White Paper

“Omni-Channel Supply Chain”
ACKNOWLEDGEMENTS

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For the 27th consecutive year, KEDGE Business School Global Supply Chain Management Programme, ISLI, organizes and hosts the Supply Chain Forum. Unique meeting place and crossroad for ideas and discussions on the evolution of the supply chain, the Forum gathers every year more than 300 international supply chain leaders.

New challenges, technology evolutions, new consumptions models are on the rise. Supply chain leaders have to innovate constantly to face these issues.

This year, the Supply Chain Forum offers to discuss these challenges around 5 round tables animated by high profile supply chain leaders on the following themes:

1. Managing the Supply Chain in a VUCA world
2. Smart & Digitalized Supply Chain
3. End-to-end Supply Chain
4. Omni-Channel Supply Chain
5. Sustainable Supply Chain

The discussion and a summary of the proposed solutions will be grouped together in a White Paper so that each participant can conserve some of the elements of the discussion around the main question that we are proposing this year: How to collaborate, perform, evolve, now?

White paper

“Omni-Channel Supply Chain”
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EXECUTIVE SUMMARY

With the fast-paced evolution of e-commerce industry, volatile customer behaviour, and fierce market competition, more and more companies are forced to start planning or implementing their omni-channel distribution strategies. Objectives are to boost sales, enhance customer satisfaction and loyalty through integrated/efficient distribution operations which correspond to overall corporate strategies. Customer-oriented mindset of omni-channel should be communicated throughout organizations by top managers. This brings about the main challenges for companies which are to balance their service level and operational efficiency.

Multiple choices of distribution channels such as home delivery, ship-from-store, click & collect in store or pick-up point can be considered when deploying omni-channel distribution. Companies should decide the channels which can strengthen their competitive advantages. Once this strategic decision is taken, key operational issues (last-mile delivery, order preparation, and stock visibility) should be scrutinized and discussed. In the next stage, investments and costs on different facets (infrastructure, inventory management, order preparation, delivery, return handling, third party logistics) and their impacts on profitability are assessed. Before the implementation, companies should thoroughly analyse the trade-off between targeted service level and estimated investments/costs. For measuring omni-channel distribution, enterprises are suggested to check metrics regarding both customer experience and operational efficiency at the same time to ensure the right balance again.

Stock availability is key to success for any distribution channels (in store, at home, at pick-up point). In the case of omni-channel it is of utmost importance since multiplication of flows generated by a variety of delivery options for consumers implies that companies must improve their stock management to maintain a high service level and have the lowest cost possible. For enhancing stock visibility, companies must implement new tools (new technologies, information system) and improve data integration across all channels and all devices in real time.

Nowadays consumers are more and more demanding for product delivery, expecting different solutions of fulfillment and fast delivery within one day or even the same day. In addition, they are less willing to pay for delivery and require easiness on return process.

Last mile delivery becomes an important factor to consider for an omni-Channel strategy. Since the economics of last mile is driven by route density, milk run and drop size issues, we need first to increase the order size by encouraging customers to purchase more per order and then to reduce the packaging volumetric weight. On the other hand, the unattended delivery at home which leads to additional expenses, could be avoided by investing in delivery boxes. Some additional expenses could occur to avoid theft and to monitor the temperature for fresh food parcels.
In a foreseeable future, the shipping could be improved with IOT (Internet of things), drones, anticipatory logistics, autonomous ground vehicles. Nevertheless, there is not a single strategy for last mile delivery, the design choice is mostly impacted by the customer behavior. The strategy must be adapted to different sectors and group of customers to ensure the profitability.

Moreover, the ship from store is also a valuable omni channel strategy which employs physical store inventory to fulfill online demand; it could result in an increase of revenue by leveraging in-store inventory for online fulfilment.

Stocks’ control and visibility is a key element for running a successful omni-channel strategy. RFID technology is a very strong tool fitting perfectly the omni-channel needs since it provides a fully automated data capture and analysis. The technology increases the accuracy of information while allowing saves of time and money to the company. By leveraging RFID technology companies are able to have an overview on all stocks in real-time which is a key competitive issue to tackle in an omni-channel strategy. Moreover, the hidden strength of RFID is its ability to be mixed with other technologies to reach an unexpected degree of efficiency.

When it comes to reverse logistics, increased processing/transportation costs, cargo tracking, reimbursement, and inventory re-balancing are the main challenges while companies are building their omni-channel reverse distribution network and processes for enhancing customer satisfaction. Strategies might vary depending on characteristics of different industries, products, and market competition and the thinking before planning such as “what is valuable for your customers?” and “How to distinguish yourself from other competitors” is always worth the time. When planning for omni-channel reverse logistics, key point is to check what customers want and try to leverage current resources (physical store, warehouse, or employee skill) to satisfy them. After defining the need of customers, it is also important to understand the reselling cycle time of the products, ratio of defective/rejected products for deciding service level and potential channels further. The next step is to find the gap between current constraints and companies’ goals. IT system, physical space, and reprocessing feasibility might be the thresholds for enterprises to deploy store return or collect point return and limit their choice of location for processing return products. In the final, potential investments should be evaluated and trade-off analysis is conducted for service level and costs. Transportation and inventory handling cost are fundamental items for consideration, and companies might need to invest on IT system and training/equipment for enhancing inventory management and reprocessing capability. Moreover, choosing the right logistics partner is crucial for ensuring last-mile delivery and developing new distribution channels.

All the key points mentioned above are discussed in detail, keeping in mind both a theoretical and practical points of view.
OVERVIEW

With a continuing and rapid accelerating growth in the coming years, customers require a seamless shopping experience through both online and offline channels. Shrinking product cycle, volatile demand and changing consumer behaviour are impelling companies to rethink their strategy and reshuffle distribution channels. To catch up with the market trend and secure/increase sales, companies are moving from multichannel to omni-channel strategies and striving to keep balance between profitability and operational efficiency.

An omni-channel strategy provides a seamless and consistent shopping experience across different devices (connected objects) or distribution channels and helps companies improve their operation in an integrated manner. However, it involves many challenges that are yet to be overcome.

This white paper aims to provide a clear overview of omni-channel distribution, explaining why and how to develop omni-channel distribution. In addition, it addresses main challenges by specifying key issues and proposing possible directions for solutions. As each enterprise possesses different strategies and competitive advantages, our main objective is to stimulate creative ways of thinking and provide tools for omni-channel reflection, rather than giving an exact answer.
Omni-channel Trends

Nowadays, the growth of the internet and mobile technology has changed the way people buy goods as well as the business operations of the companies. More and more customers are taking decisions to buy online, especially those in the fast-developing countries such as China and India (Figure 1). Although brick-and-mortar business still dominates in markets, the presence has been much influenced by online sales. E-commerce sales have sped up especially in the sectors of food & drink, apparel, and consumer appliance (Ernst & Young, 2015).

Projections of digital influence on sales are increasing each year steadily (Deloitte, 2015). The trend indicates that even the customers making purchases in physical shops, are affected digitally via different intermediaries such as laptop, tablet, and mobile phones. Customers do not rely only a single channel, either online or offline, but are constantly moving through several channels before making a purchase (Figure 2). Without meeting customer demands, the risk of dragging down revenue might occur in years gradually, endangering companies’ market presence. Companies will start to think of establishing more channels or even developing omni-channel to offer seamless customer experience across channels.

Figure 1 Total Retail Sales by Channel (source: Ernst & Young, 2015)
The concept of omni-channel originates from multichannel. In the case of multichannel, several channels are developed and managed discretely with limited integration. Omni-channel, as the word “omni” represents, indicates a global view and overall access in each channel. Omni-channel includes a set of activities involved in selling merchandise or services through all widespread channels, whereby the customer can trigger full channel interaction and/or the retailers control full channel integration (Beck and Rygl, 2015). In the context of omni-channel, products/services are available throughout integrated channel networks, elevating values and increasing convenience for customers.

Evolving with e-commerce, most online retailers begin developing e-business with lower price by leveraging favorable cost structures and wide range of product categories. With fierce competition in market, service battle arises and poses pressure on companies to improve their product and price offerings. Reducing shipping time and omni-channel implementation are crucial for enhancing customer satisfaction. The shipping time has been kept shorter from standard shipping, delivering the next day and even same day delivery in some cases, whether it is free or not. More companies have launched services of omni-channel distribution by offering click and collect and reserve-online choices. As key online retailers like Amazon keep leveraging technology and elevate customers’ expectation with top service such as Amazon Prime, both online and off-line retailers are forced to improve their service. At the same time, customers’ expectation elevated with advanced offering and technological evolution. Nowadays most e-shoppers expect to check in-store availability online, and buy online then pick up in store (Ernst & Young, 2015). The growth of online sales and the development of additional channels increase operational difficulties for companies with lack of suitable distribution network and corresponding processes.

<table>
<thead>
<tr>
<th>Single Channel</th>
<th>Omni-channel</th>
</tr>
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<tbody>
<tr>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td><img src="image1" alt="Single Channel Diagram" /></td>
<td><img src="image2" alt="Omni-channel Diagram" /></td>
</tr>
</tbody>
</table>

*Figure 2 Consumer Purchasing Behavior Statistics (source: Ernst & Young, 2015)*

![Consumer Purchasing Behavior Statistics](image3)
which urge them to establish omni-channel strategies with a more integrated management throughout different channels (Figure 3).

Omni-Channel Distribution: Benefits and Challenges

The main purpose of omni-channel deployment is to meet or go beyond customers’ requirement and expectation. Customer retention and loyalty are targeted to be enhanced with increased sales coming after from income streams of different integrated channels. Successful omni-channel strategies direct physical and information flows with integrated IT system, cross-functional coordination and end-to-end collaboration and foster operation efficiency. Companies improve productivity and efficiency as silos are broken and consolidated efforts are made; Better data collection and visibility ensure products/service availability and order fulfilment of different channels (Figure 4).
Omni-channel deployment increases the complexity of distribution network, especially in logistics and inventory management. Because the preliminary objective of omni-channel strategy is to satisfy customers, companies must make the trade-offs between service level and operational efficiency. Finding the right balance is never easy and can be a key differentiator through innovation. When elevating customer service level, it is also necessary to review costs from an operational perspective to ensure the costs do not climb beyond companies’ limits. It is hard to maintain the same efficiency when speeding up delivery for different channels with less economics of scale. The efficiency might decrease as well when preparing small slot of orders for different channels. Concerning inventory management, an integrated IT system ensuring the stock visibility from order to delivery is necessary to optimize inventory allocation. The ideal situation is to have the capability for monitoring each SKU (stock keeping unit) at different level from order processing, manufacturing, DC, to store. How to assure efficiency with enough inventory precision for customer satisfaction therefore becomes a big issue for most companies planning omni-channel distribution. Another issue is about demand planning which directs inventory management. The data of demand forecast need to be dismantled for different channels and disseminated to each level for order preparation and stock-out prevention (Figure 5).

Many companies are not capable to deal with small orders efficiently in DC with the processing of traditional batch distribution at the same time. As for inventory, most retailers have an order management system and a point-of-sale system that captures inventory information, but do not connect each other to the enterprise resource planning (ERP) system; Information was batch processed at the end of a given time (Michel, 2016). And companies might lack an adequate warehousing management system (WMS) linked coherently with ERP for data sharing. Concerning delivery, high industrial standard of next day or same day delivery increase the difficulties for company to collaborate with third party logistic providers which might be still striving to develop their omni-channel solutions.

**Figure 5 Challenges for Omni-Channel Strategies (own contribution)**
Omni-Channel: Proposed Model and Measurements

- Omni-channel distribution network

General omni-channel distribution network (Figure 6 adapted from Hübner and al. 2016) is proposed as following, comprising three essential categories: store delivery (SD), home delivery (HD), and store pick-up (SP). Several distributions under the categories are specified depending on different departure points. Complete distribution begins from the customer order to the receipt of products. Customers might involve some parts of omni-channel distribution to pick up products either in stores or other pick-up points.

Figure 6 Omni-Channel Distribution Network (adapted from Hübner and al. 2016)
## Model for omni-channel deployment

<table>
<thead>
<tr>
<th><strong>Channel Choice</strong></th>
<th><strong>Distribution Strategies</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Home delivery</td>
<td>• Time to market/volume</td>
</tr>
<tr>
<td>• Ship-from-store</td>
<td>• Customer experience</td>
</tr>
<tr>
<td>• Store pick up (online reserve)</td>
<td>• Quality</td>
</tr>
<tr>
<td>• Pick-up point</td>
<td>• Cost</td>
</tr>
<tr>
<td>Choose the target channels considering to customer requirement, market/industrial competition, and company competence/advantage</td>
<td>Review distributions strategies and match them with target channels. Target channels should foster distribution strategies corresponding to corporate strategies that create competitive advantages. Only establish channels with processes totally conforming to focal distribution strategies. The strategic thinking should be carried through whole omnichannel deployment from planning to implementation.</td>
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<tr>
<th><strong>Key Issues</strong></th>
<th><strong>Investment &amp; Costs</strong></th>
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</thead>
<tbody>
<tr>
<td>• Last-mile delivery</td>
<td>• Infrastructure</td>
</tr>
<tr>
<td>• Order preparation</td>
<td>• Inventory management</td>
</tr>
<tr>
<td>• Stock visibility</td>
<td>• Order preparation</td>
</tr>
<tr>
<td>Scrutinize three key issues of omni-channel distribution and check their relations with distribution strategies. Efficiency is not the focus for consideration at this stage. The point is to think out how to deal with key issues to strengthen distribution strategies. Define current situation/constraints concerning to three key issues and problems for omni-channel deployment. Think out problem solutions with some concrete proposals for further evaluation. Without proper solutions, target channels should be re-considered.</td>
<td>Evaluate potential investment on infrastructure, warehouse design for order preparation, IT system for inventory management, and third party logistics service. Estimate increased costs for inventory management and handling, order preparation, and delivery/transportation.</td>
</tr>
</tbody>
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<thead>
<tr>
<th><strong>Implementation</strong></th>
<th><strong>Performance Measurement</strong></th>
</tr>
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<tbody>
<tr>
<td>• Strong leadership</td>
<td>• Customer experience</td>
</tr>
<tr>
<td>• Cross-functional collaboration</td>
<td>- timeliness, availability condition, return</td>
</tr>
<tr>
<td>• Information sharing</td>
<td>• Operational efficiency</td>
</tr>
<tr>
<td>• Customer-oriented mindset</td>
<td>- inventory management, order preparation, delivery, return handling</td>
</tr>
<tr>
<td>Make sure the support of high-level management and organize cross-functional team for omni-channel project management. Embed customer-oriented mindset throughout company and ensure critical information shared between different functional levels/locations.</td>
<td>Set up KPI for performance measurement. Choose KPI matching corporate strategies to assess both customer experience and operational efficiency. Both kind of metrics should be defined for ensuring the balance between service level and costs.</td>
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### Table 1 Key Model for Omni-Channel Deployment (own contribution)
• Performance metrics for omni-channel distribution

Choosing right metrics for measurement is critical for performance evaluation and continuous improvement. Only the metrics which matches organization strategies should be employed and companies should understand the trade-off between several contradictory metrics for keeping adequate balance before employment. We arrange metrics for omni-channel distribution as following in two major categories: customer experience and operational efficiency (Table 2 adapted from Bressolles and Lang, 2013). Delivery time span/options and product availability with ensured quality are main factors influencing customer experience. Return issue is considered with rise of e-commerce. On the other hand, inventory management, order preparation, and delivery are essential for operational efficiency since they are defined as three main challenges to omni-channel operation. Again, return operation should be assessed as much extra works should be done in return processing.

<table>
<thead>
<tr>
<th>Customer Experience</th>
<th>Timeliness</th>
<th>Availability</th>
<th>Condition</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>delivery cycle time (in days or hours); choice of delivery date and specified time slot</td>
<td>time to confirm product availability or substitution (alternative offer); stock-out rate time to wait in case of stock-out; delivery tracking (numbers of notice and timing)</td>
<td>order accuracy/completeness rate; rate of order damaged in transit</td>
<td>time and ease of return collection; replacement cycle time; channel options for return</td>
</tr>
<tr>
<td>Operational Efficiency</td>
<td>Inventory Management</td>
<td>days inventory outstanding of different channels; rate of inventory check accuracy; time to check inbound inventory in SKU; stock-out rate</td>
<td>order preparation cycle time (from sorting, picking, packaging and allocating for delivery); picking accuracy rate; number of packaging per day/hour; defect preparation rate</td>
<td>perfect delivery rate; on-time delivery rate; rate of order delivery in full; defect delivery rate; document accuracy rate</td>
</tr>
<tr>
<td></td>
<td>Order Preparation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Delivery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Return Handling</td>
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Table 2 Key Metrics for Omni-Channel Performance Measurement (adapted from Bressolles and Lang, 2013)
Omni Channel Distribution: Key Design Issues

In a context where supply chain is no more considered as a support function but as a strategic function, companies try to improve their supply chain to answer consumer demand and make them more flexible and agile.

However, this strategy changes the vision of supply chain. In consequence, companies have to change their operations in a better way, integrating upstream and downstream processes in a whole supply chain. As consumers have access of all possible channels when placing orders, companies have to stay adaptive on both forward and reverse distributions.

Five key elements are suggested to be taken into account in order to redesign an omni-channel distribution: stock availability, first and last-mile delivery, warehouse management, information systems and technologies, and reverse logistics.

- **Stock Availability**

Stock availability should be observed carefully as omni-channel increases points of delivery. In the context of omni-channel, delivery options are multiplied from home delivery, store pick-up and other point-up point.

To deal with this unpredictable and uncertain demand from the consumer, the supply chain must be adaptive. For preventing stock-out and minimizing costs, companies must manage their stock in a better way, which is key to keep company’s agility. There are many ways to manage inventory without a general strategy since each company face their own market and possesses different supply chain network (location of factory, DC, stores...).

In case there is too much stock, companies must analyse the costs associated with retaining inventories. Some methods already exist to minimize the costs. However, as the demand is not regular but rather unpredictable and volatile, the difficulties of stock optimization are amplified.

The diversity of companies working in online domains (e-commerce companies) has weaken customer loyalty. As customers have access to a large range of products and can shift from one seller to another with only a click of button, attachment of brand/company are reduced gradually. Thus, companies must manage well their inventory in a best possible way to avoid losing markets.

Inventory visibility: Another related issue is stock visibility. Available stock should be visible to consumer from both customer and corporate point of view, with a clear understanding and data of stock level (quantity of stock available on hand) should be visible. The importance of real-time inventory visibility across the supply chain is one of the key enablers of any outstanding omni-channel strategy. Inventory visibility supports enterprises to satisfy their customers and meet expectations. Inventory data needs to be chosen and
updated consistently through all channels and provides complete visibility for each segment (functions) in a supply chain.

Information System: Nowadays there are multiple tools which can help companies to improve their efficiency of inventory management and order fulfillment. An adequate information system is a crucial one. With a tailored IT system, companies can determine with ease how and where to put and pick stocks. A network with full inventory visibility can become a significant differentiator from competitors.

Several softwares such as WMS (Warehouse management System), TMS (Transport Management System) or ERP systems help companies to determine the right quantity of stock they should have, where it is and when it will be used. The purpose of these tools is to unify data format and improve its quality for realizing overall stock visibility. More accurate forecast can be made and the collaboration between different sections of supply chain are strengthened through smooth communication. From an overall supply chain aspect, bullwhip effect is alleviated with stronger collaboration and cooperation. Passing from a single channel to an omni-channel, amount of stock would increase with multiplying flows in different channels for order fulfilment, which leads to the real need for an integrated IT system to optimize inventory management through higher stock visibility. Lack of inventory optimization in an omni-channel supply chain will certainly accumulate costs and cause much burden on enterprises (Figure 7).

Figure 7 Stock available in single channel VS Omni-Channel (own contribution)
• Last-Mile Delivery

Final mile delivery or last mile delivery is a term to describe the movement of the goods from the distribution centre or the transportation hub to the final customer. This is a very important aspect to consider since it is often less efficient; In fact, cost of last mile delivery accounts for up to 50 per cent of total SC cost (Hübner and al., 2013) and can have a negative impact on the bottom line of supply chain. Customer delivery offerings needs to be considered since efficient final mile affects online channel profitability and impacts customer satisfaction.

According to a survey of 1000 US adults conducted by Tay (2016) for Narvar corporation:
- On-time arrivals motivate repeat purchases for 72% of consumers;
- 60% are more likely to choose a retailer providing the exact time/date of delivery;
- Last mile efficiency is a valuable competitive advantage.

Today’s consumers expect free or low-cost fast shipping. On the contrary, retailers are facing increasing costs of delivery. Thus, improving last mile fulfilment could be a tremendous opportunity for companies to enhance customer loyalty and increase revenues. Amazon has actually triggered the last mile competition across entire retail industry. Pure online players have raised the bar for other retailers, delivering items quicker (even by drones) thanks to innovative solutions such as “Amazon Prime Now” service which deliver items within one hour from urban fulfilment centers. The American giant offers a fulfilment service called Fulfilment by Amazon (FBA), handling more than two billion packages annually for third-party marketplace sellers.

Nevertheless, there is a paradigm to balance consumer expectations and costs. In 2016, Capgemini report (Cap Gemini, 2016) gave an example that online food orders cost around $20 - roughly three times the maximum delivery charges supermarkets can acceptably pass to their customers. To cope with this problem, retailers have tried to propose free shipping (ex. Amazon Prime) with a subscription fee that can bring revenues to support higher level of delivery service. Despite such strategy, Amazon is still suffering from rising last-mile costs, with shipping costs peaking to 7.2 billion in 2016 which representing 40% increase in comparison with 2015.

The last mile delivery from the warehouse to the customer’s home has become a challenging aspect with continuous growth of e-commerce. The main issue concerning home delivery is the unattended delivery as most consumers are away from home. Hence the logistic companies may have to attempt multiple times to deliver parcels, which lead to additional expenses (Table 3). Furthermore, the economics of final mile delivery are driven by two factors: route density and drop size. Route density is the number of drop offs you can make on a delivery route, often called a “milk-run”. Drop-size is the number of parcels per stop on the milk run. If you make lots of deliveries over a short period or distance, the cost per delivery will be lower. Likewise, if you drop off lots of parcels at the same location, the cost per parcel will decrease.
<table>
<thead>
<tr>
<th>Home delivery</th>
<th>Click &amp; Collect</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mode</strong></td>
<td><strong>Attended</strong></td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>Delivery to customer’s home in his/her presence</td>
</tr>
<tr>
<td><strong>Customer specifics</strong></td>
<td>Preference for delivery and willingness to pay for the service.</td>
</tr>
<tr>
<td><strong>Country region specifics</strong></td>
<td>All regions but better economics with dense customer base</td>
</tr>
<tr>
<td><strong>Advantages from retailer’s perspective</strong></td>
<td>Possibility of directly interacting with customer</td>
</tr>
<tr>
<td><strong>Challenges from retailer’s perspective</strong></td>
<td>Complex and costly vehicle routing; need dynamically assign time slots; additional storage and delivery expenses if customer is not present</td>
</tr>
</tbody>
</table>

Table 3 Design factors for delivery modes of Omni-Channel (adapted from Hübner and al., 2015)

**Innovations in Last-Mile delivery**

- Concerning the innovative solutions, the Internet of Things (IOT) could be a valuable technology for increasing last mile efficiency. The number of connected devices are increasing with the decreasing cost of sensors. Equipping delivery trucks and products with adequate sensors can provide lots of useful data for both logistic providers and retailers.

- Autonomous ground vehicles (AGV) will replace the regular parcel delivery. According to Joerse and al. (2016), it will allow to save labor costs: “Our calculation shows that AGVs with parcel lockers will replace current forms of regular parcel delivery. This is due to cost advantages of 40 percent and more over today’s conventional last-mile delivery”
• **Ship from Store**

Ship from Store is a fulfillment process, by which retailers use stock from their store estate to fulfill orders (Figure 8). It’s an omni channel process, the orders can be satisfied from different channels, for example via e-commerce. There is a lot of benefits in employing ‘ship from store’, using the stock of stores to fulfill demand and prevent stock out. For example, if the distribution center fulfilling web-store order is out of stock for one product, the order can be satisfied from a physical store. This strategy results in 10% to 20% increase of revenues by leveraging in-store inventory for sales. Online retailer American Apparel has increased by 30 % since they started carrying out ship from store (Kurt Salmon, 2016). This strategy leads to faster shipping to customers as well. It is even possible to fulfill demands from the nearest through bike runners, reducing costs and environmental impact (Table 4).

Some start-ups in France are trying to find solutions for order preparation issue, providing a service which consists in picking products directly in the store, preparing orders professionally, and sending them via appropriate transporters.

![Figure 8 Model for Ship-From-Store](image)

**Table 4 Advantages and Drawbacks of Ship-from-Store (own contribution)**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoid out of stocks in the e-distribution center fulfilling the demand from a store</td>
<td>Preparation of the orders due to lack of scales of economy and inefficient infrastructure</td>
</tr>
<tr>
<td>Used up the unsold store inventory through the e-commerce channel</td>
<td>The sales man in the stores are not trained to prepare the orders which can lead to packing errors and additional fees</td>
</tr>
<tr>
<td>Since the stores are located in urban downtowns, the shipping delays and costs are reduced</td>
<td>The cost of establishing this strategy due to additional expenses related to training, to adapt the ERP to integrate the inventories with the stores and the online platform</td>
</tr>
</tbody>
</table>
• Cross docking platform

Two of the key parameters defining a successful supply chain today are speed and efficiency. Productivity of a supply chain can be truly enhanced having worked on these criteria. Cross-docking is one of the possible logistics strategy to help increase the productivity.

Cross docking in simple words is a logistics method to reduce the handling (inbound/outbound transactions) and simplify the product displacement to directly reach the retailers/customers from a manufacturing/supplier plant (Figure 9). Cross-docking can be scheduled in a distribution docking terminal with trucks and doors on either side, one being the inbound and the other the outbound. The goods flow between these two must be created in an efficient yet fast manner, to avoid delays and create timely processing of these items, e.g.: for the grocery/fresh supplies, time is crucial and certain precautions like refrigeration need to be observed, thus sorting and combining the packages needs to be done. After being cleared from the outbound stage, the goods can be expedited to respective customers.

Cross-docking not only improves the speed of good flow but also consolidation and sorting of supply. Delivery flows helps companies reduce storage costs drastically due to the reduction of overall transportation costs. The elimination of costs of manual labour by making use of automated conveyor systems can help to cut costs further.

![Figure 9 Sequence of steps in Cross-Docking Platform (own contribution)](image)
Walmart, one of the leading retailers in the world, has made constant efforts to increase business efficiency via supply chain improvements. The result of Walmart implementing cross-docking is that product moves more rapidly and efficiently, storage space is reduced and deliveries are made swiftly, thanks to the concept of pick and pack warehousing (Figure 10). This in turn translates to fewer losses due to spoilage, pilferage or excessive handling as well. (Cross-docking platform-Manitoba)

Walmart has been able to increase the volume of its inventory, negotiating better pricing margins with its suppliers. Cross-docking requires lesser storage space which also means more area is now available as shelf space. It is very well known, when you can offer more shelf space to a vendor, you have a higher chance of increasing your profit margin using volume sales.

Utilizing an efficient combination of advantages that cross-docking services provide – efficient loading and distribution, reduction in overall storage area, modern and automated inventory systems and an overall reduced time in turnaround - Walmart has managed to keep more and more of goods flowing, still managing these large-scale operations at reduced costs. (Sean, 2015)
• **Data Integration and Technology (RFID)**

The essence of harnessing the abilities of omni-channel lies in the collection of data and integration of data across servers, making it visible throughout organisations. The idea behind the data collection is to create a 360-degree profile view around customers’ needs and purchasing habits.

Inventory management is significant as customers nowadays have a variety of choices to buy products for e.g.: online stores, retail and wholesale stores etc. Lack of inventory management causes high chance of customer dissatisfaction and can further lead to a tarnished brand image, which none of the companies can afford.

Luckily, retailers today can leverage a technology called RFID: Radio Frequency Identification, which can offer them tremendous operational supports. It ensures real-time visualisation of their inventory on SKU basis, which is very necessary for effective execution of any product-related omni channel strategy. RFID provides up to-the-minute visibility into a retailer’s complete inventory - wherever it is located - with up to 99% accuracy. “The entire shopping experience is strongly impacted by product availability,” said Francisco Melo, vice president and general manager, Global RFID, Avery Dennison. “As the physical and digital worlds continue to merge, consumers expect a seamless experience across all channels. RFID not only improves inventory accuracy and visibility, it also enables item-level consumer engagement to transform the retail experience and build a consistent engagement platform both online and offline.”

The latest innovations in RFID have been adapted to display how products meet industrial daily demand, combining a high-density and long-range approach. More and more companies are using several record system such ERP, additional data system as WMS, and other inventory systems. RFID allows companies updating data on all the systems of record instantly and decreasing the complexity of data integration while improving data accuracy. It is important for an omni-channel strategy to be effective to get accurate data in real-time that allows increasing order fulfilment rate.

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**Figure 11 Key Uses of RFID**
The benefits of using RFID are numerous (Figure 11). RFID chips reduce parts of manual processes during order preparation and therefore reduce fulfilment errors that could occur in store. Moreover, using RFID chips decrease error ratio contained in ASN (advanced ship notification), which have influence on inventory data correctness needed in stores. Overall RFID tools provide data integrity across entire distribution chain.

Omni-channel order fulfilment strategy focuses on making all the product and inventory available for all different existing channels in business with sourcing from separate locations. The aim behind this material handling strategy is to provide customers a way to track the status of their orders and in turns generating higher customer service levels. For enforcing RFID deployment, companies can use software, namely, warehouse management systems (WMS). Each company trying their hand at omni-channel fulfilment is trying to advance the application of WMS by leveraging their older warehouses and making it accessible to all other channels with a more in-depth and universal view of inventory.
Reverse logistics

Return management

Reverse logistics has been discussed more and more in e-commerce environment. Due to the difficulties for customers to check and feel the product before making online orders, the probability of returning products is higher than purchasing on traditional physical channels (Tarn et al., 2003). The way companies manage their return processes will influence customer satisfaction and profitability/cash flow mainly depending on the speed they resell and liquidate products. When developing omni-channel distribution, companies might consider to offer more options of channels for return as well. New challenges arise as following in omni-channel context (Brenon et al., 2015) (Figure 13).

<table>
<thead>
<tr>
<th>Increased processing/transportation costs</th>
<th>Cargo tracking and reimbursement</th>
<th>Inventory re-balancing</th>
</tr>
</thead>
<tbody>
<tr>
<td>More options of entry points to return products increase the complexity of reserve distribution network with minor economics of scales for processing and transportation</td>
<td>Risk of losing tracking control in several return cannel and difficulties to unify procedure of financial reimbursement with possible longer waiting time for customers</td>
<td>Potential need of inventory re-balancing (sending products to right locations for reselling) and real-time information of inventory level from different locations.</td>
</tr>
</tbody>
</table>
Reverse distribution network

In omni-channel context, customers can return products directly to sellers, return to stores or other collect points. Companies’ process returned products in their DC or in return centre (RC) set up specifically for return processing made by companies or third party service providers. The network modified from the work of three German researchers (Hübner and al. 2016) (Figure 14) demonstrates flows of return products in omni-channel network with three categories of returning mode: customer return (CR), store return (SR), and Collect Point Return (CPR).

Figure 14 Reverse Distribution Model - Omni-Channel (adapted from Hübner and al. 2016)

Omni-channel return mode and processing locations

When considering return mode, companies face the trade-off between transportation costs, inventory handling cost, and time duration for inventory reintegration and reselling. Return process becomes more complex from customer return to store return and collect return as extra work should be done in store and collect point with the help of integrated IT system or third party logistics services (Figure 15 adapted from Hübner and al. 2016).

For processing of defective products, most companies redo returned products in their DC. Another solution is to set up a return center in suitable location in favor of less reprocessing costs. However, the time to reintegrate inventory and transport cost might increase. In addition, companies can integrate returned products quickly into store inventory and save transportation costs if they are capable to process defected products in store, but it is rarely
realized due to the limit of space and competence (cost) of reprocessing in store. Briefly, the time duration needed to resell the products and the reprocessing ability for defected products are the main factors to consider for choosing return processing locations (Figure 16 adapted from Hübner and al. 2016).

<table>
<thead>
<tr>
<th>Return Mode</th>
<th>Customer Return</th>
<th>Store Return</th>
<th>Collect Point Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td>- simplified process with direct flow from customer to DC/RC</td>
<td>- customer convenience for return</td>
<td>- proximity of return point for customer convenience</td>
</tr>
<tr>
<td></td>
<td>- more chance to acquire customer feedback</td>
<td>- potential of repurchasing and cross-selling; immediate reintegration of inventory in store</td>
<td></td>
</tr>
<tr>
<td>Challenges</td>
<td>- higher transportation cost; time duration to reintegrate products into sellable inventory</td>
<td>- additional in-store process for distribution</td>
<td>- additional process at collect point for distribution</td>
</tr>
<tr>
<td></td>
<td>- time duration to reintegrate products into sellable inventory</td>
<td>- IT integration for inventory management</td>
<td>- costs for third party service</td>
</tr>
</tbody>
</table>

**Figure 15** Omni-channel Return Mode (adapted from Hübner and al. 2016)

<table>
<thead>
<tr>
<th>Processing Location</th>
<th>DC</th>
<th>RC</th>
<th>Store</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td>- quick integration of return into high-level inventory</td>
<td>- specialized processing</td>
<td>- immediate integration of reprocessed product into inventory for reselling</td>
</tr>
<tr>
<td></td>
<td>- potential of workforce pooling and workload balancing</td>
<td>- potential of lower processing cost</td>
<td>- no transportation cost</td>
</tr>
<tr>
<td>Challenges</td>
<td>- space requirement additional</td>
<td>- time for reintegration into sellable inventory</td>
<td>- space limitation and IT integration</td>
</tr>
<tr>
<td></td>
<td>- additional transportation cost</td>
<td>additional transportation cost</td>
<td>- higher reprocessing cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td>from return entry points and to DC</td>
<td>- IT integration</td>
</tr>
</tbody>
</table>

**Figure 16** Omni-Channel Return Processing Locations (adapted from Hübner and al. 2016)

**Decision making for reverse logistics**

- Realize product cycle time from production to reselling in the beginning considering customer requirement and industrial competition.

- Better to know about the ratio of defective and rejected products, since different return procedures might be needed for these two kinds of return which increase the complexity of reverse network.

- Check current constraints of IT system, physical space, and reprocessing feasibility. This is the starting point to evaluate the potential investment needed to make for omni-channel strategies.

- Make trade-off between service level/reselling cycle time and all the costs related for each channel including transportation costs and all potentials costs for investment.
• As investment, might not turn into additional sales directly, it is suggested that companies have a long-term perspective with consideration of market competition and trend (Figure 17).

Figure 17  Decision Making Procedure for Reverse Logistics (own contribution)

<table>
<thead>
<tr>
<th>Preliminary factors</th>
<th>Current constraints</th>
<th>Trade-off analysis between service level and costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reselling cycle time</td>
<td>IT system</td>
<td>Transportation cost</td>
</tr>
<tr>
<td>Ratio of defective/rejected products</td>
<td>Physical space</td>
<td>Inventory handling cost</td>
</tr>
<tr>
<td></td>
<td>Reprocessing feasibility</td>
<td>third party logistic cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investments on IT and reprocessing</td>
</tr>
</tbody>
</table>

Figure 18  ASOS (own contribution)

As a pure online fashion retailer, ASOS offers many return options for online-shoppers in each country. In France, customers can return products through COLISSIMO, UPS, or at collect locations of MONDIAL RELAY. They are required to fill out returns note and print return label online. Prepaid return label plays an key role for customer return and most of logistics providers offer the service to companies. However, how to simplify the procedure for customers remains an key issue as each logistics provider has their own document form for return transportation (James, 2015).

Figure 19  Zara & Decathlon (own contribution)

Two international giant retailers leverage their brick-and-mortar networks in return management. Except for customer convenience, possibility of stock re-integration in stores can save lots of transportation cost. Both companies have developed RFID programs in recent years to speed up stock re-integration and enhance the inventory visibility throughout channels. With the help of technology, store clerks are able to decide the movement of stocks between different stores quickly, fulfilling customer demand and reselling products in shorter term (Linne, 2014).
Executive Insights

Boston Consulting Group

The Boston Consulting Group (BCG) is an international management consulting firm based out of Boston, Massachusetts, USA with presence in over 48 countries worldwide. The firm comprises of more than 12,000 employees and 900 partners. BCG partners with their clients, helping them solve the hardest problems challenging their businesses. At the core of BCG lies the belief that, the solutions developed in partnership with their clients transform not just companies but also entire industries and even segments of the society. BCG brings great value to clients by forging partnerships in transformation.

The perceived change in the retail landscape is not unexpected—retailers worldwide have always had to adapt to constant volatility in customer behavior and competitive threats. However, the frequency and scope of change is definitely new and how fundamentally these shifts have the potential to disrupt established retailers.

One of the most important reasons to set up an omni-channel strategy for all companies is to improve and exceed customer experience. In today’s world, companies do not have an option to implement omni-channel, since all customers demand the best experience and services. Companies like Adidas where omni-channel is not too important is also investing time and money to improve their distribution and online services. Customers are now used to receiving a certain standard of services from few companies like Amazon, Apple and consequentially their expectations are raised for all other companies as well.

Omni-Channel projects are now being conducted much more frequently. There is a strong trend of omni-channel implementation driven by the goal to fulfill and gain customer satisfaction.

Industries which have already witnessed successful omni-channel implementation are mostly in the ‘big-retail’ segment, one of the reasons which can be attributed to this is the close interaction with the customer and the need to change the existing systems to answer to the market demand. Additionally, the leading companies in the consumer electronics sector have also successfully implemented Omni-Channel, like Apple and Samsung. Apparel industry leaders have implemented the ‘Click & Collect’ model in their traditional brick and mortar stores.

Customer expectations play a big role here, even the unexpected industries like industrial goods and energy companies are now changing their approach and considering implanting an omni-Channel strategy, reason behind this is the high service expectation of customers. Also, market disruption is causing a lot of companies to change their operations e.g.: With the entry of Uber, the entire market has been disrupted and traditional taxi companies are now finding it hard to compete without offering competing IT enabled services on mobile devices.
Talking about the timeframe of implementation for such projects, we can roughly divide it into two important stages: Planning & Strategy and Implementation. Such projects can involve re-shaping the entire supply chain of traditional organizations and can be a very time-consuming process. Just the planning function can involve time investment between three to six month, as planning involves getting new talents as well. The implementation however, largely depends on the company and its employee’s motivation, but generally it can take upwards of one year for the implementation to be completed.

Profitability, however, remains a key issue with Omni-Channel fulfillment as competing with online giants like Amazon is indeed very tough. Creating effective reverse logistics channels is quite difficult and expensive for the company, as the customer is not paying for such services. Regardless, these services need to be offered or else the company will not be able to compete on the market.

![Figure 20: Key Facets of Omni-Channel – BCG (own contribution)](image)

**Decathlon**

Founded in 1976, Decathlon is one of the biggest sports company worldwide, possessing more than 1000 retail stores in 30 countries and offering around 35000 different products with 20 own brands under one roof. The French sport expert differentiates itself with wide range of product portfolio, ease of shopping, and cost advantages supported by a grand supply chain network which integrates product creation, research & development, logistics and retail sales.

With the motto of comfortable customer experience, Decathlon continues to catch up with market trend by expanding its product offering and enhancing customers’ shopping experience. While technologies shape new ways of consumer buying behaviors, the company has leveraged its brick-and-mortar retailing and supply chain advantages to develop worldwide online business. Among those big retailers, Decathlon is one of the pioneer developing omni-channel strategy and building their omni-channel distribution network worldwide.
Currently, Decathlon offers multiple selling channels through both online and offline stores: physical store sales, home delivery, reserve in store, collect (pick-up) points. From an omni-channel point of view, the company miss only the deployment of ship-from-store which is still under planning. For developing omni-channel strategies, the main challenges are acquiring real-time stock availability, building efficient ship-from-store process, and keeping profitability.

Variable options of delivery via different distribution channels are provided with multiple home delivery speeds from 1 to 5 days, which are realized through the collaboration with varied logistic providers such as La Poste (Colissimo, Chronopost), Geodis, and Mondial Relay. Customers can track their orders on company’s website with limited information and need to check separate tracking systems of corresponding transporters for more detailed information.

In the distribution centers and warehouses, Decathlon integrates their storage and picking processes for both online orders and store replenishment in Europe with the support of WMS (warehouse management system). Online orders are prioritized compared with store orders with picking lists generated automatically by WMS. However, the picking activity still relies on human labor force.

As one of the first global retailers which embrace the employment of RFID (Radio Frequency Identification) technology, the company is able to take record of each SKU and synchronize different stock levels (different locations) almost every hour. Nevertheless, due to the difficulties of supplier management, such technology is only carried out with Decathlon’s own manufacturing products. With the help of SAP forecast module, APO, the company forecasts online and store demand separately for optimizing inventory allocation.

In sum, Decathlon is ahead of omni-channel trend, leveraging its physical distribution network, and still striving to elevate customer satisfaction by reducing stock-out ratio. As most of companies developing omni-channel strategies, the French sports giant faces the main challenge of keeping operational efficiency with cost optimization in an omni-channel context.

*Figure 21: Decathlon’s Omni-channel Advantages and Challenges (own contribution)*
Orange

Orange is one of the world’s leading telecommunications operators with sales of 40.9 billion euros in 2016 and 155,000 employees, including 96,000 employees in France. Present in 29 countries, the French multinational has a total customer base of 263 million customers worldwide. Orange is also a leading provider of global IT and telecommunication services to multinational companies, under the brand Orange Business Services.

The Orange Group strategy focuses firmly on customer experience, ambitioning to provide to each of its customers an unmatched experience, wherever they are. Thus, Omnichannel is a key topic, the aim is to pursue the digitalization of the customer journey by building a seamless customer experience throughout the physical and digital channels.

At Orange, the omnichannel maturity varies from one country to another. Each country has its own strategy although guidance is provided by the Group. Regarding the Supply Chain aspects of omnichannel the Group’s Supply Chain Centre of Excellence has defined a framework of omnichannel use cases with different levels of maturity to support affiliates in benchmarking within the group and with competition, share best practices and follow-up on the rollout of omnichannel use cases within the group. Omnichannel Supply Chain use cases cover topics like visibility of stock availability, flexibility in ordering / delivery /return, speed of delivery, traceability and monitoring of customer satisfaction.

Example of omnichannel services implemented are web-to-shop (click-and-reserve and click-and-collect), shop-to-web (ordering in the physical shop with home delivery from the distribution center) collect to pick-up points. Regarding reverse logistics, in some countries Orange provides the possibility to return products at pick-up points, 24/24h lockers, or from home.

One of the main enablers for deploying omnichannel services is IT. It can be a significant challenge especially for historical affiliates that have developed tailored IT systems for each sales channel and for which large investments can be necessary to apply omnichannel strategy. Therefore, sometimes smaller / newer affiliates have developed more omnichannel services than others.

IT is key since the biggest challenge today is to have a unique and global view of the inventory in the different sales channels (owned shops, franchises, web…).

Ship from store is a typical omnichannel use case which Orange is studying with some start-up companies and can help the group save last mile delivery costs and offer faster/flexible deliveries to the customers.

At Orange “Omnichannel” means also that the customer is recognized whatever the contact point he/she has (shop, phone, web). Here again IT and big data are strong enablers to make an unmatched customer experience.
REFERENCES


