

OMNI-CHANNEL ORDER MANAGEMENT: A COMPELLING VALUE PROPOSITION FOR CHANGE

March 2018

Bryan Ball
Vice President & Principal Analyst
Supply Chain, ERP, and GSM

Mohamed Haimoud
Analyst
Retail and Consumer Markets

This Knowledge Brief examines the reasons that Best-in-Class companies have adopted Omni-channel Order Management (OcOM) solutions to manage their operations, and explores the essential nature of OcOM, as well as **the opportunity cost of not changing** or staying with their current solution.

Turning Empowered Customers into Brand Enthusiasts

Customer experience standards set by eCommerce giants like Amazon and eBay compel order fulfillment process enhancements to ensure timeliness and accuracy in driving customer satisfaction and increasing loyalty. Reservations stemming from omni-channel's alleged threat to business profitability are justified, but intelligent OcOM and fulfillment processes are proving to be worthy investments for organizations that wish to meet these heightened customer expectations while containing their cost-to-serve. In fact, findings from Aberdeen's research show that Best-in-Class companies are 50% more likely to be using an OcOM solution when compared with All Others (see sidebar).

OcOM: Is it Worth the Investment? *Signs Point to Yes!*

Aberdeen's survey findings illustrate that the use of OcOM has a tangible impact on operational and financial performance of retail organizations. In fact, as the move toward omni-channel retailing continues to accelerate, organizations that fail to embrace it or invest in the development of its supporting infrastructure will likely face tougher times ahead. The dynamism of retail leaves little to no room for companies unwilling to adapt, and this must be duly noted.

When retail supply chains were predominantly linear, traditional order management solutions (OMS) sufficed. Now, as Aberdeen's research findings suggest, complex supply chains must be equipped to meet the needs of omni-channel shoppers. Organizations must serve to enhance customer experiences and drive brand loyalty — an effort aided greatly by using an OcOM solution. Neglecting commitments to consumers is a sure way to send them flocking to competitors. Table 1 (below) reflects how OcOM users outpace their peers.

Definition: Omni-channel Order Management / Distributed Order Management

For the purposes of this research, Aberdeen defines "Omni-channel Order Management" as a solution aimed at orchestrating and optimizing the management, monitoring, and configuration of orders across multiple nodes in a supply chain all the way through fulfillment.

The Aberdeen maturity class framework is comprised of three or two groups of survey respondents. The data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of two categories:

- ▶ **Best-in-Class:** Top 20% of respondents based on performance
- ▶ **All Others:** Bottom 80% of respondents based on performance

Table 1: OcOM Users Execute Flawlessly

| Metric | OcOM User | Non-User |
|--|-------------|--------------|
| Complete and On-Time OUTBOUND orders | 90% | 87% |
| Current finished goods inventory turns per year | 34.9 | 23.3 |
| Order Turnaround Time (DECREASE/IMPROVEMENT) | 5.9% | 1.5% |
| Out-of-Stock Recovery Time (DECREASE/IMPROVEMENT) | 6.9% | 3.0% |
| Total Annual Company Revenue (INCREASE) | 6.2% | 1.9% |
| Customer Service Costs (DECREASE/IMPROVEMENT) | 0.2% | -1.5% |
| Workforce Productivity (INCREASE/IMPROVEMENT) | 6.8% | 5.4% |

Customer Centricity: A Corporate Imperative

In the era of the empowered consumer, providing an excellent customer experience is the surest way to survive and thrive. Customer loyalty develops largely because of trust — fueled by convenience, consistency, and excellent service. To ensure a seamless customer experience for their customers, retailers should also focus on ensuring a seamless supply chain process. Omni-channel order management solutions are crucial in supporting this endeavor. By improving order routing, enabling clearer visibility into inventory, and allowing for the dynamic integration of online and offline order management processes, retailers are more likely to meet the fulfillment expectations of shoppers seeking ideal customer experiences.

Accuracy, timeliness, and flexibility are key elements to the development of your customers' trust. In fact, Aberdeen's research shows that reacting to customers' demands in a timely manner is among the leading pressures faced by retailers, second only to the need to improve profitability. Best-in-Class organizations plan with these pressures in mind, and it's clear that the strategic actions they take reflect this.

In this report, respondents were ranked on the following criteria:

Complete and on-time outbound orders:

- Best-in-Class: 95.9%
- All Others: 85.1%

Finished goods inventory turns per year:

- Best-in-Class: 34.4
- All Others: 27.3

Inventory carrying cost as percentage of COGS:

- Best-in-Class: 14.3%
- All Others: 18.2%

Annual Changes in:

Fulfillment cost per unit:

- Best-in-Class: -1.2%
- All Others: 11.0%

Inventory accuracy:

- Best-in-Class: 9.3%
- All Others: 4.7%

Order turnaround time:

- Best-in-Class: 6.5%
- All Others: 2.9%

Inventory obsolescence:

- Best-in-Class: -3.0%
- All Others: 6.5%

Mark-down costs:

- Best-in-Class: -0.2%
- All Others: 4.0%

Customer Satisfaction:

- Best-in-Class: 16.2%
- All Others: 9.5%

Annual Company Revenue:

- Best-in-Class: 5.6%
- All Others: 2.1%

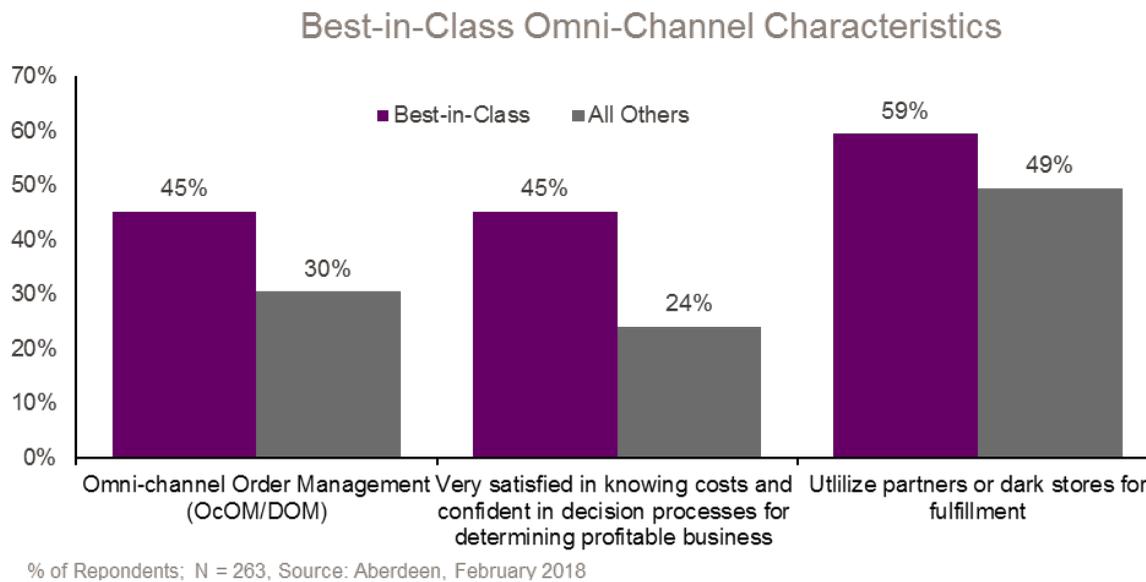
When compared with All Others, Best-in-Class retail organizations are:

- ▶ 2x as likely to focus on improving direct-to-consumer delivery
- ▶ 21% more likely to have visibility into real-time status of transactions to determine fulfillment performance issues
- ▶ 54% more likely balance their distribution network to improve sourcing and fulfillment shifts

Looking specifically into organizations that currently use an OcOM solution versus those that do not, Aberdeen's research highlights starker differences. When compared to non-users, OcOM users are:

- ▶ 83% more likely to automate order shipment visibility
- ▶ 93% more likely to have visibility into real-time status of transactions to determine fulfillment performance issues

Figure 1: Managing the Customer in an Omni-Channel World



As Figure 1 above further illustrates, when compared with All Others, the Best-in-Class are also:

- ▶ 87% more likely to have a higher level of satisfaction and confidence in knowing their true cost-to-serve
- ▶ 20% more likely use a partner network or dark stores for fulfillment

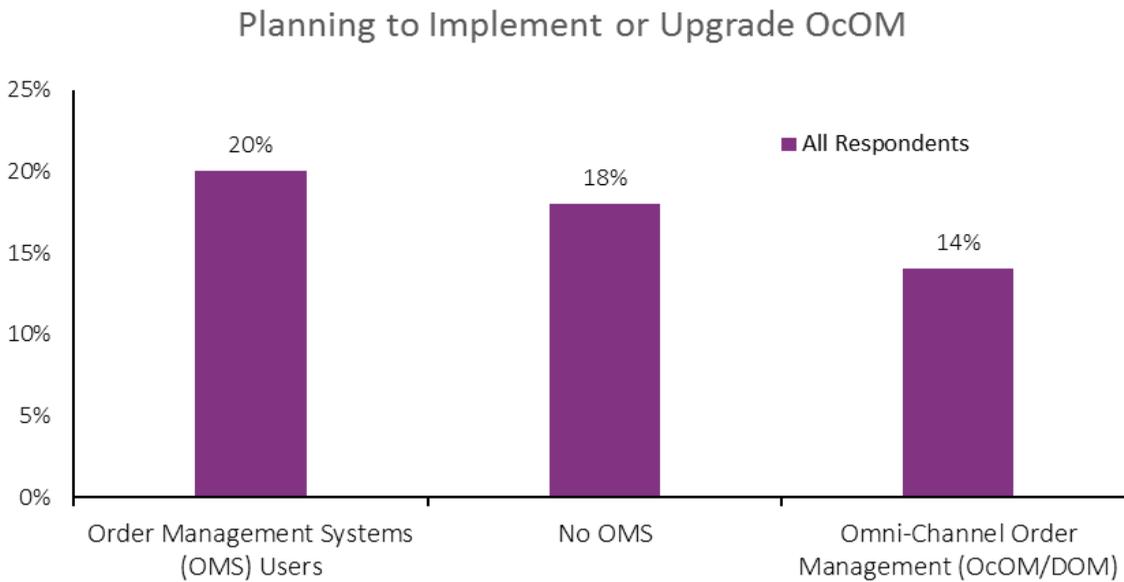
Most companies now have a need for OcOM capabilities. Because of the pressures placed on businesses by the empowered consumer, direct-to-customer deliveries are made from all levels in the supply chain. Most fulfillment models involve multiple shipping points and channel partners that may shift as demand fluctuates across channels. Having visibility into inventory across all locations is a critical requirement to compete in the current market, and an OcOM solution greatly simplifies the challenge for any organization that has more than one location and/or shipping point. It improves profitability, reduces or contains the cost-to-serve, increase order timeliness and accuracy for consumers, and aids in optimizing or reducing overall levels of inventory for businesses as shown in [Table 1](#).

Omni-channel Order Management: Delivering on Promises

For retailers, the link between supply chain efficiency and great customer experience is inextricable. In the age of the empowered consumer, retailers that are succeeding are better able to bridge the gaps between these two elements of their business strategy, by making supply chain efficiency an integral part of an ideal customer experience. This means that inventory visibility across all levels and locations is central to a business's internal operations, and more important than ever. Mastering the omni-channel channel paradigm is no easy feat, but OcOM solutions can give businesses an edge. As Figure 2 (below) highlights, organizations are augmenting their technology infrastructure investments to meet the needs of their customers. When it comes to the planned implementation or upgrade of omni-channel order management solutions, we see that:

- ▶ 20% of legacy Order Management solutions (OMS) users plan to upgrade to Omni-channel Order Management
- ▶ 18% of retail organizations plan to implement OcOM
- ▶ 14% of current OcOM users wish to replace upgrade their current OcOM solution

Figure 2: Retailers Are Moving Beyond Traditional Order Management



% of Respondents: N = 150. Source: Aberdeen, February 2018

Considering that Best-in-Class organizations are already 50% more likely to use an OcOM solution when compared with All Others, it's evident from the data reflected above (Figure 2) that the pressures to meet evolving customer expectations in an omni-channel world are driving organizations to evaluate their existing infrastructure. Best-in-Class companies have made the move and recognize that to stay competitive, an OcOM solution is required — not just nice to have. The need for visibility into the true cost-to-serve from all shipping points in order to make profitable decisions is a key driver. However, the implications extend to the potential level of impact they have when it comes to enhancing and optimizing the customer experience.

OcOM: Synergizing Supply Chain and Customer Experience

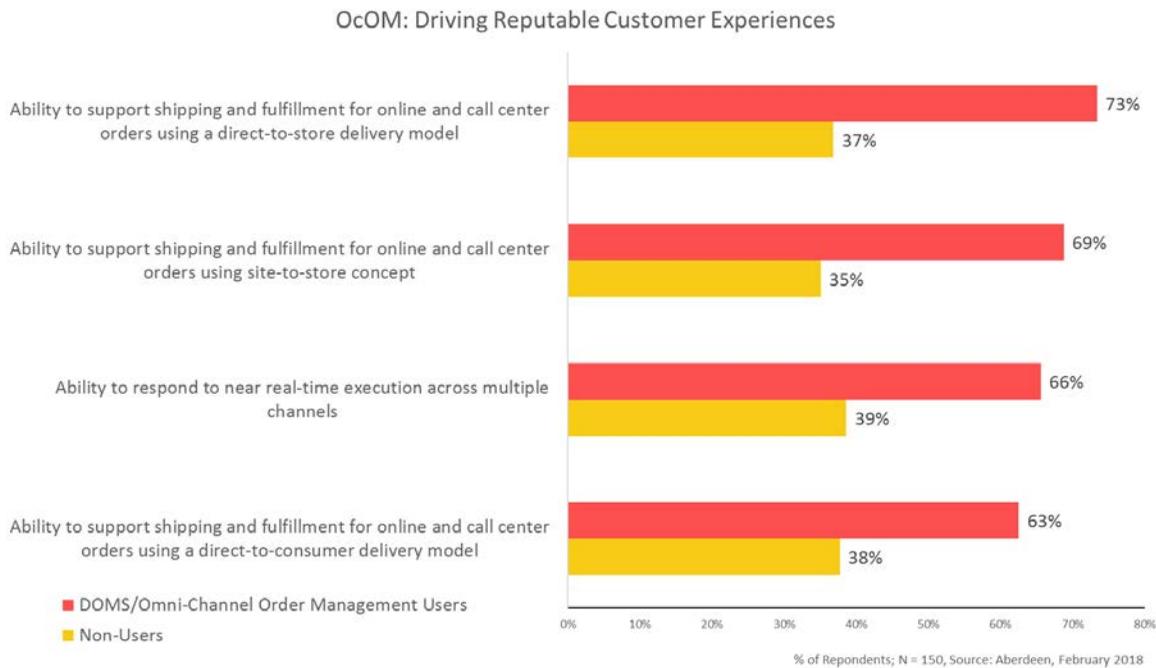
OcOM users demonstrate superior capabilities across the board in order management and fulfillment. To understand the differences, it's important to assess these capabilities based on what organizations that use OcOM can accomplish internally in their operations, as well as what they are able to achieve for their customers compared to non-users. As such, Figure 3 below conveys the customer-centric capabilities enabled by the use of an OcOM solution.

Omni-channel Order Management

Reasons to Invest:

- Need for new functionality: 57%
- Obsolete tech. infrastructure: 35%
- Ease of use in new version: 30%
- Inadequate current performance: 29%
- Lack of current vendor support: 28%
- Flexibility offered by new solution: 25%
- Incompatibility w/ emerging tech: 22%
- Cost of maintenance & support: 19%

Figure 3: OcOM Bolsters Customer Experience Capabilities



Among some of the differences shown in Figure 3, when compared with non-users, omni-channel order management users are:

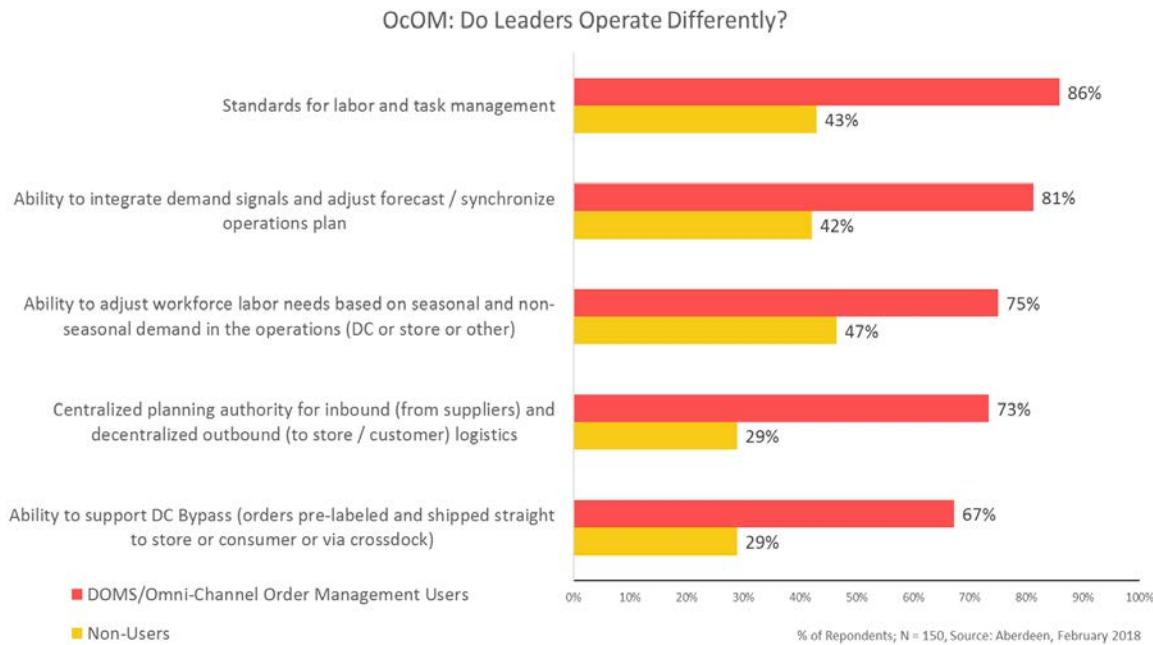
- ▶ 97% more likely to support shipping and fulfillment for online and call center orders using a direct-to-store delivery model (i.e., BOPIS)
- ▶ 69% more likely to respond to near real-time execution across multiple channels
- ▶ 65% more likely to support shipping and fulfillment for online and call center orders using a direct-to-consumer delivery model (i.e., ship from store)

Espousing a BOPIS (buy online/pick-up in-store) model is mutually beneficial to retailers and their customers. Retailers can manage their cost-to-serve by controlling costs associated with shipping directly to customers' homes, while simultaneously incentivizing and satisfying customers with faster and more convenient order fulfillment times. In addition, these companies gain from having more foot traffic introduced to their brick-and-mortar stores, increasing the likelihood of unplanned consumer spending.

Enabling better inventory visibility across a multi-nodal supply chain is at the heart of OcOM solutions. OcOM enables intelligent order fulfillment that balances between operational and financial constraints on retailers while meeting the customer experience expectations of their patrons. This is

supported by OcOM users' 65% greater likelihood to possess ship-from-store capabilities in their operational arsenal. Shipping from stores when a distribution center or warehouse is too far away or out-of-stock allows for faster delivery to customers at a lower cost, as well as an increase in inventory turns. It can also reduce or contain inventory obsolescence that can arise from not knowing the details of an organization's inventory and missing the opportunity to meet customer demand.

Figure 4: OcOM's Supply Chain Implications



In retail, supply chain operations and customer experience enhancements must be examined and finetuned in tandem. Beyond the significant gaps that exist between OcOM users and non-users from a customer experience standpoint, its use proves powerful in augmenting supply chain processes as well. It helps organizations define standards for labor management within stores and warehouses, decide on the optimal balance between centralized or decentralized logistics processes, and support distribution center bypass to expediently deliver on promises to customers. While these capabilities drive operational efficiency internally, their ultimate impact remains on the level of satisfaction consumers derive from their interactions with these Best-in-Class organizations.

Key Findings and Recommendations

Success in omni-channel retailing comes down to meeting and exceeding customer expectations one order at a time. It's about aligning corporate objectives with constantly evolving customer experience standards. It

involves a perpetual re-evaluation of strategies and re-assessing if these strategies can earn the hearts, minds, and wallet-share of your customers.

Below are the common characteristics that Best-in-Class retailers exhibit:

- ▶ **Visibility drives omni-channel success.** While the top pressure facing all retailers is the need to improve profitability, Best-in-Class retailers approach this challenge differently. In fact, Best-in-Class companies are 10% more likely to prioritize increasing inventory visibility, and twice as likely to focus on improving direct-to-consumer replenishment and delivery. Through increased visibility, organizations can reduce stock-outs; increase inventory accuracy and turn; and minimize order fulfillment and transportation costs, while ensuring customer satisfaction through expediency in order fulfillment. **Its importance is heightened for brick-and-mortar operations because of fulfillment constraints that eCommerce organizations can circumvent**, so the failure to invest in such a strategy could be the nail that seals brick-and-mortar's coffin.
- ▶ **Automation sees no end.** Automating logistical elements of the retail supply chain increases forecast accuracy, inventory visibility, and responsiveness to lead times, both internal and external. Best-in-Class retail organizations are 2.1x more likely than All Others to describe the maturity of their retail technology infrastructure as highly automated.
- ▶ **Customer Experience is the key to retail's success.** Omni-channel retailing faces challenges in the infrastructural development required for its success, but the labor in bringing it to existence bares fruit. Companies that excel at omni-channel order management drive 3.3x greater year-over-year increases in annual revenue when compared with All Others (6.1% versus 1.9%), and the cost controls and reductions achieved by OcOM users will pay substantially for the omni-channel capabilities that retail organizations will have. Now, it's only a matter of recognizing that customers must have their expectations exceeded or they'll be taking their business elsewhere.

About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide to improve their performance. Our analysts derive fact-based, vendor-neutral insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategies. Aberdeen Group is headquartered in Waltham, Massachusetts, USA.

This document is the result of primary research performed by Aberdeen Group and represents the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group.