

# Inventory Optimization: A Key Ingredient for Increasing Customer Satisfaction



# Introduction

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*Every retailer wants customers to believe it offers the best widget, doodah or purple stuffed teddy bear---at the right price and in the most convenient store location. But all efforts are for naught if the only teddy bears available in the store are blue or green. While some shoppers might accept the substitution, many will head elsewhere to buy a faux furry friend in the desired color.*

*Across all categories, inventory optimization (see definition in the next paragraph) continues to be a major challenge for retailers. With 50% of all chains unable to provide a single view of their in-stock position, sales decline can be as high as 8.2%. According to EKN's Immersive Retail Experience Survey (2016), retailers list "inventory availability" as the most important area in business and customer intelligence<sup>1</sup>. By maintaining appropriate inventory levels, retailers can better support operational performance, uphold their brand image and maintain (and grow) customer service and satisfaction levels.*

Accurate monitoring of inventory is a core business process. It is so paramount that half of retailers say they plan to invest more in technology that addresses multiple types of in-store<sup>2</sup> fulfillment<sup>3</sup>. Today's omnichannel environment compounds the issue. In addition to serving brick and mortar customers, many retailers fulfill online orders through the product mixes of local stores. When catering to omnichannel shoppers, retailers need to integrate inventory availability, improve visibility and access, and leverage product quantities across all stores, warehouses and online channels via real-time updates and data insights (also known as inventory optimization).

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**'Inventory Availability'** is the **#1** store business/customer intelligence focus area.

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# Business Problems: Operating Costs, Abandonment & Out-of-Stocks

The leading store challenges highlighted in the graph below are in many ways interrelated. The topmost challenge for close to half the retailers (47%) is escalating store operating costs due to rising inventory unit costs, fulfillment costs, real estate costs, wage rates, among other escalating cost areas.

## Top Pain Points Related to Store Operations



Source: EKN Immersive Retail Experience Survey, 2016

Other top business pressures in the stores, such as high store abandonment by customers (low shopper conversion), are primarily due to inability to deliver personalized customer engagement through the workforce and increasing levels of out-of-stocks for key selling items. In fact, out-of-stocks is one of the highest rated store challenge for close to 4 in 10 retailers today. Ever increasing customer expectations for more knowledgeable sales associates and inventory availability are both putting added pressure on retailers to improve their overall customer experience in the store. The foremost goal for any retailer is to make it easier for customers to find what they're looking for, as well as to find complementary products across categories and channels that lead to a more complete shopping experience.

# Out-of-Stock Impact Customer Retention

“Out-of-stock” is often synonymous with “out-the-door” for otherwise loyal shoppers. But many retailers put more emphasis on customer acquisition than on shopper retention. Seven out of 10 say that targeting new customer segments (like Generation Z, also known as Centennials) is the prime reason to develop new retail formats<sup>4</sup>. At the same time, 82% of companies agree that customer retention is far more cost effective<sup>5</sup>.

Bringing customers into the store is the fundamental goal for retailers. But once a customer is in the store, the goal shifts to fulfilling her shopping needs and enticing her to buy more. This becomes a challenge if in-stock levels fall below 85% to 90% in the store, resulting in a significant risk to sales and customer satisfaction. Efficient inventory optimization can prevent this problem. With endless aisle capabilities, an item that is out-of-stock in the store should be easily ordered when sales associates have visibility and access to real-time inventory in the warehouse or other stores. Leveraging this merchandise for fulfillment is truly optimizing the retailer’s inventory investment and most importantly, delivering the utmost in customer service. While the sale may not be lost, ordering out-of-stock items online can impact up-sell and cross-sell opportunities. These value-enhancing sales often stem from personalized engagements with customers, associates and suggested selling.

At the same time, the ability to view online stock levels can help sell products that are not available—and should not be available—at every store in the chain. For example, ladies’ petite sizes may only be carried by large format stores in major markets. When a woman requests a petite size in a particular garment in a location that does not carry small sizes, an associate can immediately place an online order with free home delivery.

**85%-90%**

below in-stock  
levels in store



pose a significant risk to sales  
& customer satisfaction.

<sup>4</sup>EKN Enabling Digital Business Growth and the Future of Omnichannel, 2016

<sup>5</sup>Cross-Channel Marketing Report, eConsultancy, 2014

# In-Store Inventory Complexity Due to Fulfillment

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When it comes to adopting new ways to shop, today's customer is moving at a lightening pace. This is having a major impact on how omnichannel customers shop and how retailers fulfill orders. It is forcing retailers to change or enhance store technology platforms and capabilities far more frequently than in years past; with 7 out of 10 retailers saying they want to improve same day or next day fulfillment and shipping capabilities<sup>6</sup>.

Many bricks & clicks chains may carry the purple teddy bear referenced earlier in this report. But most shoppers will choose the retailer that will get it into their hands in the quickest, easiest way possible—even if the price is not the lowest in town. Zappos.com, for example, does not sell unique footwear and the prices offered by this online retailer are not rock bottom. The brands it carries can be found anywhere. But every Zappos employee and every piece of technology and infrastructure is geared toward making sure products are in stock and available for free next day delivery. With full inventory visibility and product access, online customers only view merchandise that is in stock and ready for shipping.

The digital and omnichannel age requires this degree of timely and accurate inventory availability via real-time inventory data access. This is particularly important for bricks and clicks retailers, regardless of whether orders are fulfilled through the store's inventory or shipped to the store for customer pickup.

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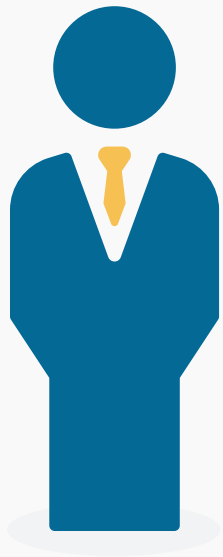
**7 in 10**

retailers state they want to improve same day or next day fulfillment & shipping capabilities.



<sup>6</sup>EKN Order Management Survey, 2015

*When it comes to inventory management and fulfillment strategies, certain store processes needing improvement include:*



**1. Order Fulfillment:**

Real-time accurate access to inventory and customer order data in the store so there are fewer order picking and fulfillment errors.



**2. Cycle Counting:**

Accurate and timely store inventory counts, merchandise allocation and on-floor replenishment to enable the 'always available' customer order promise.



**3. Shipping:**

Timely and efficient customer order shipments from stores with accurate real time system updates, maintaining inventory reconciliation between multiple systems.



**4. Buy Online, Pick-up in Store:**

Accurate and efficient inventory picking process with timely product availability confirmation for customer store pick-up. Also provides opportunity to increase the total customer sales transaction amount upon store order pick-up.



**5. Transfers:**

Easy system entry process with real-time inventory access for store-to-store transfers and supplier direct to customer drop-shipments to reduce time and errors.



**6. Analysis:**

Daily store sales and transaction data collection and reporting so that store inventory, fulfillment and selling strategies can be planned and executed effectively.



# Inventory Visibility for Store Associates

Inventory optimization in the store bridges a gaping hole in operations. But for a bricks and clicks retailer to truly be effective, inventory data must also be accessible by all store associates.

These associates are the face of retailers to the customers. But they are often unable to give customers relevant and accurate inventory availability information, with 7 in 10 retailers saying store associates are unable to access product availability across channels<sup>7</sup>. Giving store associates a complete view of inventory across physical and digital channels can greatly improve customer conversion driving sales. Nine in ten customers are more likely to buy a product when helped by a knowledgeable associate<sup>8</sup>.

## 7 in 10

retailers state that their store associates are not able track and manage product availability across channels.



Endless trips to stockroom waste labor hours due to:

- Unreliable inventory data.
- Legacy store formats.



Many retailers also struggle with providing customers with ease of finding or locating inventory in the store. Across a wide majority of retailers, an age-old problem is that store associates take up valuable customer time and labor hours going back and forth between the sales floor and stockroom to look for inventory items that customers want to purchase. There are several reasons but this happens mainly due to unreliable inventory data and legacy store formats. Many shoppers will leave if products are either not found or it takes too much time for associates to locate the products.

<sup>7</sup> EKN 3rd Annual Future of Stores, 2015

<sup>8</sup> State of Retail, TimeTrade, 2015

It is noteworthy that 55% of customers would have made their purchase at a store if the store associate would have found an out-of-stock product at another store for the customer to pick-up. Sixty-eight percent of those lost sales (close to 4 out of 10 customers) may be saved if an associate is able to order the item and have it delivered to the shopper's home<sup>9</sup>.

## 6 out of 10

retailers cited the

leading causes of customer attrition as<sup>10</sup>:

- Customers are unable to get answers to their product-related questions from associates due to lack of data or adequate inventory information.
- Customers are unable to locate products in the store in spite of associates' assistance as inventory is misplaced, moved or out-of-stock.



# Key Technologies that Aid Inventory Optimization

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Many of the aforementioned store inventory-related complexities can be addressed if retailers adopt the right set of systems and business process capabilities. Retailers (40%) rank “inventory management” as the top technology investment priority in the store for 2016<sup>11</sup>.

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A key motivator behind improving management systems is visibility to accurate inventory and customer order transactions across all channels. In fact, 4 out of 10 rank “omnichannel order visibility” as one of the top drivers behind POS system upgrades<sup>12</sup>.

As mentioned earlier, inventory management and optimization are not limited to the back-end operations of the store and digital channels. Giving store associates a complete view of inventory across all physical locations and digital channels can immensely improve customer conversion and, in turn, sales and profits.

A single, unified view of inventory must be readily accessible in real-time by all sales and service personnel during all phases of the ordering, fulfillment and delivery process. Such a scenario leads to enterprise-wide inventory optimization.

**50%**  
retailers plan to  
have a singular view of  
their inventory by the end of this year<sup>13</sup>.



<sup>11</sup> EKN Immersive Retail Experience Survey, 2016

<sup>12</sup> EKN 2015 Retail Point-of-sale Blueprint Study

<sup>13</sup> EKN Executing Omnichannel Profitably Survey, 2016

The following are several tools, ancillary systems and related processes that support store inventory management and optimization:



**Inventory virtualization or web-based inventory:** Enables uploading of all enterprise inventory items and related data to a virtualized, fully cloud-based or hybrid cloud environment. Inventory updates are made in real-time--or as close to real-time as possible—enabling an accurate view of inventory levels.



**Inventory tracking and availability via Radio Frequency Identification (RFID):** Helps companies track and access inventory in real-time at an item or SKU-level within the four walls of the stores and across the supply chain. RFID tagged items unleash powerful data that can provide several operational efficiencies including improved cycle counts, reduced out-of-stocks, timely replenishment and increased insights into a myriad of customer habits that can then be used to improve store performance.



**Distributed order management systems (DOM):** Provides the ability to manage order placement, routing, processing and last mile fulfillment within an integrated supply chain partner network. DOM gives retailers the ability to attain one view of orders - from placement to fulfillment.



**Beacons:** When opted in by customers who are browsing stores, malls or are just outside stores, these embedded smart devices interact with customer smart phone technologies. Beacons can provide location and aisle-based inventory/product information and a variety of other marketing-related messages in a personalized way.



**Scan-ready 2-D Barcodes:** These barcodes can be placed on any price tag for any item or product on the retail sales floor. Such barcodes can be scanned by any consumer-grade smart phone and can provide a wide variety of product information, recommendations and marketing messages.



**Smart fitting rooms:** These smart fitting rooms are connected to the retailer's inventory management system. In-room digital product displays enable customers to select other styles, sizes or colors to try on, with related accessories while in the fitting room without ever having to leave the room. The interaction is made possible via RFID tagged merchandise, beacons or RFID receivers, digital touch screens in the fitting rooms and mobile devices used by associates and customers to communicate.

## Conclusion

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The high expectations of the new age customer and need for accurate and timely omnichannel fulfillment data means that retailers now have to defend their fortresses through more agile and efficient inventory optimization strategies in both the store and through various digital channels. Retailers need automated and accurate inventory updates to service customers anytime and anywhere, in order to maintain customer satisfaction and loyalty.

This involves enterprise-wide visibility regarding inventory availability, accuracy of data and product information to fulfill diverse customer needs. Retailers that are able to manage automated and accurate updates to their inventory and fulfillment systems, are well positioned to understand and manage customer demand effectively at the item, store, and channel level.

# Recommendations

**ST** Short Term (0-6 months)

**MT** Medium Term (6-12 months)

**LT** Long Term (1-2 years)

- ST** **MT** Consider changing current store inventory management systems if service levels consistently score below 85% to 90%--despite having made all the operational improvements possible (i.e. cycle counts, annual inventory, rapid replenishment etc.).
- MT** Move all stores towards real-time inventory updates, including accurate on-hand quantity insights by selecting the right set of technology tools.
- MT** Develop an online order fulfillment process based on accurate and real-time inventory levels, with access to real-time inventory in other stores and automated replenishment insights.
- MT** Conduct several phased store-based trials or pilot projects for technologies that support automated inventory updates, and provide accurate inventory data and related product information for customers (MIT).
- MT** Measure impact of accurate inventory allocation at the store-level regarding sales, customer satisfaction, online order fulfillment and other store metrics.
- MT** Assess the complete impact of technologies like RFID, inventory virtualization and beacons on store back room and sales floor processes, including store assortment allocation, online order fulfillment, store-to-store transfers and supplier drop shipments.
- MT** **LT** Create an Internet-of-Things (IoT) strategy using web connected device and sensory data collected within and outside the four walls. Provide seamless inventory flow and other store operations related insights such as buyer journey, customer engagement and employee empowerment using IoT data.

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