A photograph of a middle-aged man with a grey beard, wearing a blue sweater over a light-colored collared shirt. He is looking intently at a document or tablet he is holding in his hands. The background is a workshop or office with various items on shelves and a desk. The image is overlaid with a large, faint circular graphic.

# Retail Order Management: The Key to Unlocking Omnichannel

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# Table of Contents

03	Retail Disruption Abounds
06	Game-Changing Programs with the Right Foundation in Place
12	The Cost of the Status Quo
14	Long, Costly and Painful?
15	Retail Order Management Buyer's Guide
17	References

# Retail Disruption Abounds

Not long ago, retailers and brands were focused on a single ecommerce channel. By creating appealing web shopping experiences and allocating a portion of their inventory to ecommerce, retailers were able to capture gains with minimal back-office complexity.

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With double-digit ecommerce growth, everyone was satisfied until a disruption occurred whereby:

- Consumer technology changed the game and broke down traditional retail paradigms. With consumers increasingly connected across multiple devices at home, at work, and on the go, the standard notion of “siloes channels” was obliterated.
- The growth in ecommerce brought intense competition – particularly from pure plays that kept pace with increasingly digital consumers.
- Connected consumers forced retailers to rewrite their rules to meet unfettered consumer demand for service, delivery and choice in any channel.



## Meeting the Needs of Today's Consumers

As technology advanced and competition increased, so did consumers' expectations and shopping behaviors. In this age of "Me-commerce" consumers:

- No longer consider brick and mortar and online stores discrete shopping destinations
- Demand unified experiences across every touch point
- Search elsewhere if a retailer does not carry desired product
- Expect fast and free delivery with consistent accuracy
- Expect to return / exchange merchandise purchased online to brick and mortar stores
- Expect convenience and choice regarding where and how to buy
- Demand personalized, localized and engaging experiences
- Leverage digital information during in-store shopping experiences (\$1 trillion in retail sales influenced by digital and mobile)<sup>1</sup>

These facts lead to two key takeaways: retail is changing at staggering speeds and omnichannel consumers are worthy of a retailer's attention.

Consumer demands coupled with other influencers such as shorter product lifecycles, ubiquitous free shipping and fierce competition around delivery times mean retailers can't afford to operate within channel silos. Retailers need to anticipate and stay ahead of market disruptions and be agile and flexible to rapidly adapt to consumer expectations. Retailers who try to leverage legacy systems and processes to meet these new consumer demands to remain relevant, will experience significant pains, challenges and frustrations.

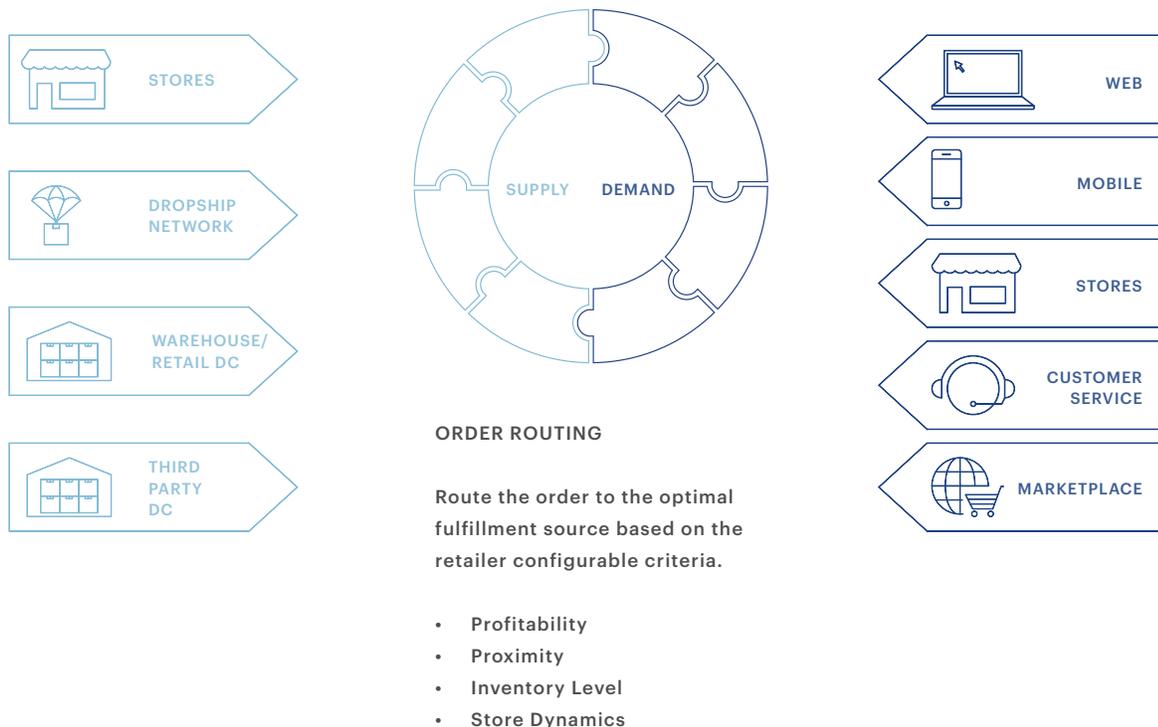
## Enter Order Management

With the disappearance of traditional channels, it is clear that a centralized decision-making system is critical to omnichannel success. Order Management has become the new retail paradigm and the key enabler to a holistic commerce strategy. As evidenced by a 2015 Boston Research Partners study that cited 250 percent more retailers plan to have a single order management solution in the next three years to eliminate channel silos.<sup>3</sup>

At its most basic level, the foundation for retail order management plays three critical roles:

1. It connects omnichannel demand to omnichannel supply. That is, retailers can present their inventory to buyers across all sales channels, accurately and in a timely fashion.
2. It incorporates distributed order management to intelligently route orders to the best supply source using retailer-defined and optimizing sourcing rules to realize the most profitability for every order.
3. It facilitates fulfillment and delivery of orders by putting purpose-built tools in the hands of the retail store associates, dropshippers, warehouses and distribution centers and third-party fulfillment providers.

Robust order and inventory management are the nerve centers of commerce technologies, bringing information and intelligence to connect supply and demand.



# Game-Changing Programs with the Right Foundation in Place

Armed with an order management system that incorporates these three core elements, retailers and brands are equipped to play offense with game-changing omnichannel programs that seamlessly integrate as a holistic system or modularly to satisfy the “Now” generation of shoppers. This includes programs such as store fulfillment, dropshipping, clienteling, and payments, tax and fraud.

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## **Store Fulfillment**

A robust order management solution combined with store fulfillment can turn store networks into a strategic ecommerce asset. Ship-from Store for example, creates virtual distribution centers across a retailer’s network of physical locations. It leverages store assets to fulfill ecommerce orders, minimize out-of-stock situations and reduce delivery times and expense.

To be most effective, the solution should provide configurable order routing logic (if not included as a feature in a retailer's order management system) that sends orders to the best store based on retailer defined criteria such as:

- Profitability
- Proximity to shipping destination
- Inventory levels at stores (factoring in safety stock, MIA levels, weeks of supply, etc.)
- Retail location type
- Minimize split orders (require ship complete from a single store)
- Eligibility of expedited or special handling (i.e., gift wrapping) orders
- Maximum units / orders per day per location (in order to not overwhelm stores)
- Automatically re-route declined orders to the next best store
- Selectively enable and disable participating stores based on geographies, store performance and market events

“Since we started our Ship-from Store program, customers can now access DSW's entire assortment no matter where they shop, and have their orders shipped for free. This capability has transformed our 450 stores into a network of many distribution centers. Customers and associates have embraced this feature rapidly, allowing us to increase our omnichannel sales last year to almost \$100 million.”

*Michael R. MacDonald*

*President and Chief Executive Officer, DSW*

Results from retailers who have embraced Ship-from Store programs demonstrate the substantial benefits.

- Best Buy reported through enabling their 1,400 stores to perform online order fulfillment processing, they've been able to cut their average online delivery times by two days. And have attained a 24% online sales increase during the 2014 holiday season, substantially due to improved inventory availability through their ship-from-store solution.<sup>5</sup>
- A specialty apparel retailer saw a 17% reduction in cancelled orders and \$165k in additional sales in the first three months of using ship-from store.<sup>7</sup>
- Finish Line, a footwear retailer, ships more than 50% of its online orders from its 657 stores; each store will process more than a dozen online orders on a typical day.<sup>8</sup>
- 31% of Toys"R"Us global ecommerce sales are fulfilled by and/ or picked up in-stores (ship-from store, in-store pickup, ship-to store or click-and-collect in UK).<sup>9</sup>
- Macy's recently reported that its ship-from-store program helped grow sales by \$1 billion every year over the last three years. Chief Executive, Terry Lundgren said at Macy's annual meeting in May 2014, "It's a merchant's dream. I don't have to take a markdown, and I don't have to build more warehouses."<sup>10</sup>
- Wal-Mart reportedly invested \$430 million on its "global technology platform".<sup>2</sup> Forbes reported, "Ship-from Store strategy won't be easy. In order to intelligently allocate inventory from stores, retailers need to implement a technology platform known as Distributed Order Management (DOM)." A major piece of Wal-Mart's investment will be in a proprietary DOM.<sup>11</sup>

Ship-from Store assists in capturing otherwise lost sales and true item demand by exposing store inventory to digital shoppers. Based on eBay Enterprise experience (through 2014), it has the potential to capture 20 percent or more in incremental ecommerce revenue; it optimizes store inventory and can help reduce markdowns by 30 percent or more, and it delivers faster and less expensive shipping to consumers – an increasingly competitive and critical focus as more and more retailers are introducing same-day delivery.

With potential of 20% or more incremental sales, a \$50 million online retailer is leaving more than \$27,000 per day on the table until Ship-from Store is implemented.

## Technology Requirements

While the benefits of Ship-from Store are clear, there are technical and operational challenges for a successful execution.

- Accurate store-level inventory and “available to promise” calculations
- Highly flexible and configurable order brokering and order routing with best-source order allocation logic
- Easy-to-use, web-based and mobile in-store tools tailored for store associates with the ability to integrate these functions into existing tools via APIs

These capabilities can require retail IT transformations, often resulting in costly and lengthy implementation timelines. However, at 20 percent or more incremental revenue from Ship-from Store alone, you can quickly do the math and realize that every day you spend waiting for the implementation will cost you thousands of dollars in revenue. It’s with that in mind that a purpose-built solution with fast time-to-market is of utmost importance.

It should be noted that Ship-from Store is only one opportunity for incremental revenue. Other store fulfillment models such as In-Store Pickup, Ship-to Store and Associate Ordering, also boost consumer satisfaction and revenue, leverage the same order management technology, and present the same operational considerations.

*“The biggest, I think, advantage that we’re going to use is buy online pickup in store. We just launched it. It’s early. We had a couple of days where we had 6% or 7% of the business was – on an order perspective – buy online pickup in store, which saves you \$5 a box on average from shipping cost and we’re seeing attachments rates between 15% and 20%.”<sup>12</sup>*

Wesley McDonald, CFO, Senior Executive VP & Head of Investor Relations, Kohls.

## The Changing Point of Sale Landscape

Omnichannel is also changing the face of the in-store Point of Sale. According to a 2014 study by the National Retail Federation, 70% of retailers plan to refresh aging POS software over the next 3 years to satisfy the demands of increasingly connected consumers.<sup>13</sup> For retailers to truly realize omnichannel integration, it requires a single source of truth for orders, inventory and consumer data. With in-store systems being a major source of transactions and consumer interactions, it's critical that in-store systems are integrated with online.

Retail store associates need to be empowered with anytime anywhere commerce capabilities. Twenty-seven percent of consumers are very likely to visit a competitor's store if a product is out-of-stock in-store and 21% of consumers would defer buying all together. However, when consumers were given the option of having an out-of-stock product shipped to their home for free, 45% are very likely to complete the purchase.<sup>14</sup> Store associates can't service consumers if they're anchored behind a traditional POS terminal or cash wrap PCs to access critical information. To provide engaging consumer experiences, they need mobile tools that provide access to inventory across the retail chain, robust catalog information and the power to complete purchases anywhere in the store. In addition to commerce capabilities, store associates should be empowered with tools that personalize the consumer experience with clienteling functions to provide personalized service and flexible purchasing options.

## Fulfillment Beyond Stores

In addition to store fulfillment, order management is needed for inventory visibility and order routing logic across the broader supply chain. This includes dropship suppliers, regional and international fulfillment locations and other third-party logistics providers.

Dropshipping presents a unique proposition for retailers to expand product assortment without the risk and expense of inventory overhead. When executed properly, retailers can leverage dropship suppliers and their infrastructure to fulfill ecommerce orders. It's important to employ order processing automation tools to support any supplier – from mom and pop shops to highly sophisticated EDI-based suppliers. Equally important is the ability to enforce compliance to ensure suppliers are meeting SLAs and the standards and integrity of the retail brand.

## **The Fraud Problem You Don't Know You Have**

And let's not forget about payments and risk management. They are integral parts of order management and areas that many retailers aren't optimizing. Ecommerce fraud is growing at substantial rates. It's complex and sophisticated. A Cybersource 2014 study found that an estimated \$2.5 to \$3.5 billion was lost to fraud in United States in 2014. The same study found fraud is increasing 33 percent year over year.<sup>15</sup> Fraudsters are smart, highly motivated, well-funded, constantly innovating and testing, and adept at finding and exploiting weaknesses. With the new EMV chip technology, a new window of risk lies ahead for retailers - the liability for fraudulent transactions shifts from financial institutions to retailers. And there will be an undeniable spike in card not present fraud as criminals shift their focus to ecommerce.

Retailers need to stay one step ahead of cyber criminals while ensuring legitimate consumer orders are not negatively impacted. This requires a sophisticated fraud system with highly accurate and constantly optimized fraud risk decision functionality that includes ongoing trend detection and systematic customer identification to make it very difficult for criminals to exploit a site for fraud. Yet, having the right technologies and processes in place does not provide complete protection. Ideally, retailers need a team of dedicated, professional fraud detection experts that focus on criminals while retailers focus on customers.

# The Cost of Status Quo

While the incremental growth opportunity of omnichannel selling and fulfillment is relatively straightforward, a retail optimized order management solution also provides an important foundation for growth that is more difficult to quantify.

Many retailers struggle to keep up with basic orders during the peak periods. They are also hampered by the high costs of managing and maintaining their existing homegrown, custom solutions. Below is a summary of the cost of doing nothing:

	If You Have It	If You Don't Have It
<b>Store Fulfillment</b>	<ul style="list-style-type: none"> <li>• Can turn stores from liabilities into strategic assets</li> <li>• Can help drive 20% or more incremental revenue</li> <li>• Can quicken inventory turns</li> <li>• Helps maintain margins (fewer mark downs)</li> <li>• Can speed delivery to consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Could leave money on the table</li> <li>• Does not help solve "stock-outs"</li> <li>• Does not optimize a retailer's biggest, most costly assets: stores and inventory</li> </ul>
<b>Omnichannel Fulfillment</b>	<ul style="list-style-type: none"> <li>• Expands low-risk assortment to quickly drive incremental revenue and broaden reach</li> <li>• Can speed and lower cost of delivery times</li> </ul>	<ul style="list-style-type: none"> <li>• Could hinder merchandising strategies</li> <li>• Likely does not cut operational expenses</li> <li>• Could inhibit geographic growth strategies</li> </ul>
<b>Omnichannel Order Processing</b>	<ul style="list-style-type: none"> <li>• Enables increased selling channels at scale</li> <li>• Can maintain customer experience standards across all channels</li> </ul>	<ul style="list-style-type: none"> <li>• Does not enable multiple channels</li> <li>• Does not effectively process orders from multiple channels</li> <li>• Presents the possibility of increased revenue - while compromising the customer experience</li> </ul>
<b>Order Management Foundation for Growth</b>	<ul style="list-style-type: none"> <li>• Presents a foundation for future success</li> <li>• Can help offer scale, reliability, and new revenue driving programs</li> <li>• Likely lowers total cost-of-ownership</li> </ul>	<ul style="list-style-type: none"> <li>• Could leave retailer operating at risk</li> <li>• Could have retailer operating at high total cost-of-ownership (due to regular customization and ongoing coding simply to keep pace with the rest of the industry)</li> </ul>
<b>Robust Fraud Protection and Risk Management Solution</b>	<ul style="list-style-type: none"> <li>• Can help drive criminals away from your site, allowing legitimate consumers to transact</li> <li>• Can help prevent fraudulent transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Could create negative consumer experience due to lengthy manual order review process</li> <li>• Could see substantial lost revenue to fraud</li> <li>• Highly likely to be vulnerable to future attacks</li> </ul>

# Long, Costly and Painful?

In order to meet consumer needs, retailers need to quickly deliver omnichannel solutions that are most successfully achieved with a robust order management system as the foundational core.

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However, 54 percent of retailers surveyed in a Boston Retail Research Partners study are worried about the complexities of integrating an order management platform into their back-end systems.<sup>3</sup> And for good reason. Embarking on a licensed, on-premise order management implementation carries significant risk and cost. According to a 2014 Multichannel Merchant report that focused on the impact of Order Management Installations, it found that implementations are long and costly. And completing the implementation is just the starting point with ongoing maintenance and upgrades required. "...the average duration has been 16.1 months. In this period, approximately 54% of projects have exceeded their planned budgets, 72% of projects have exceeded their planned durations and a full 66% of respondent organizations have received less than 50% of the measurable benefits they anticipated..."<sup>16</sup>

For retailers to be successful in these "Me-commerce" times, they need to partner with true practitioners who understand the market disruptions and the digitally transforming technology that simplifies operational complexities by seamlessly integrating omnichannel capabilities into an existing infrastructure...quickly and at scale.

# Retail Order Management Buyer's Guide

Successful retailers have moved fast to change their technology practices. While the webstore is still an important part of the equation, more holistic strategies put order management at the top of the list.

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Lastly, look no further than the recent M&A activity in the market, where technology vendors have order management solutions, and are now working feverishly to rebuild, rewrite, and rewire these solutions to deliver optimized and integrated solutions.

## So What's a Retailer to Do?

1. Take a broad view of your technology strategy and bring in a cross-functional team to make key decisions. Order management is a key enabler to the strategic objectives of the entire executive team, including the CEO, CFO, CIO, CTO, and VPs of Ecommerce, Store Operations, and Supply Chain.
2. Weigh options:
  - There may be several cost-effective solutions in the marketplace, but all of them should be evaluated to determine whether they effectively meet your growth aspirations and omnichannel strategies.
  - At the opposite end of the spectrum, there are large, enterprise-class solutions in the marketplace that provide a full range of capabilities. However, these are typically designed to solve order management across many verticals, and as a result, bring lots of unnecessary complexity, while lacking retail specific innovations.
  - Look to the cloud. Cloud-based solutions enable extensibility and high scalability while preserving existing IT investments. Time-to-market is faster and maintenance costs are lower.

The ideal solution will balance flexibility, modularity, time-to-market, and ongoing cost-of-ownership with scale, as well as the right feature set and roadmap specifically focused on driving omnichannel retail success with consultative expertise and insights.

# eBay Enterprise is a leading global provider of retail-optimized commerce solutions.

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We enable brands and retailers of all sizes to deliver consistent omnichannel experiences across all retail touch points to attract and engage new customers, convert browsers into loyal buyers, and deliver products with speed and quality. With unrivaled flexibility and control, our clients are armed to accelerate sales growth and win with today's digitally connected consumer.

Learn more at [ebayenterprise.com](http://ebayenterprise.com)

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