



Cross-Channel Order Management

Retail's New Competitive
Differentiator

An Epicor White Paper

Abstract

The ability to effectively sense, shape, and fulfill customer demand through a customer's channel of choice—quickly and thoroughly—has become retail's new competitive differentiator. To take full advantage of it, retailers must advance from basic multichannel selling to rich cross-channel integration with efficient order management enterprise-wide.

Toward this end, cross-channel order management and inventory locator solutions are key enabling technologies that can work together with diverse software that may have been added to each channel over time. Retailers who use these solutions to elevate and unify their cross-channel operations can leverage numerous important business advantages, including:

- Reduced stock-outs and related lost sales
- Higher sales and profits
- Better customer service, satisfaction and loyalty
- Improved merchandise planning and allocation
- Increased store associate productivity

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Cross-Channel Order Management: Retail's Competitive Differentiator

"Right now" retailing

Of all the indicators and imperatives of retail business performance, none is more important today than the ability to deliver a seamless shopping experience. Regardless of what you sell, where you operate, or how many stores you have, you must be able to give your customers what they want, when they want it, in the way they want to purchase it.

To accomplish this, you must not only be set up to sell in multiple channels but also to have full visibility into your inventory across channels, plus streamlined access to that inventory from anywhere in your chain. Simply put, if you don't do it, your competitors will, and time-pressed shoppers with "right now" expectations will sooner check at another chain than endure waits and frustrations at yours.

Multichannel basics

There's little question that multichannel retailing can strengthen both the top and bottom line, and that it's now almost essential to success in any vertical. According to a March, 2009 report in RIS News,¹ "The online channel represented a projected 34 percent of overall retail revenue in 2008, a growth rate of more than 42 percent since 2006, with cross-channel shoppers typically spending up to 30 percent more than single channel shoppers."



Moreover, multichannel operations may be especially important in today's challenging economic climate: Retailers are finding that cross-channel shoppers are helping them weather the recession. While 54 percent of respondents to a May 2009 Forrester Research study expect overall retail growth to slow during the next 12 months and 57 percent acknowledge the economic slowdown is hurting their company's bottom line, four out of five retailers think the Web is better suited than other channels to withstand the recession, and one-third say the downturn has enabled them to capture greater market share.²

The most profitable retailers are most likely to follow this strategy. A recent RSR benchmark study³ reported that more than 90 percent of winning retailers say they now operate in more than one channel, with 60 percent operating in three channels: Stores, e-channel and catalog. It is clear that responding proactively to consumers' cross-channel buying behaviors with multichannel offerings is a winning strategy.

¹ "Improving the Cross-Channel Shopping Experience to Meet Growing Customer Expectations," By Wayne Usie, RIS News, 3/19/09.

² "The State of Retailing Online 2009, the 12th Annual Shop.org study by Forrester Research Inc." Retail Customer Experience Magazine and Online, May 5, 2009.

³ "Cross-channel Retailing for the Anytime, Anywhere Consumer," Benchmark Study: February 2009 by RSR

The value of integration

Being able to operate in multiple channels is only the first step. To fully leverage the benefits and opportunities, retailers must be able to integrate their channels to ensure a single view of the enterprise, and to allow their customers to shop easily across channels in whichever way best satisfies their needs, choices, and expectations.

The majority of online consumers in the United States cross-channel shop by researching a product online then buying it offline. This online research is playing a particularly important role in the current down economy—and will continue to be important in the years ahead. According to a March 2009 survey by Price Grabber.com⁴, 91 percent of consumers said that researching products online made them feel more confident that they are making the right choices and are paying a fair price. And the majority of online consumers, 71 percent, say they have implemented savings strategies not only to weather the economy, but also to use once the economy recovers.

Retailers must be able to integrate their channels to ensure a single view of the enterprise.

It's not surprising then that cross-channel retailing has risen to the top of retailers' priority lists. According to the *10th Annual POS Benchmarking Survey* by LakeWest Group⁵, "For the first time in our POS survey history, multichannel integration is the top priority for retailers over the next few years."

Raising the bar

The ability to research online and shop in-store is just one of the advantages available from cross-channel integration. The most productive and profitable cross-channel operations also improve customers' access to merchandise anywhere in the chain, as well as to offers, loyalty rewards, and other sales and engagement opportunities. When supported by the right cross-channel inventory and order management solution, integrated cross-channel retailing can substantially boost incremental sales, and save sales that would otherwise be lost due to stock-outs in particular locations. It can also enhance customer service, foster loyalty, and preserve margins by moving more products at the initial price.

Given the potential value of leveraging cross-channel integration at this level, most retailers will benefit from evaluating the associated requirements, options and opportunities, and from learning more about how to take advantage of them. Efficiently fulfilling customer demand in a dispersed, multichannel environment may seem complicated, but today's applications can simplify the process, and most retailers will find the effort to be more than worthwhile.

⁴ "Consumer Behavior Report: Economic Climate Shifts Consumers Online," March 25, 2009, Price Grabber.com

⁵ "10th Annual POS Benchmarking Survey: Successful Retailers Get Creative" 2009 by LakeWest Group

Challenges and incentives



Retail sales channels typically emerge over time: a brick and mortar retailer adds a Web site, catalogers open their own stores, and so on. As a result, these lines of business tend to evolve and become organized as separate divisions, each with its own IT infrastructure, rules and processes. When customers want to do business with more than one channel, retailers try to accommodate them through manual processes that eat away at productivity and can still leave the customer unsatisfied.

Integrating IT systems that support each channel is clearly the solution. In fact, delivering a satisfying cross-channel experience requires tight integration among a number of supporting technologies and business processes. However, integrating applications point-to-point is always easier said than done: Software is often of different vintages, and built on different platforms around different business rules. Even if a retailer is able to overcome these obstacles, point-to-point integration is costly and time-consuming and results in fragile connections that must be maintained over time.

Retailers acknowledge the gap between their current systems and processes and the cross-channel integration they need to attain. According to the 2009 RSR Benchmark Study,⁶ lack of integration between channels for order and inventory management systems plague more than one-third of respondents, including retail winners. The report adds that this issue must be addressed before retailers can successfully implement cross-channel promotions. Without the ability to commit inventory available in one channel to a customer order generated in another, promoting cross-channel purchases is unhelpful at best and probably damaging to the brand, since there are no real assurances that orders can be fulfilled.

Yet those who don't tackle the integration challenge take significant risks: They face the likelihood of lost revenue opportunities because of lack of access to cross-channel inventory, lost incremental sales, reduced margins, lower productivity levels from manual cross-channel efforts, and lower customer satisfaction and loyalty levels, because customers will defect to retailers that can meet their cross-channel demands.

Those who don't tackle the integration challenge face lost revenue and lower customer satisfaction.

The silver lining in this cloud is that retailers who get there early can claim clear competitive advantage, even over those who already offer multichannel integration through fully or partially manual processes. A 2008 report by the Aberdeen Group⁷ found that only one third of cross-channel retailers have attained some level of cross-channel integration across their inventory, order management, fulfillment and customer processes such as consistent pricing, product information, promotions and loyalty initiatives.

⁶ "Cross-channel Retailing for the Anytime, Anywhere Consumer" Benchmark Study: February 2009, by RSR

⁷ "State of the Market: Retail Survival Strategies for 2009," 2008 Aberdeen Group

The power of cross-channel order management

Cross-channel order management and inventory locator solutions provide retailers with perhaps the best and most direct opportunities to close the gap and to seize the competitive advantages available through true integration. In fact, these solutions have emerged as the key enabling technologies of the cross-channel shopping experience.

Cross-channel order management solutions deliver high value to customers by enabling:

- Buy online, pickup at store
- The so-called “endless aisle,” in which any node’s inventory can be accessed from any other node in real time
- Cross-channel returns
- Cross-channel customer relationship management
- Cross-channel promotions

Cross-channel shoppers typically spend nearly 30 percent more than their single-channel counterparts.

Cross-channel order management solutions also deliver high value to retailers by facilitating the integration of disparate systems in a cost-effective manner. In an ideal world, the aforementioned transactions would be enabled by a single IT infrastructure. In reality, however, few retailers have such a unified base or can afford to completely replace the siloed IT underpinnings of their e-commerce, store, catalog and call center operations. According to the 2008 AMR Retail Strategies report⁸, 56 percent of retailers rely on either multiple vendor applications or extensive customization to an application suite. A cross-channel order management and inventory locator system can address this challenge by sitting amidst the various applications so they can exchange data in real time.

This approach to integration is consistent with current trends. A 2008 report by the Aberdeen Group⁹ found that retailers are adopting and improving their legacy multichannel systems by taking advantage of the secondary landscape of applications. Many are adding cross-channel content management, integrated inventory planning and distributed order management to ensure consistent customer messaging across multiple channels as well as synchronized inventory and order responsiveness.

⁸ “*The State of Cross-Channel Operations: 2008*” Retail Strategies Report, October 2008, AMR Research by Chris Fletcher, Eric Klein, and Kevin Sternecker

⁹ “*State of the Market: Retail Survival Strategies for 2009*” 2008 Aberdeen Group

Delivering seamless shopping



Cross-channel order management and inventory locator systems enhance customer satisfaction by boosting retailers' ability to locate and deliver product no matter where it's currently located, in any channel or in the supply chain. Attaining this through technology, rather than people-driven processes, offers a better quality of experience since these transactions can be performed faster and more comprehensively. At the same time, retailers preserve hard-won back-end efficiencies in planning and allocating inventory. Cross-channel order management and inventory locator solutions can optimize customer requests according to retailer-specific rules, in order to make the most effective and cost-efficient sourcing decisions.

In addition to facilitating system integration and more responsive customer service, best-in-class cross-channel order management and inventory locator solutions offer the following specific benefits and capabilities:

- **Real-time, cross-channel inventory location.** Inventory location components allow you to find merchandise chain-wide, identify optimal fulfillment locations, track movements and status changes, provide real-time updates, and let you to conduct searches with multiple criteria and parameters. Flexible search capabilities—text descriptions, SKU, department/class, geography, and so on—allow quick and easy location of merchandise. Inventory locators might include a catalog of chain-wide, real-time inventory data that has been geo-coded with latitude and longitude coordinates. That enables a customer or associate to make localized searches. It is especially useful if the shopper only wants to pick up from stores within ten miles of home, for example, or to pinpoint the optimal geographic location from which to fulfill an order. Inventory is updated as merchandise moves throughout the day, so customers are assured it's really in stock.
- **Order processing and management.** Determining where the inventory is located is half the battle; the other is gaining the ability to place orders for those products from any channel and to access those products from another channel. Order management applications handle multiple order types and actions driven by status changes. They enable users to create, update, review, deliver, forward, and cancel orders in the system, and provide for real-time access to current order status. The associate who can place the order for home delivery and close the transaction at the POS prevents a lost sale and enhances the customer's regard for the retailer.
- **Fulfillment optimization.** Among the fears retailers bring to cross-channel retailing is loss of supply chain and fulfillment efficiencies they've already engineered. However, with the right cross-channel order management solution, this should not be a concern. When a fulfillment location for an order is not specified, optimization capabilities within the system can select the best location from which to fulfill based on geographic proximity, inventory level, and more, by following retailer business rules built into the application.

- **Reporting.** Reporting capabilities mean order placement and fulfillment activity from all channels can be provided to merchandise planners. Details about unfulfilled orders can also be provided by capturing abandoned orders or unsuccessful inventory searches in any channel—a very useful metric that was not available in older systems. Analysis of these transactions can fuel additional efficiencies in future allocations.
- **Customer relationship management.** Cross-channel order management not only facilitates customer satisfaction through the ordering process; it also enhances the entirety of the relationship between customer and brand. For example, store associates can see customer order history from any location to check status, apply loyalty rewards, process a return from another channel, enroll the customer in a prize drawing, and so on. Associates are no longer limited by the stock in the store or the data in the local POS, and they can easily meet a customer’s expectations regardless of other channels that customer may have used.
- **Customer service.** Customer service functionality helps your customer service representatives and/or administrators assign specific user privileges, create orders by searching SKUs based on associated products, handle exceptions, monitor and troubleshoot errors, and gain visibility into processing paths.

To maintain and maximize these advantages, it’s important to choose a solution that scales to accommodate anticipated future volume, as well as international business transactions. Another key element is functionality to support effective change management, to break down cultural and process barriers among channels. Phasing in new cross-channel processes is a winning strategy for helping the organization adapt to this change.

Cascading benefits

The capabilities enabled by cross-channel order management and inventory locator solutions deliver numerous benefits with clear business value.

- **Prevent lost sales.** Stock-outs can be particularly damaging to the bottom line. According to the 2008 RIS Store Systems study¹⁰, as an industry, retailers in North America lose \$93 billion each year due to customer-perceived out-of-stocks. These losses affect almost all verticals. For example, if the specialty soft goods retailers could solve this problem, they could increase same-store sales by 7.1 percent. Cross-channel order management saves sales by finding that merchandise elsewhere in the retail network and delivering it at the customer’s convenience. Preventing lost sales can quickly add to the bottom line. If a 300-store retailer with an average item price of \$50 could save one order per day per store, they could rescue more than \$5 million in lost sales each year, not to mention the incremental sales that go along with those orders.



¹⁰ “Store Systems Study 2008 Retail Technology Spend Trends: Seizing the In-Store Opportunity,” By RIS

- **Foster loyalty.** Today's customers see retailers as one brand—they don't think in terms of multiple channels. According to Sahir Anand, Senior Research Analyst, Retail and CPG Practice for Aberdeen Group¹¹, "In order for loyalty to work, it has to be drawn to multichannel tools. It must be utilized in store and online. It's the only way for the customer that gets a special offer at the POS to redeem it online or vice-versa. Multichannel operations are the only way to operationalize loyalty."
- **Boost sales.** Retailers that measure and manage multichannel processes effectively achieve incremental gains in sales performance. Research indicates that cross-channel promotions generate up to 25 percent more sales than their single channel counterparts. And According to the 2009 LakeWest 10th Annual POS Benchmarking survey¹², retailers find that by allowing customers to purchase products online and pick them up in a store, they gain online orders that may have been lost because of a customer's immediate need for a product. Additionally, the retailer gets the customer into the store where additional purchases are more likely.
- **Optimize fulfillment locations.** Cross-channel order management capabilities enable retailers to direct fulfillment to the most cost-efficient locations. For example, a retailer might decide that a store can fulfill up to five customer-direct orders a day and allocate Web orders accordingly.
- **Boost profits.** According to RSR Research,¹³ a satisfied multichannel shopper can be a retailer's most profitable customer. In 2009, 56 percent of respondents report multichannel customers are at least somewhat more profitable than single-channel customers, suggesting that they tend to buy more products and at non-markdown prices.
- **Enhance allocation.** Reporting on both fulfilled and unfulfilled demand helps merchandise planners improve future allocations, creating a more efficient inventory planning model.
- **Enhance customer service and satisfaction.** Loyal customers want to be recognized and appreciated no matter which channel they use to make purchases. The RSR Retail Systems cross-channel report found that when it comes to boosting customer satisfaction, 96 percent of respondents say that creating a single brand identity across all channels is the most important opportunity; 95 percent say it is important to improve operational efficiency across channels; 98 percent say it is important to allow customers to purchase, take delivery or return a product through the channel of their choice; and 87 percent say it is important to allow inventory allocated for one channel to be used for another channel's fulfillment. Effective cross-channel order management solutions satisfy all these demands.
- **Boost store associate productivity.** By eliminating manual inventory, order management and CRM activities, cross-channel order management solutions can empower associates to easily deliver stellar service. This serves not only to improve sales and customer loyalty, but also to enhance associate job satisfaction and longevity.

¹¹ "New Study Shows Retail Loyalty Programs Lag in Customer Metrics; Progress In Multichannel Approach," by John Gaffnet, July 10, 2008, Retail Touch Points.

¹² "10th Annual POS Benchmarking Survey: Successful Retailers Get Creative," 2009 LakeWest

¹³ "Cross Channel Retailing for the Anytime, Anywhere Consumer: Benchmark Study," February 2008 by RSR

ROI from Cross-Channel Order Management

Retailers see a wide range of quantifiable business returns from cross-channel order and inventory visibility and cross-channel processes. According to an RSR survey:

- 85 percent of respondents report improved customer satisfaction from ensuring product information and pricing is up to date and consistent across channels
- 40 percent report a 2 to 5 percent increase in ecommerce profitability
- 29 percent report a 5 to 10 percent increase in overall return on inventory management
- 25 percent report a 2 to 5 percent decrease in warehouse space requirements while another 20 percent report a 5 to 10 percent decrease in space requirements
- 33 percent report a 2 to 5 percent increase in overall inventory turn while another 25 percent report a 5 to 10 percent improvement in the same metric
- 31 percent report a 5 to 10 percent improvement in gross margin percent
- 27 percent report a 5 to 10 percent improvement in fill rates

(Source: RSR 2009 Benchmark)

A transformation in retail

Fully automated cross-channel order management and inventory locator systems are the essential enabling technology to deliver the seamless shopping experience customers now demand.

Retailers who have already implemented cross-channel order management are seeing rapid return on investment and increases in incremental revenue. This is leading many retailers who are currently adopting these solutions to expect 20 percent first year improvements to their inventory on hand, out of stock rate and conversion rate.

In contrast, retailers who fail to adopt these solutions are likely to fall further behind their competitors in the ongoing race to grow their customer base, expand their business and develop new opportunities.

Retailers that measure and manage multichannel processes effectively achieve incremental gains in sales performance.

About Epicor

Epicor develops, delivers, and supports a complete range of advanced solutions for retailers seeking to become continually more profitable, productive, and competitive. We are the ideal choice for multichannel retailers who demand proven, integrated, full-featured, scalable and global solutions. Our products are helping over 400 general merchandise and specialty retailers in tiers one through four to effectively manage their enterprises and deliver a seamless customer experience.

Epicor Retail Enterprise Selling is an advanced cross-channel order management solution that combines a real-time inventory locator and configurable order manager to integrate inventory and transaction processing of multiple sales channels, allowing you to sell merchandise and satisfy customer demand from anywhere in your enterprise. Whether the order is processed between stores when one is out of stock, between the Web site and store when the DC is out of stock or the customer chooses in-store pickup, Epicor Retail Enterprise Selling manages the inventory and order lifecycle from beginning to end.

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