and avoid the risk of chargebacks or hits to the brand reputation was painful. And the need to move the items not just systemically, but also physically, forced them to rethink how they handled inventory.

Prioritization rules must be defined for who gets allocation in low inventory situations. And when cycle counts require inventory reductions or orders are shorted/cancelled, which channel's inventory gets reduced? **Inventory integrity is paramount to setting customer expectations outside the four walls of the DC.** Are systems of record (WMS, ERP, DOM) updated in real-time to enable full and accurate inventory visibility?

Lesson 2: Don't Underestimate the Systems Investment Required

Omni-channel distribution requires significant investment in business systems. You may need to update your planning, financial reporting and recognition, sales reporting, transportation, warehouse workflow, and customer service center and store associate tasking systems.

Not only will you have to make investments to support sophisticated omni-channel requirements, but there are challenges associated with integrating all the systems (WMS, WCS, DOM, ERP, etc.) required to deliver on your service promise without sacrificing accuracy, speed or brand integrity. But don't underestimate how difficult this is or how long it takes. **These are multi-year projects that require a roadmap and close alignment with the IT organization.** A client was preparing to implement cross-dock capabilities for greater productivity and to alleviate capacity constraints, but the host system wasn't set-up to handle that function. They soon realized it would take 12-24 months to enable that cross-docking from a systems perspective before they could physically implement the strategy.

Early on, you will have to make decisions about which systems will handle specific functions. It's best to do this based on the long-term need rather than simply on what is easiest on the budget. We have seen clients make decisions to create
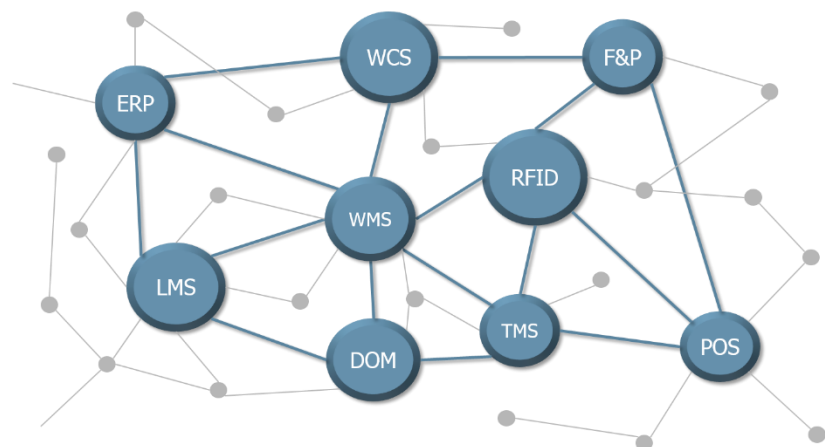
functionality at the WCS level instead of modifying the WMS due to time or budget constraints. In some instances, these decisions made troubleshooting more complex going forward. One client was running multiple versions of a Tier 1 ERP and a single version of a Tier 1 WMS. Choosing one platform on which to standardize operations meant that they may not have all of the capabilities they need, but it was a trade-off decision they had to make to achieve the integration required.

It helps to get your test environment up as soon as possible because some changes from omni-channel transformation can't be predicted and don't come to light until you start experimenting with different scenarios. Set up rules and configurations to see the downstream impacts and be prepared to make adjustments.

Lesson 3: Flow Management Requires Big Changes

Traditional distribution is often sequential or batch processing, relying on a process to "push" work through the facility. Omni-channel designs are typically more of a flow environment where there are lots of competing priorities. The equipment itself may be sized for a smaller amount of work than a batch facility and equipment may be running at peak volume more often. **You need to look at the overall productivity of the facility versus a specific area of the operation.** This is a big change for some leaders and even for some workers.

Wave planning and replenishment will be very different to keep the work flowing throughout the facility. It's an ebb and flow that requires a solid understanding of buffers and dependencies between processes. Buffers give you a window to know how much time before the next area runs out of work. The smaller the buffer, the less room for error that exists. Therefore, **tools and visibility (real-time dashboards and continuous communication about work-in-progress levels) are critical to management of omni-channel DCs**. And to build the tools you need to manage the facility, you'll need to know which systems the data will come from.

Leadership needs to be prepared to manage differently. Your wave planning organization is a central point of contact for all channels and critical to managing competing priorities. Getting the leadership team and wave managers to transition from thinking about the work in channels (processing one channel in the morning and another in the afternoon) to thinking in terms of pulling work through a process to optimize the entire facility is the biggest challenge. Often, the skill sets required for the role, a blend of analytics skills with operational experience, are hard to find and may require a more extensive search.

Lesson 4: The Skills Required for an Omni-channel DC are Different

Getting the material handling equipment and software to work is easy; people and processes are the weak link. As mentioned previously, you may have to take people who are accustomed to working in a batch picking environment and re-train them to work with a flow mentality. **There will be a natural resistance to change** as operators learn to trust that the automation and systems will bring them the work they need when they need it. **You'll need to make change management a priority** and invest in bringing people on early to make them part of the journey. Give them time to adjust their thinking so they can see the benefit of doing things differently.

Omni-channel DCs require flexible labor and management. People have to be able to flex and move from one area to another seamlessly throughout the day without loss of productivity. Nice things come from cross-training and sharing labor across the entire facility. With cross-trained associates, you can reduce the need to add headcount every time there's a spike in volume, and that can have the savings effect of as much as 15-25% in FTE counts during peak times. But it also means that **systems and processes designed for the associate need to be as simple and standardized as possible**. If you overcomplicate a process, cross-training will be too big of a challenge.

The need for problem solvers is not unique, but it takes on more importance in an omni-channel DC because there are so many dependencies that it's critical that problems get solved quickly. You'll need to help your people understand not just their part of the operation, but how the overall operation works. Develop realistic training scenarios that teach not just the process, but how to know when an adjustment is needed and what to do when things don't go as planned.

And specialized skill sets may require an investment in training or the need to source trained associates from outside the area. One client found that they had to invest in training critical maintenance staff to handle the complexity of the automated equipment because a single belt going down could have a massive and costly impact on the entire operation. **Getting a core group of technically capable people in place early on can make all the difference**.

Lesson 5: The Business Case is Easy; Peak Execution is Hard

In omni-channel operations peaks often offset or complement one another for more balanced volume throughout the year. When you can run the operation at peak over a longer period of time, automation is easier to justify. The key is understanding the timing of peaks by channel and where peaks may fall on top of each other. **And there are often opportunities to smooth peaks**. For example, the wholesale channel can often shape a peak differently by fulfilling ahead of schedule using a pack and hold process.

There may be times when all channels peak simultaneously, but **part of any omni-channel journey is thinking through multiple ways to process each area of the facility** so that when volumes peak in all channels at once you have the flexibility and contingency plans to take processes offline and still get the job done. At one client, they were able to spread peak volumes for wholesale across a longer window and adjust

transportation routing to ship over a longer period as well. This had a smoothing impact of 25-35% from the projected peaks.

Lesson 6: It's More Than Alignment around a Common Set of KPIs

Sharing labor, space and equipment across channels also means you lose things like CPU by channel and other traditional cost reporting metrics. It becomes very difficult to allocate those costs without activity-based costing in place. And that level of measurement doesn't necessarily lead to better decision-making or management of the business anyway. **What you need is leadership alignment on strategy, performance metrics and cost allocation of the entire facility instead of by channel**. Existing metrics may have to be replaced or reformulated with new KPIs that align to the business requirements such as CPU by process area or overall CPU of the DC.

The key is to start by putting some KPIs in place. **KPIs don't have to be perfect, but they should reflect the most important drivers of the business case.** It helps to focus on service first, then labor because service drives revenue. Plan for inefficiency from a labor perspective as you are just getting started. Once service levels are under control, you can begin optimizing the labor side of the equation. That doesn't mean you ignore things like staffing models, cost capture and productivity. Capture data on what you're spending and what works and doesn't work. But don't try to optimize around those things until you have service at an acceptable level.

One omni-channel client maintained historical replenishment metrics of overall cartons per hour. Operators then gravitated towards the tasks with "easier" standards that were not necessarily the top priority at that time. Adoption of more discreet replenishment standards by functional area eliminated this problem and made it easier for management to balance areas more effectively.

At another client, eCommerce labor represented 40% of the business case savings in going from a manual to automated environment. For that reason, they put early emphasis on measuring process effectiveness. They set reasonable expectations for each area and used a labor planning tool to track productivity.

Lesson 7: Trade-off Decisions Are Intensified in the Omni-channel Environment

With every design decision, there are trade-offs to make depending on your order profiles, volume, SKU profiles, etc. The more flexibility you build into an omni-channel DC (different areas able to handle multiple channels requirements), the more complex it becomes to balance the DC overall. Decisions to save on budget initially may in the long run cause additional pain as the operation grows. And **cost trade-offs can be amplified by the fact that an omni-channel facility typically runs at peak levels over a longer timeframe** than a traditional DC. You might be able to rationalize the trade-off when the impact is 5 days of peak per year; but when peak becomes 5 weeks in an omni-channel facility, the decision may be very different.

Omni-channel projects often require a multi-phase implementation because they're too complex to bring live all at once. Multiple phases make it harder for operators to flow and cross-train associates.

And there's always the risk that pressure to meet project deadlines can make short-cuts appealing. In one case, the client accelerated and skipped steps as the project cadence sped up. If you are phasing processes or capabilities, they must be thoroughly tested – regardless of what has worked previously. By testing a process that had been in production for months, we found a significant gap in an assumption that required us to rebuild the way a critical message was processed. Had we not done this, the inventory snapshots would have been off causing replenishments to be wildly off-target. **We've consistently found that the more productive areas of the DC are those where the client spent the extra time to test IT and operations systems**, did a smaller ramp-up and even held back areas until they were truly ready to go to the next phase.

Summary

Omni-channel distribution comes with a unique set of challenges and complexities. It requires you to think in terms of the customer and build capabilities that enhance the experience from the customer's perspective. It's not easy, but there is substantial value to justify investments based on increased revenue, reduced costs, service level improvements and growth enablement. At the same time, it encourages broader thinking about the business, helps to align and improve communications between the business and supply chain teams, and creates open ground for creativity, experimentation and innovation. And the resulting transformation provides flexibility to handle future business changes and positions an organization to make distribution a competitive advantage.

How can we help?

Fortna helps the world's top brands design and implement omni-channel distribution operations that drive competitive advantage. To learn more, ask to speak with one of our Associates.

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