

IBM Institute for Business Value quick read

In association with



Strategy and Change

Cross-channel optimization

A strategic roadmap for multichannel retailers

A new, superior retailing model is emerging. This model provides the retailer with powerful new capabilities based on cross-channel optimization. It is not simply about executing the same activities in multiple, separate channels. Nor does it focus simply on integrating or synchronizing channels to support cross-channel shopping.

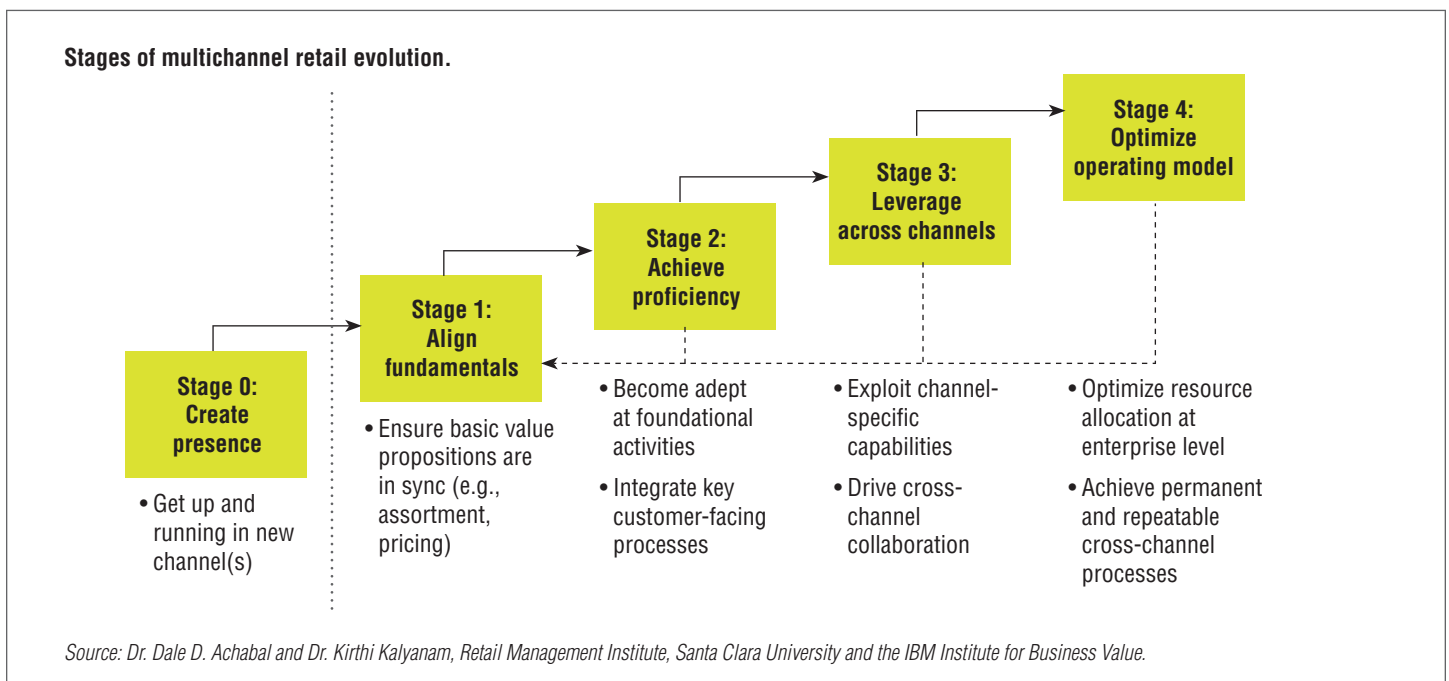
Instead, it requires a systematic approach to exploit the strengths of one channel to complement the relative weaknesses of other channels. It

involves the migration of costly activities in one channel to a lower cost basis in another. These benefits will not accrue automatically to retailers, however. In many organizations, there remains a general lack of a vision or a systematic framework to achieve what this new model entails – developing multiple points of cross-channel leverage and ultimately optimizing resource allocation.

Based on a multiyear research study by the Retail Management Institute at Santa Clara University and the extensive

implementation experience of IBM Business Consulting Services, we have developed a four-stage iterative framework that retailers can use to harness the power of cross-channel optimization (see also Figure below):

- Stage 1: Align fundamentals
- Stage 2: Achieve proficiency
- Stage 3: Leverage across channels
- Stage 4: Optimize the operating model.





As part of our research, we identified four major strategic opportunities for driving cross-channel optimization:

- *Trend and growth mining* - Identifying consumer trends on a continuous basis to create, test and rapidly deploy/adjust new products, assortments, brands and concepts.
- *Efficient marketing communications* - Increasing the efficiency and effectiveness of all communications activities directed at current and prospective customers, with a goal of building the brand and increasing share of wallet. While measuring communications effectiveness in a traditional, store-based environment is itself challenging, for retailers operating multiple channels, the complexity increases significantly – even more so for multiformat, multibrand retailers.
- *Improved merchandise utilization* - Increasing inventory productivity through forecasting, planning and allocation of goods, the setting of in-stock levels, and inventory sharing and substitution policies across channels.
- *Enhanced customer learning*.- Implementing value-added selling activities that enable customers to understand the products in a category and use that knowledge to match specific products to their individual preferences. For many customers, information about the product is as much a part of the consumption experience as the use of the product itself.

To be successful at cross-channel optimization, retailers will need to proactively address key factors that can help (or hinder) their progress. The charge must be led from the top of the

organization, treating multichannel retailing as an enterprisewide, strategic issue. Internal objectives and incentives must be aligned. The performance and costs of specific activities in each channel should be measured to identify the most promising opportunities for optimization.

Because cross-channel optimization involves fundamental change of the retail operating model, it will be neither easy nor quick. But companies that learn how to make the shift will build a strong platform for continued, profitable growth in revenues and market share. They will develop the capabilities for sustained market leadership in the 21st century.

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10-05
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