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Strategies for agile, profitable and secure omnichannel execution



Section 1: Understanding the problem

High cost per order and misalignment between order, inventory and supply chain operations are affecting the profitability of omnichannel execution

The surge in omnichannel commerce has redefined the way retailers interact with customers. According to 2017 EKN data, retailers reveal that more than half (55%) of their customers are omnichannel shoppers. In the pursuit to remain competitive and increase the customer base, retailers have mostly focused on putting in place front-end strategies that grab customer attention and ensure that they are onboard with the retailer's varied sales and product programs. However, of late, retailers have also realized the importance of an integrated order fulfillment and secure back-end process for seamless omnichannel execution. In fact, the inability to align the inventory, order and supply chain operations in an efficient manner results in an increased cost per order that erodes profitability!

- In a recent survey of 211 retailers conducted by EKN in partnership with Radial, the above fact is only reinstated. It was observed that for 40% of retailers the major challenge associated with the order fulfillment process is the high cost associated with it. In fact, 67% of CEOs say that costs to fulfill orders have continued to increase over the last few years¹. Additionally, it may be quite surprising to learn that current cost per order is 70% of the average order value!
- So, what exactly is 'cost' comprised of within omnichannel execution? Roughly speaking, the execution cost is largely due to lack of updated back-end processes. Digging into this question further, one can say that the umbrella of cost ranges from maintenance and upgradation associated with an end-to-end order fulfillment process. Challenges confronting retailers include, but are not limited to, lack of inventory visibility, poor routing of orders and high delivery costs associated with a store, warehouse or distribution center (DC), and reverse logistics.
- In the same study, 37% of the retailers felt that inventory order and supply chain operations are not properly aligned across the channels, thereby posing a challenge to order fulfillment.



Cost per order is 70% of the average order value!

¹ [The Omni-Channel Fulfillment Imperative, 2015 by PwC](#)

- Supply chain operations involve a complex set of processes that need to be perfected by not only designing a vast and effective supply chain network, but also understanding the business objectives and customer demand for online/omnichannel orders. Supply chain managers who form the backbone of a systematic process for ensuring on-time delivery of orders are often left to deal with multiplicity of orders such as large and small volumes, large and small orders, frequent and less frequent deliveries, special handling needs, as well as handling delivery to various city and country locations. Coupled with these challenges are shipping, warehouse and transportation-related inefficiencies that add to the overall cost per order.
- According to the survey, there are other challenges that affect omnichannel profitability, including innumerous split orders (31%) where multiple products in the order are shipped from different locations, whether that includes distribution centers, stores or dropship suppliers. This can add to the cost-per-order problem very quickly. Low shipping velocity (28%) and high volume of order returns (28%) are two additional factors that increase the cost per order for retailers.

Omnichannel profitability is also affected by:

- **Innumerous split orders**
- **Low shipping velocity**
- **High volume of order returns**

However, successful retailers understand that streamlining and aligning the multiple components of omnichannel execution is the key to remaining profitable, and in result, much of their investments and strategies are focused towards it.

Section 2: Why are omnichannel order management and fulfillment so unprofitable?

The current scenario: Omnichannel delivery capabilities and agents of fulfillment

Undoubtedly, one can argue that omnichannel delivery is one of the decisive factors for success in retailing. While the majority of retailers struggle to put effective omnichannel delivery capabilities in place, some have already sprung into action and streamlined the entire process. In this context, it's interesting to note that for every billion dollars of revenue, \$45 million is lost due to lack of cross-channel integration². Needless to say, such a transformation is a pain-staking process and requires the right mix of technology, process and business acumen in the retail structure.

- According to our survey, 70% of retailers currently use 'buy online, deliver from distribution center' as one of the core processes for order fulfillment. This is indicative of the fact that fulfilling online orders from distribution centers is still the leading fulfillment option, likely due to the fact that it's most cost effective. However, running a distribution center entails important decision-making factors such as place and size of distribution centers, expecting a consistent demand, and above all, managing transportation, inventory and other related equipment.
- Coming in a very close second is 'buy online, pick-up in store' (BOPIS) with 63% of retailers currently offering it. This option has found takers among U.S. shoppers as BOPIS registered a 30% year-on-year growth³. While BOPIS sounds advantageous to retailers in the form of reduced shipping cost by enabling retailers to use existing store inventory, staging and customer pick-up models can lead to in-store pick-up problems for customers and retailers alike. Such complexities arise due to slack implementation on the retailer's part. For example, retailers have to define a pick-up location in the store, implement and manage a variety of capabilities that can shift focus from other in-store activities or tasks. However, quite a few retailers (43%) are willing to undertake changes to the in-store tasks towards store fulfillment as such changes can lead to an increase in customer convenience and sales. EKN data shows a 9.2% increase in attachment rates with in-store pick-up orders; thereby reaffirming the fact that despite all challenges, in-store order pick-up can result in an overall increase in sales.

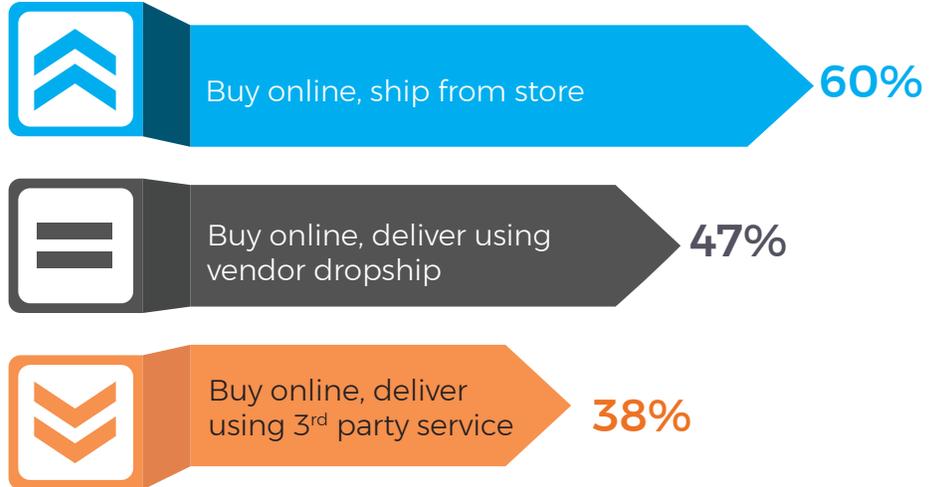


70% of retailers use buy online and deliver from distribution as a core process

² [Openbravo's A roadmap to Omnichannel Championship](#)

³ [Cognizant's Why in-store pick-up is the tip of the Omnichannel iceberg](#)

- 60% of retailers currently use 'buy online, ship from store, followed by vendor dropship (47%) and delivery by 3rd party service (38%). All three of these order fulfillment models have become popular in the retail industry over the course of the last few years. 'Buy online, ship from store' means transitioning part of the store into a fulfillment center which entails employee-led pick-pack and ship of online orders using store inventory and infrastructure. 'Vendor dropship' and 'buy online, deliver using 3rd party service' enable retailers to reduce the burden on their own DCs and stores, as well as the burden of owning additional inventory. Instead, retailers utilize their suppliers or 3rd party providers to directly ship orders to customers or to the stores for customer pick-up.



So, are these delivery capabilities profitable? Delving deeper into the problem

To comprehend the profitability of the delivery capabilities, a simple way is to discover the cost effectiveness of the fulfillment options. For such an assessment, an easy yet effective way is to assess whether a fulfillment option increases or decreases the average cost per order by assigning a corresponding weight to it. However, before analyzing the results, it is important to add that the approximate cost per order (including shipping cost) is \$48, with 20% of retailers incurring costs above \$100.

- While it's obvious that free shipping increases costs, there are some interesting findings that demonstrate otherwise. 57% of retailers see an increase in overall cost when offering free shipping; however, 23% of retailers feel there is 'no impact on the average cost per order', yet hardly 10% observed a 'decrease' in the cost per order year-over-year. A plausible explanation could be such retailers dealt in large volumes, thereby experiencing benefits of scale when the DC is the main source of fulfillment.
- Not lagging far behind is the option of 'free shipping over a certain order value' with 53% of retailers confirming to have experienced an increase in the average cost per order. Here too, for retailers experiencing 'no impact' (29%) or 'decrease' (9%), a logical reasoning could be that for some retailers much of the fulfillment cost and margin needs are captured in the minimum order value, so they can afford to provide free shipping.

- Options such as 'buy online, ship from store' (40%) and 'fulfillment by Amazon/other marketplace/third-party' (42%) are also not cost effective. In the case of 'buy online, ship from store', retailers are incurring hidden costs associated with process inefficiencies. Overtime, the cost attributed to additional labor hours for store pick-pack-ship training and store fulfillment software upgrade costs can be offset by proper process execution best practices. This is possible as retailers can reduce wastages by optimizing store order fulfillment labor task time by store type. Retailers can also ensure optimal allocation of inventory to stores, specifically used for online order fulfillment before it is marked down or re-allocated to other stores or DCs to address demand elsewhere in the enterprise, thereby saving their profit margins.
- Over the last few years, retailers have experienced high costs associated with 'fulfillment by Amazon/other marketplace/third-party'. Such costs have increased due to a more competitive third-party fulfillment commission environment, increased demand for same day/next day shipping and rising costs of package shipping/delivery.

Analyzing the efficacy issues: Is it agility or cost?

Before analyzing the efficacy issues of order fulfillment, a snippet of the process is essential to help us better connect to the problem. Stepwise, as an order is placed, it is entered in the back-end system such as distributed order management, online order management and/or ERP and the customer is notified. After the order is placed, the system sends the order to the DC, store or supplier via intelligent order routing for enabling pick-pack-ship. Subsequently, the order management application takes care of the purchase order process and invoicing. The order is then packed and shipped using the most effective fulfillment method and the customer is once again notified of the status. From the above, it's clear that the entire process consists of five main steps: (a) demand planning, (b) inventory allocation (c) order management, (d) logistics management, and (e) supply chain execution. A breach or delay in either of these steps can negatively impact the entire process. So, let us examine from both the 'agility' and 'cost' perspective.

- EKN survey data shows that more than half of retailers (56%) have clocked more than 10% improvement in on-time delivery year-over-year. A similar picture can be observed for completion of orders shipped and order fulfillment cycle time.



56% of retailers have clocked more than 10% improvement in on-time delivery year-over-year.

- This does not suggest a slack in inventory, order and logistics management or ineffective supply chain execution for the other half that have not seen improvement in the aforementioned areas. On the

contrary, on average, for one-fifth of retailers, performance on these fronts has improved in single digits on a year-over-year basis.

- However, the only factor that can change the picture is 'no change' or 'negative' performance reported by the remaining one-fourth of retailers for all major order fulfillment KPIs.
- So, is this indicative of cost issues? As previously pointed out, the current cost per order is 70% of the average order value. This is a huge factor behind unprofitable omnichannel operations and if coupled with ineffective demand planning, order, inventory or supply chain planning, the entire costs of order-fulfillment can flare up. The high cost-per-order scenario along with the other complexities outlined above are the likely reasons for the 'no change' or 'negative' performance reported by one-fourth of retailers for all major order fulfillment KPIs. For the other three-fourths, performance has, by and large, improved KPIs, such as on-time delivery, completion of orders shipped and order fulfillment cycle time.

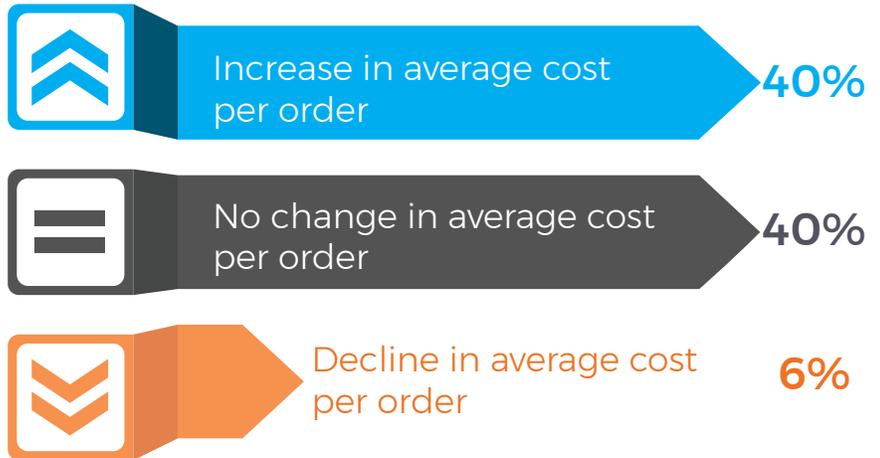
What about technology or business process: Their contribution towards the issue

Retailers have realized that using order fulfillment technology is one of the ways to bring improvements to the entire fulfillment process without increasing operational cost to a great extent. Amidst growing customer demand for instant gratification and increasing labor costs to manage such demand, the cost for fulfillment has only increased. However, if technology in the DC is deployed at the right time and in an effective way, it has the ability to reduce labor costs with improved service quality.

- With latest innovations, the level of technology used in order fulfillment extends from intelligent order routing and flexible fulfillment nodes, to voice picking, robotic picking, and augmented reality order picking. However, the extent of technology used is a function of the amount of investment that a retailer is willing to undertake.
- Case in point is the Amazon example. Amazon's order fulfillment process has the extent of required infrastructure and deployment of the latest technologies. That's not to mention, being the leader, Amazon has adequate manpower and resources to make things work.
- However, automating order capture and processing, integrating inventory and standardizing order management from different order types across channels remain challenges for 4 in 10 retailers on average. Use of legacy ERP systems and spreadsheets for handling supply chain orders creates a disjointed view of orders. Retailers need one view of order and inventory by enabling web, mobile, catalog, and store order process workflows for accurate and uniform real-time information flows related to order

capture, inventory allocation and end-end order management. Following that, retailers need deeper coordination across logistics channels and fulfillment partners to manage a flurry of orders needed to fulfill omnichannel demand.

- EKN survey data shows that 43% of retailers use stores as a primary agent for fulfillment and another one-third plan to implement such capabilities in the next two to three years. Store fulfillment can be implemented and executed effectively by using an optimal set of store picking, staging and shipping processes. Retailers must also consider POS software upgrades and labor optimization programs so that the most appropriate stores receive intelligently



routed orders and inventory for processing such orders. Store fulfillment can prove judicious for retailers in terms of cost containment due to proximity shipping to customers from the store and demand-based inventory allocation. The key steps in the process are to identify the right stores for fulfillment, determine the right partners to roll-out such a strategy and continually tweak it for best results. Currently, 40% of retailers have seen 'no change' in their average cost per order and 6% saw a decline in 'buy online, ship from store'-related costs. Another 40% have seen their average cost per order spike when using such processes due to various inefficiencies that can be curtailed through due diligence and effective process management.

Section 3: The state of order fulfillment technology: Decoding what works

For large retailers who have multiple store locations, providing an exact delivery date to customers without visibility of external inventory locations, including delivery and service requirements, are next to impossible. So what's required is a technology-backed order management and fulfillment system that can intelligently process orders as well as notify customers about the update. In this context, the following order fulfillment technologies can be considered.

- Order Management Systems:** While both on-premise and SaaS or cloud-based e-commerce order management systems are some of the most widely adopted systems used by more than half of the retailers surveyed (56%), the need to process higher volumes, velocity and source from a variety of channels and fulfillment locations has increased. These systems need to be upgraded in agile ways to handle the growing omnichannel complexity facing retailers. Lack of scalability, on-premise deployment models and poor speed to market related to the required upgrades have over-shadowed the business value of these systems.



56% retailers consider on-premise and SaaS or cloud-based e-commerce order management systems as widely adopted

- Distributed Order Management (DOM):** Unlike traditional order management systems that are linked to a specific number of warehouses/DCs which fail to accurately account for deliveries, a modern DOM system can aggregate orders from multiple channels and provide a single source of information. A cloud-based DOM can enable selling, replenishment and logistics processes for multi-party business transactions across various channels. It is an all-in-one solution for managing information, executing processes and monitoring performance to ensure that orders are fulfilled accurately without delay. Retailers must also weigh the comparative value of on-premise and cloud-based distributed order management systems. Our qualitative data reveals that on-premise systems, although robust, can take up to two years or longer to deploy, depriving retailers of valuable time to market an enterprise-wide system that can create order, shipping, customer service, and inventory efficiencies, not to mention the high cost and required resources of an on-premise system.

- **Flexible Fulfillment:** Retailers are generally moving towards meeting consumers' omnichannel order fulfillment expectations. However, doing so in an effective and cost-efficient manner requires flexible logistics and fulfillment options. A flexible fulfillment system allows retailers to keep track of the fact that as a consequence of meeting online demand, the warehouses/DCs are not out-of-stock on key items in the online catalog, whereas the brick-and-mortar store remains adequately stocked for back-up fulfillment and meeting online demand through store pick-up and delivery/fulfillment. A flexible fulfillment system and related services, if put in place, have the ability to add capacity to the existing supply chain – by leveraging store inventory without having to incur extra expenditures on additional warehouse/DC space.

The idea is to take the best of each technology and use it as needed for the business. Retailers need to understand their specific requirements and customer expectations, and map it with the technology that provides the required solution.

Section 4: Capabilities that can be deployed for better outcomes

Adding to the existing technological capabilities to process an order is something that retailers are presently focusing on. Though more than half of retailers are currently using various order management processes such as 'returns processing and handling', 'one view of orders enterprise-wide' and 'efficient allocation of inventory for all order fulfillment sources', additions such as 'intelligent order routing', 'intelligent order visibility', 'centralizing 24/7 order processing' and 'visibility with and through external partners' will always be an added advantage.

- While half of retailers are currently using centralized, 24X7 order processing, more than a third (35%) plan to do so in the next 12 months. The importance of round-the-clock order processing has been realized as it figures in the top five priorities of the retailers surveyed.
 - Other key processes such as intelligent order routing across the supply chain or reducing split orders have figured in the planned deployment horizon for retailers. As good as 35-40% of retailers are still in the planning phase and 20% of them have 'no plans' for such implementation.
 - In fact, outside of planned intelligent order routing, other process changes that fail to feature in the priority list of retailers are 'efficient order handling/routing via global order fulfillment centers', 'reevaluating order fulfillment source based on order load factor' and 'enterprise-wide inventory visibility'.
 - Among these capabilities, 'reevaluating order fulfillment source based on order load factor' is critical as order load factors fluctuate heavily during seasonal and weekend selling. The ability to handle peak vs. non-peak load factor management is critical for effectively managing order accuracy, on-time delivery and reducing order-fulfillment errors.
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Conclusion and Recommendations

Across the retail industry, a major question on the minds of executives is how to find agile ways to address the underlying factors that make omnichannel and online/digital orders unprofitable. Retailers need to get into the depth of understanding why, despite adding order management and fulfillment systems, they are still clocking a high cost per order. While there is no easy answer, our research indicates that shipping/delivery-related end-to-end cost per order and the lack of alignment between inventory, order and supply chain is behind such a trend.

Below are some short and mid-term recommendations that can help you overcome order-fulfillment challenges.

- Apply a flexible fulfillment model involving varied integrated order-fulfillment nodes that addresses legacy order management and fulfillment complexities.
 - Standardize all order processes across all locations and segment order types based on profitability and agility between DC, BOPIS, store fulfillment, supplier dropship, and other order fulfillment models.
 - Adopt intelligent order routing using localization models, machine learning and predictive routing/order allocation capabilities.
 - Automate the order fulfillment process integration and quicker order resolution from receiving an order to fulfillment.
 - Address complex order fulfillment via flexible fulfillment and partner fulfillment models if current assets and infrastructure are over-capacity and unprofitable.
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