



**Converging Storefront
& Fulfillment Brands
For a Total Customer Experience**

Executive White Paper



Table of Contents

Executive Summary	3
One Total Customer Experience from Two Distinct Processes	4
Storefront Brand: Increase Traffic and Convert to Sales	5
Fulfillment Brand: Delivering on a Promise	5
Total Customer Focus Through Storefront and Fulfillment Integration	7
Best Practices	7
Success Stories	9
Conclusion	11
About Vcommerce	12
About the Author	12



Executive Summary

Customers shop and their orders are fulfilled. These two processes occur whether it's through a physical retail store, an online store, a phone order or a mail order format. For many retailers, each of these experiences are separate, with fulfillment, merchandising, promotion and valuable customer information residing in different silos at the different locations. Customers, however, don't see four different experiences. They expect a consistent and valued experience each time they engage the retailer, regardless of the channel. In fact, the most highly prized customer is one who shops “cross-channel.” According to AMR Research, “cross-channel consumers typically spend nearly 30% more than their single-channel counterparts.”

For retailers, cross-channel consumers present complex challenges that directly impact the customer experience. These customers order from the Web and pick up in store, research online then purchase in store, find the right size in the store and have the out-of-stock color delivered to their homes, and buy from the Web but want to return items to a store. If the retailer does not coordinate each of these touch points in a consistent fashion, the customer may be left with a negative experience.

But there is another aspect to the cross-channel experience, the experience that begins after checkout is complete. With mail, phone and online retailing formats, consumers expect the product to be delivered in a timely (or sometimes very specific) manner. When they receive the product, their experience needs to be further reinforced by product packaging, advertising inserts, partner promotions, and clear, brand-supporting communications. For the purposes of this white paper, this is a retailer's “fulfillment brand,” or the experience a customer is left with as a result of their order being fulfilled.

As a retailer, cross channel or otherwise, it is crucial that you envision the complete customer experience. Most retailers today deliver the brand and the customer experience via a complex set of interdependent technologies that present control, maintenance and integration issues. A handful of progressive retailers are delivering the same with the help of sophisticated next generation, integrated fulfillment and storefront solutions that have benefited from recent technology advances. Even retailers with complex home-grown solutions that have been deployed for years are jumping ship to these newer systems, because the capabilities are more customer-focused.

Competition, customer demands for product variety and new product introductions are all shifting dynamically while merchandising space availability is not. Merchandising decisions have become more complex, requiring a diverse mixture of warehouse and drop-ship delivery and yet a single point of control. The need for solutions that deliver merchandising speed, flexibility and scalability has never been greater.

Source: Rob Garf, AMR Research, “Retailers Invest to Efficiently Fulfill Cross-Channel Customer Demand,” September 8, 2006.



This white paper details how your “storefront brand” is inextricably linked with your “fulfillment brand” — and why continuity between these two disciplines is so important. It examines cross-channel integration and how increased shopper conversion rates as well as new operational efficiencies can be gained with proven eCommerce software solutions. The second half of the paper describes best practices and showcases several case studies where high-profile retailers have leveraged new software to integrate systems and offer their customers vastly superior shopping experiences.

Retail, online and offline, is now radically demand driven. The customer is at the center. Opportunities and challenges abound for both online retailers and solution providers that deliver satisfying customer experiences, from end-to-end.

One Total Customer Experience from Two Distinct Processes

For the sake of definition, let’s consider a customer’s perception of your company as your “brand.” This perception accumulates as numerous questions are answered during the storefront and fulfillment process: Were promotions and email communications compelling? Was the store clean, inviting and engaging? Were the sales people helpful? Was the online store well organized, easy to navigate and search, and easy to check out? Was the item desired in stock? Did the package arrive on time, was it packed appropriately, and was it easy to follow up with customer support?

In order to answer all these questions affirmatively and deliver a positive experience, the storefront brand experience and the fulfillment brand experience need to operate in concert. Customers may love the merchandise but despise the product delivery experience. They may not return to the store as a result. Store reviews suffer online because of both poor storefront and poor fulfillment experiences. In addition, offline shoppers make decisions about where they will shop in person based on Web research. Customer reviews of your brand can make a serious impact on your sales. Every aspect of the shop/buy/deliver process affects the customer's total perception. A successful experience is the result of tightly integrated storefront and fulfillment competency (See Figure 1 below).



Figure 1: The total customer experience is a direct result of tightly integrated storefront and fulfillment brands



Storefront Brand: Increase Traffic and Convert to Sales

Your storefront capability is generally comprised of two primary goals:

- 1) drive more quality traffic to the site**
- 2) convert that traffic into more sales and higher-profit transactions.**

Every activity in the storefront — reducing cart abandonment, increasing cart sizes, increasing loyalty, retaining customers and increasing the lifetime value of each customer — is in pursuit of these two primary goals. You need to examine key metrics — like response and conversion rates — from traditional advertising, web portals, search keywords, email marketing campaigns, online promo placements, partner links and cross-promotions, personalization factors and more, in order to determine what's working and what's not, before any improvements can be made.

The success of these activities needs to be quantifiable, trackable and understood. With the right eCommerce platform, activities can be tracked and integrated with online/offline promotions, landing pages and coupons. You can examine an advertising campaign on MSN, for example, and trace the result directly to profitability. This sounds simple, but most online retailers do not have the ability to effectively track marketing campaigns and know definitively which promotions are profitable. For example, which items are traffic drivers, profit generators or simply loss leaders that contribute to a larger overall cart? A comprehensive storefront brand solution must offer this functionality and provide mechanisms that measure results against goals across a wide variety of advertising and promotional channels.

Fulfillment Brand: Delivering on a Promise

Unlike offline retailing where product selection and fulfillment occur simultaneously, in online retailing there is a “presumed promise” of satisfactory fulfillment following checkout. If the fulfillment service level is satisfactory, customer loyalty will remain neutral. If the fulfillment experience is less than satisfactory, customer loyalty will decline, and if the fulfillment experience is consistently superior, customer loyalty will increase.

In other words, a customer may like and purchase a product based on needs, features, advertising, brand perception, promotions, recommendations and prior experience, but an equally satisfying fulfillment experience must occur in order to keep that customer satisfied and “repeat purchase ready”. This requires a comprehensive view of the order lifecycle, supported by a strong high-performing supplier network, strong order tracking, visibility, responsive returns management and reverse logistics systems. It doesn't matter what impression is made in the storefront. If the customer buys and the back-end systems fail, the overall customer experience is damaged. This represents a critical shift in eCommerce thinking — driving a complete customer experience based on attention to the entire commerce chain, specifically the fulfillment experience.



According to AMR Research, “merchandising organizations are dealing with more items, localized assortments, and reduced inventory. At the same time, retailers must focus on creating a consistent and superior shopping experience for the lucrative cross-channel consumer. In light of this dynamic backdrop, they are forced to consider innovative technology that creates data transparency and process automation among each point of customer interaction and the entire supply network.”²

We know that customers directly associate fulfillment experiences with their opinion of the total retail brand. Without best-in-class fulfillment capabilities, conversion degrades over time. This is especially important in an age where many online retailers act as customer 'magnets'. They attract buyers with their storefronts and then hand the transaction off to a fulfillment system run by manufacturers and drop shippers. These companies rely heavily on technology systems and processes that can consistently deliver the right product, in the right packaging, to the right address, on time.

As with the storefront brand, retailers need to be able to benchmark fulfillment performance, especially in situations where supplier Service Level Agreements (SLAs) are in place. That requires clear visibility into internal warehouse performance, external supplier performance and overall eCommerce chain performance. Retailers must also share performance visibility with suppliers to maintain business relationships and peak performance. To remain competitive, retailers need to easily manage SLAs, distribute reports, and communicate successes and failures throughout the enterprise while managing their Commerce chain based on exceptions. For example retailers may:

- Measure average days to ship for product categories
- Calculate return percentages
- Correlate average days to ship with return rates
- Measure customer loyalty as a function of fulfillment performance

Customer loyalty metrics based on return shopping, word-of-mouth activities and email marketing sign-ups are commonly tracked as well.

As discussed earlier, fulfillment reputation affects every customer touch-point, including, retail, kiosk, phone and mail order. Because customer experiences are tightly integrated today, there is no separating storefront brand from fulfillment brand. Brand integrity must be maintained, because a reputation built over years can be lost in days due to poor fulfillment performance.

² Source: Rob Garf, AMR Research, “Retailers Invest to Efficiently Fulfill Cross-Channel Customer Demand,” September 8, 2006.



Total Customer Focus Through Storefront and Fulfillment Integration

Companies frequently trumpet the “customer focus” cause. Management seminars, training sessions, break-out sessions and pep rallies have all focused on the customer. With storefront and fulfillment integration, the customer benefits significantly. Operational processes become simplified, transparent and more efficient; service levels improve and customer satisfaction grows. A closely integrated end-to-end eCommerce solution increases visibility across the complete Commerce chain, and enables more sophisticated and efficient alerting and reporting capabilities. Retailers can anticipate and quickly resolve problems that cross into the gray areas between fulfillment and storefront, maintain one interface for managing the entire customer. A single interface also provides direct accountability, and accurate drill-down capabilities to resolve customer issues quickly and easily.

In terms of technology, the newer, integrated eCommerce solutions typically employ one programming language and cohesive and scalable design architecture. A unified system is easier to maintain, resources and skill sets can be simplified, and changes or optimization to the system are more quickly implemented — leading to significant cost savings. Contrast this with home-grown or patchwork solutions that have emerged out of necessity rather than design, and the advantages are clear. Most trailblazing eCommerce sites had to develop code for complex ERP, POS and fulfillment systems as the Web itself was evolving into a commerce medium and supplier networks were sprouting up overnight. As industry eCommerce standards have evolved (such as XML transaction schema) and legacy ERP and database integration has become much more standardized, turnkey solution providers have emerged. System integration is not only more possible but crucial, understanding the rapid pace of innovation in the industry.

Best Practices

Storefront brand and fulfillment brand competencies have come a long way. Historically, online retailers had to create their own solution or hire someone to create solutions specifically for them. This put companies, which didn't necessarily want to be in the software development business, right in the middle of maintaining platforms all while shifting business models to meet new merchandising realities.

Companies have become more IT-adept (willingly or not), and a wide range of solutions and services exist for retail markets. With single software solutions, POS systems integrate with ERP systems and reverse logistics capabilities are integrated with fulfillment packages — making it easier to conduct seamless cross-channel hand-offs between brick and mortar and Web systems. It is now possible to manage the commerce chain across every touchpoint — with world-class exception management and exacting control. The software and services required to make this leap are affordable, and the competitive cost to pay is too steep for those that lag behind.



Let's consider the storefront. Every marketing effort needs to be trackable, measurable, and reliable. That requires a sophisticated software platform that's designed for automation and efficiency. If you want to manually track "real world" metrics related to, in-store promos, cross-promotions, special events, radio, and TV spots, you'll need to increase your internal competencies or hire qualified personnel. Fortunately, that's no longer the de-facto scenario in this ever-changing retail market place. When you run a radio advertisement and see your promo page traffic spike (with a specific conversion percentage) an hour later, you know you've generated a higher performing outcome. Direct mail that generates phone calls and Web coupon codes provide the same granular analytic capabilities. The river runs the other way, too. Affiliate marketing, email marketing, portal advertising and search engine marketing like AdWords drive traffic to both physical and online stores. With the right systems, everything can be tracked, analyzed, and improved. Shoppers expect a consistent shopping experience including sites that:

- Present clear site objectives that give customers site paths to find products specific to their buying patterns
- Offer consistent policies and convenience tools across all channels
- Provide intuitive navigation throughout the site experience, providing clear navigation and direction to multiple product categories
- Present key pages with well thought-out functionality that will work best for specific product categories (i.e. movies, apparel, and books)
- Deploy merchandising campaigns that meet the needs of core shoppers, experimenting with merchandising offers that highlight key products and reveal core customer buying characteristics and buying patterns
- Test suggestive selling strategies to increase the average order size of the shopping cart, taking advantage of up-selling and cross-selling opportunities and reveal optimum strategies for conversion
- Strive for a goal of delivering more personalized customer experiences with advanced merchandising technologies for customer segmentation and A/B Testing

Analytics and metrics are key to the fulfillment process, as well. If you have an end-to-end order and transaction management system in place — one that integrates with supplier and drop shipper systems — you can figure out what's working well including the ability to:

- Correlate product delivery metrics, average order fill rate and average ship time, with customer satisfaction
- Use scorecarding to rank suppliers and shippers based on performance, and enforce service level agreements (SLAs) accordingly



- Correlate returns with fulfillment performance and manage complex return issues such as in-store returns, RMA management, return to drop-shipper, return to warehouse and restocking fees
- Provide real-time inventory visibility in order to minimize out of stock occurrences
- Provide real-time visibility into the order lifecycle including order confirmation, shipping, inventory & pricing changes, cancellation notification returns, and instantly take action
- Utilize order information to optimize sourcing and routing of orders to supplier, 3PL, warehouse or distribution center to minimize shipping timeframes, shipping costs and maximize fulfillment rates and cost savings

Ideally, you could create very specific customer profiles based on exacting data and then figure out what works for who and when and where (product, pricing, promotion, place). You could tie ordering and inventory management to demands generated by storefront promotions, as well.

Success Stories

Some of the world's most recognized brands have already started integrating storefront and fulfillment systems to lower or eliminate inventory carrying costs, add suppliers and product selection, optimize merchandising, connect with customer needs more closely, and streamline technology systems.

MTV Networks uses an end-to-end commerce solution with an on-demand catalog solution for its MTV.com, VH1.com and CMT.com sites. The media giant customizes and manages products for each storefront without holding or managing inventory and without installing or maintaining new technology. It retains creative marketing control, yet outsources fulfillment all with one system.

Overstock.com integrated its complex supplier network and streamlined drop-ship fulfillment with an integrated solution. Its products come from hundreds of different warehouses and fulfillment systems, yet very few of these warehouses belong to Overstock. Overstock originally developed its own software for integrating supplier networks, but that software eventually required replacement for scalability reasons. Overstock had to decide whether it was in the marketing and retailing business or in software development. It ended up outsourcing the technical eCommerce portion of its business, and returned to focusing on its core competency. The solution allowed Overstock to expand its product lines, enhance product redundancy, reduce costs, offer competitive choices and low prices via multiple suppliers, increased cart sizes, and improved conversion rates.

NewEgg.com integrated its existing storefront with a fulfillment system to synchronize its online customer interactions with its drop-ship fulfillment processes. The solution integrates its proprietary supplier network, controls multi-channel, high-volume order traffic across complex supplier networks,



and measures supplier performance. It includes a single Web-based dashboard to manage orders and track key metrics, and scorecards to measure supplier performance.

Target.com employs fulfillment solutions for reverse logistics and RMA processes. Gift exchanges and returns, for example, are now more consistent across all channels, including the physical stores, mail, Web and phone ordering systems. It gained more visibility and control, and can manage fulfillment processes with the same level of competence and consistency as with brand management.

BJ's Wholesale Club, the nation's third largest club store chain, employs a new storefront marketing and fulfillment management solution to gain a single view of its member-customers. BJ's customers experience a consistent online and in-store shopping experience, while its back-end fulfillment systems automate inventory and shipping activities. The solution includes flexible merchandising capabilities for the storefront and Web-based management capabilities for the back-end. Examples include a single dashboard that manages orders and tracks key metrics — providing visibility and control across the entire commerce chain.

These retailers are leading a paradigm shift in eCommerce. They're leveraging outside solution partners as storefront and fulfillment brand partners, because they realize that focused software development and services companies can provide much more value than they can generate within their corporate walls. Software development and maintenance is a distraction for competitive and customer-based imperatives. Their time is better invested in merchandising and managing customer relationships.



Conclusion

Continuity between both storefront and fulfillment brands is critical. Retailers need consistent, superior performance and granular accountability across the entire brand. For customers, that means products are easy to find and easy to order, items are reliably in stock, products are delivered on time, and simple, consistent return policies ensure a high level of satisfaction. For retailers, this results in:

- Consistent branding across all channels that builds customer relationships and loyalty
- A superior fulfillment experience that creates satisfied customers, increased lifetime customer value and complements the storefront experience
- Satisfied customers that buy more, shop more frequently, add to cart, recommend more, shop more often at brick & mortar locations and spread word of mouth
- Increased revenue and profitability.

A new retail world is emerging where customer expectations are high, and advanced solutions and services are poised to deliver on once lofty aspirations. All the capabilities described in this paper are practical realities. Retailers must start thinking about the integrated storefront/fulfillment model and begin to track performance to profitability.



About Vcommerce

Vcommerce is the industry leader in enterprise eCommerce solutions for online retail. Client retailers can choose to outsource some or all of their eCommerce functions to Vcommerce or use the entire Vcommerce Enterprise portfolio to power their end-to-end eCommerce business. Vcommerce Enterprise consists of advanced solutions for demand generation, storefront, order management, fulfillment and logistics and storefront marketing. Proven with leading online retailers for nearly a decade, Vcommerce solutions allow clients to expand their online retail enterprise rapidly, cost effectively while retaining control over business processes, branding and the total customer experience. Recognized for its online retailing expertise, platform flexibility and scalability and low-risk methodology for enabling eCommerce, Vcommerce is SAS 70 Type II and PCI Level I certified. For more information, please visit www.vcommerce.com or call 480.922.9922.

About the Author

Phil Dunn is a technology journalist and white paper specialist whose work has appeared in numerous CMP and Ziff-Davis publications, as well as in publications produced by leading enterprise software vendors, including Microsoft, Computer Associates, Oracle, Software AG, Hewlett Packard, Hyperion Solutions and IBM.