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How to Maximize Omnichannel – The Right Solution for You and Your Customers

Executive Summary

Over recent years, retailers have been addressing the growing number of ways in which shoppers can buy from them by launching multiple channels and then improving the buying experience in each of them. But this does not reflect the way people shop now – they want to buy what they want, from wherever they want, at a competitive price, and have it delivered as quickly as possible.

In any case, developing and operating a multichannel business made up of multiple separate channels is not efficient and rarely profitable, making it an unsustainable approach. Instead, retailers need to fully interlink these channels and provide a seamless, consistently positive experience for shoppers – the 'omnichannel' experience – before the competition from all sides becomes overwhelming.

> *"Omnichannel commerce is the coordination of traditional channels (marketing, selling and fulfilment) and supporting systems to create a seamless and consistent customer experience."*
>
> *Forrester Research*

So what should retailers be aiming for and how do they get there?

Companies that haven't already adopted an omnichannel approach need to consider this as a matter of urgency. IDC predicts that by 2019, half of all retailers will have adopted a retail omnichannel commerce platform, and as a result will reap up to 30% increase in profitability, thanks to higher revenues and reduction in total cost of ownership (TCO), inventory costs, operational costs and promotional pressure. Enabling the 'endless aisle' alone can increase store sales by up to 10%.

If you need any further encouragement, look at the competition. Everyone needs to find a way to address the Amazon behemoth and win the battle of the 'last mile', but few can afford to go out and buy their own same-day delivery company as US retailer Target did recently when it acquired same-day delivery platform Shipt Inc in a $550 million deal. Amazon itself has entered into new partnerships that add to the customer experience, such as its deal with Kohl's in the US which will see some Kohl's stores accept Amazon returns at no cost to the customer. Meanwhile, in another

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deal Target bought Powered Analytics, which uses mobile technology, location data and machine learning to connect a retailer's app to the in-store shopping experience, specifically to bolster its position as an omnichannel retailer.

Such spending is beyond most retailers, who instead need to look at their own internal practices. There are different approaches retailers can take to try to address the omnichannel challenge, and it can be hard to identify which route to follow. However, only one – implementing an order management system (OMS) that ties all of your sales and inventory channels together – truly provides every aspect that you need and offers all the benefits associated with omnichannel, as we explain in this whitepaper.

Even then, some vendors claim to offer OMS-like performance and features at attractive prices, but fail to deliver. Others can take years to implement – which retailers can no longer support – lack flexibility, and are costly and time-consuming to manage.

Instead, retailers need to invest in a proven solution such as Magento Order Management, which supports commerce platforms to help deliver the ultimate shopping experience customers expect. Already, many retailers – including Devlyn and Tous, who we profile in this whitepaper – have successfully used Magento Order Management to increase revenue by fulfilling orders from any available source of inventory with more efficiency, visibility and control, and by offering more channels and delivery options, thus improving customer loyalty.

Read on to find out why customer demand for seamless retail experiences is driving the adoption of software solutions, why order management systems are fundamentally designed for omnichannel success and the benefits you can gain by implementing an OMS over any other solution.

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Customer demand for seamless experience is driving adoption of software solutions

The mid-nineties to 2000s saw major advancements in the commercial use of the Internet. Amazon launched in 1995 as an online bookstore and became the largest online retailer in the world. Since then, the retail environment has changed faster and further than at any time in modern history. Consumers now enjoy the luxury of buying what they want, when they want and from whatever retail channel they prefer. When they browse and shop, they view each retail business as a single experience, regardless of how many ways it sells goods and/or services, and irrespective of whether it sells solely own-brand goods or those of other brands.

Shoppers are, in effect, 'channel blind'. What they want is a unified experience, with no gaps or misalignment between the products, prices and service in any channel, regardless of what route they take through them. And that brand experience doesn't end at the checkout, but includes how and when they receive what they have purchased. The retailers that will succeed and ultimately be profitable, therefore, are the ones who can match those expectations by providing a true omnichannel experience, no matter how diverse or complex the customer journey, or whether it involves websites, physical stores, apps, social media and/or call centres.

The majority of retailers recognise that this is what consumers want and either have or are investing in a multichannel approach. Yet digital innovators like Amazon are still disrupting entire markets and consumers are voting with their wallets. More needs to be done to avert the challenges presented by pure-play online giants and sector specialists, and the situation has become even more urgent now that some online retailers with strong brand loyalty have started opening physical stores.

With so many retailers vying for consumers' attention and loyalty, achieving a unified approach needs to happen very soon. Despite that need for speed, however, retailers need to choose their solution carefully and implement the necessary back-end systems efficiently, because poorly chosen solutions will not solve the problem and poor experiences will drive away savvy shoppers. What's required, then, is a true 'omnichannel' approach based on software that is specifically designed for the task, coupled with organization-wide realignment of processes to fulfil that proposition.

Customers Come First

The clearest reason for taking the omnichannel approach is to address consumers' preferred shopping habits. The lesson, as Forrester suggests, is to "Make customer needs priority number 1, then work backwards to deliver that."

- 89% of customers use at least one digital channel, but only 13% find digital and physical are well aligned

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The notion that shoppers expect a seamless experience when they interact with your company through any channel and across multiple channels should not be a surprise. But consumers aren't always getting what they want:

- 73% of consumers become frustrated when retailers fail to offer convenient interaction methods
- 59% are unsatisfied when they can't access the information they want in their preferred channel

Shoppers want to buy whenever they want, through any channel, and have the flexibility to receive their goods at a place of their choice, including 'buy online, pick up in-store'. Here are a few proof points:

- The vast majority (78%) of retailers are already offering this option, matching shoppers' habits
- More than two-thirds of shoppers use 'buy online, pick up in-store'
- 53% say they then make additional impromptu purchases while collecting goods in store

There's even an opportunity for further in-store sales when handling returns, with KPMG finding that 51% of shoppers returned goods in store, regardless of how they purchased them.

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"What you are going to see in the next five years is nothing like what we've seen over the last five years. The rate and pace of change has been accelerating over time and it is reaching fever pitch now....Today customers want what they want, when they want and it's not what we want to charge, it's the price they are prepared to pay."

Lord Stuart Rose, former Marks & Spencer Chairman, Retail Gazette

Order management systems enable omnichannel commerce

The new reality for retailers is to identify the tools and systems needed to achieve true omnichannel functionality. The imperative is clear. According to retail analyst IHL Group, retailers are losing US$1.75 trillion annually due to overstocking, out-of-stock goods and preventable returns , all of which can be resolved with an omnichannel approach.

Retailers must maximize the business opportunity and stay ahead of the competition. No longer is eCommerce a pet project off to the side: instead, the path to success is a "one commerce strategy" that spans every touchpoint and geography, both digital and physical. And you need the right technology solution to enable you to:

- Leverage flexible technology solutions to drive new sales
- Increase visibility of inventory to more effectively sell it
- Offer 'buy online, pick up in-store' to enhance consumer convenience and drive store traffic
- Ship from store to leverage the inventory more efficiently
- Expand 'ship to store' capability for convenience and more traffic
- Empower associates to 'save the sale' with access to all inventory
- Go global with multiple brands using a variety of devices
- Build one single source for orders, inventory and fulfilment
- Support more advanced ordering scenarios like pre-sale, backorder etc
- Give customer service agents a better view of orders, and the ability to control and modify them

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There are a number of system modifications you could consider to address this:

- You could try adding functionality to your existing web store. However, this doesn't typically offer any solution to the problem of managing inventory that's spread across multiple locations, nor does it allow you to implement a consistent set of business rules.
- You could extend your enterprise resource planning (ERP) system by adding order management capabilities, but it's likely to be a time-consuming task – and costly. It also lacks the agility and flexibility that you need to manage an omnichannel environment.
- You could leverage your existing point of sale (POS) system by adding visibility of your global inventory and supplementing it with additional features but still not receive the full omnichannel functionality needed.

None of these, however, are properly designed to address all the aspects of an omnichannel business. Instead, the acknowledged best practice approach is to invest in a purpose-built order management system (OMS).

Gartner describes an OMS as comprising three main components:

- A set of data detailing the orders to be fulfilled from various sources.
- A configurable rule engine that determines and orchestrates how orders from all sales touchpoints can be fulfilled from the available inventory.
- The capability to instruct systems at other locations how to fulfil orders, as well as specific instructions to carry out drop ship or ship from store activities, including pick, pack and dispatch.

Not all OMS solutions are created equal, but it is possible to buy an OMS that offers full integration with your existing systems, so you don't have to start from scratch, with the added benefit of a speedier route to a fully functioning system compared with starting afresh with brand new systems company-wide. One such solution is Magento Order Management. This is a SaaS solution that extends eCommerce solutions and allows for maximum flexibility in configuration and deployment. Retailers can get up and running more quickly for significantly less cost than by legacy systems.

Benefits of an order management system

In general, retailers are acknowledging that adopting an OMS is the correct approach, with 73% planning to utilise an OMS as their unified commerce platform in the next 3 years.

An OMS can deliver significant return on investment by enabling an omnichannel experience for shoppers. Most importantly, however, an OMS addresses all the consumer demands of an omnichannel business, including:

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- Merging of the customer experience across physical and digital stores
- Enabling any kind of fulfilment at any time
- Saving the sale in-store with an 'endless aisle'
- Ensuring consistent pricing
- Efficient shipment and delivery
- Increasing customer loyalty

And for the retailer, it adds to overall performance of the business:

- Global, up-to-date visibility of inventory across all channels
- Cost-effective management of multiple brands across multiple channels
- Increased efficiency and reduction in costs
- Incorporation of legacy systems set up for different parts of the business, such as warehouses and administration
- Visibility of third-party logistics providers, franchisees, retail partners and drop shippers
- Ability to cope quickly and efficiently with returns, order modifications and cancellations, refunds and credits

Save the sale with an 'endless aisle' and capture multichannel shoppers

The concept of an endless aisle, meaning being able to offer every item you have for sale across all inventory sources either directly or available in warehouses or through drop shippers, is not new. The difference now is that consumers expect you to be able to deliver that to them no matter where they are – whether that's in-store or browsing on a screen.

There's a practical limit to how many items you can stock in-store, but there is no limit to how much of your inventory you can make virtually available to shoppers via systems at the tills, on kiosk displays or on mobile devices carried by sales assistants. This endless aisle creates a much better experience for shoppers and according to Forrester it can drive a 10% increase in physical store sales.

When you consider that by 2025, the number of SKUs that consumers will be able to choose from will increase by 30% , there's even more incentive to find a way to make all of your inventory visible to your customers, rather than them looking elsewhere.

Lack of visibility for shoppers online of what is available in store can lose you sales. Conversely, multichannel consumers are very valuable: shoppers who engage with retailers through a variety of channels drive 3.2 times the volume of sales and 2.6 times the margin of store-only shoppers. And because the extra products they buy tend to be of higher value, those purchases can significantly impact margin growth.

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Enable and optimise fulfilment

Knowing where your inventory is at any time is key to fulfilling sales and meeting consumers' expectations, yet 75% of retailers have inaccurate inventory levels in-store. This is about more than simply linking retail stores and warehouses holding goods for your eCommerce site: an OMS can also give visibility of goods held at drop shippers and by retail partners.

Allowing shoppers to see every possible item in your inventory will maximize sales – a critical driver of growth. Items can then be sourced and shipped from any one of multiple locations by the most efficient route, meeting consumer demand for speedy delivery and saving you money.

"Consumers are expanding their use of shopping options, increasing order fulfilment complexity."

Gartner

A good OMS will let you put business rules in place that automatically pick the best source to fulfil any order. These will take into account and balance out variables including: proximity to the consumer; speed of delivery; and profitability based on shipping costs, inventory turns, split shipments and product margins. Together these will let you get the product to the customer as fast

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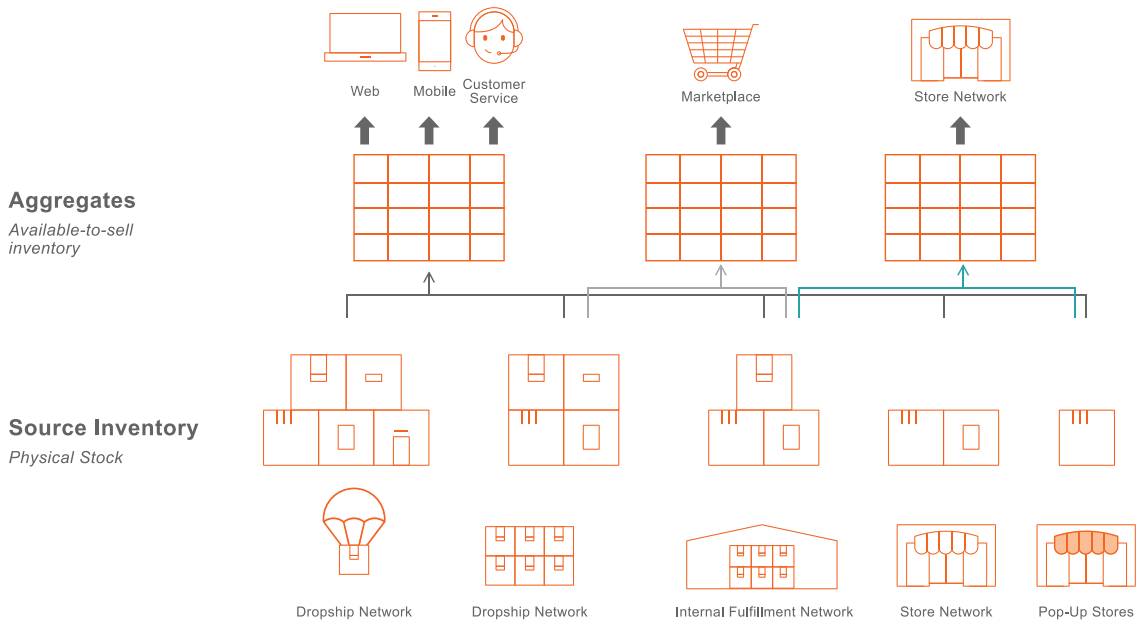
as possible, minimize your fulfilment costs and optimise your inventory carrying costs. The graphic below illustrates how global inventory visibility allows retailers to see an aggregated view of all stock and make it available to sell from any location, both online or in store



Increase revenue through 'buy online, pick up in-store'

Home delivery isn't about to disappear as an option. Nevertheless, Forrester is predicting that in 2018, 'buy online, pick up in-store' will overtake orders that ship directly to customers.

This presents a great opportunity for vendors as bulk distribution of items to stores instead of multiple 'home' deliveries should reduce costs. But it's the potential for additional in-store sales that accompany in-store collections (which are also used by those who shop in store but can't locate the items they want) that provides the best argument for using an order management system to implement an omnichannel solution.

Ultimately, improving the customer experience improves the potential for revenue growth.

Ensure consistent pricing

Some 60% of shoppers globally will look up products online before buying in store. But they don't only use search engines, websites and online stores such as Amazon to research at home, but also to compare prices while in-store.

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As Forrester notes, retailers cannot afford to lose sales simply because their systems mean that customers are being asked to pay differing final prices for no clear reason, depending on where they choose to transact. A unified order management system circumvents that problem, allowing prices to be standardised across the business.

Seamless engagement increases customer loyalty

Omnichannel success is about more than creating the 'endless aisle': it's about providing a completely seamless experience for shoppers.

Building that seamless experience means looking for and eliminating 'conversational breaks' in the buying journey and any other interaction with your business, such as customer service. This applies to all brands you sell, for consistency, no matter where they are being shipped from.

Given that customers may interact with you via various screens, channels and technologies, this is not a minor undertaking. The benefits, however, can include increased sales by offering appropriate suggestions of products to buy, based on previous searches and known preferences. It can also help to avoid poor customer service experiences, such as when shoppers have to repeat themselves across service channels, which the majority of shoppers feel they should no longer have to do.

Done well, an omnichannel approach can engender loyalty in other ways too. Looking forward, Forrester suggests that "the savviest retailers will offer meaningful rewards that create deep emotional loyalty", as consumers want to be incentivised by more than just points and special offers. The challenge, therefore, is to cultivate emotionally loyal customers and not bargain hunters.

Order management systems are ideal for addressing this challenge, as Magento customer Devlyn Optical has discovered. A multinational chain of opticians, Devlyn invested in Magento Order Management to let every customer in any store or online choose from the entire range held by the company (see case study below). The most obvious benefit was increased sales through a number of routes, but a key – though less tangible – benefit has been increased customer loyalty.
"To service our customers, ship-from-store was obvious," said Andrew Devlyn, Director of Innovation at Devlyn Group. Now a customer who wanted a specific pair of glasses in a different colour can choose from thousands of options, instead of just what their nearest store has in stock. "We believe we have a very compelling offer that is truly more omnichannel than any of our competition."

Management of multiple brands and global inventory through a single system

Many retailers sell items from other brands, whether as an adjunct to their own branded goods or as their entire operation. Inventory management becomes much harder when combining this with sales through multiple channels, with the need to have visibility of wholesale distribution networks

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and stock carried by drop shippers. Not only does this exacerbate the challenges of creating a true omnichannel experience for consumers, it also makes it much harder to expand into new geographical areas and pursue global expansion.

Tying all these distribution and sales channels together via an OMS can overcome these problems. Luxury lifestyle brand Tous, for example, has used Magento Order Management to link all of its global web stores to one central order and inventory system for inventory management and order fulfilment, doubling its conversion rate and underpinning a 20% annual growth in customer base (see case study below).

Germany's Frankfurt Airport is another Magento customer that faced an extreme challenge. With its 300 outlets making it the biggest shopping mall in the country. It has now connected hundreds of stores, drop shippers, warehouses and third party logistics companies to present a unified experience for shoppers, who can buy online from the plane or on their way to the airport, as well as pick up, ship or deliver from any store to any location within the airport or off airport. A similar process is now underway with Magento and partner AOE at Heathrow Airport and New Zealand's Auckland Airport.

Conclusion

Online and physical shopping channels have been converging for years. We've now reached the point where retailers must address consumers' preferred shopping habits and their expectations, or they will not only fail to attract new customers but they will also lose loyal ones.

Shoppers want to buy and receive goods where, when and how they want, and have a seamless experience throughout – they want an omnichannel shopping experience. But it isn't possible to fulfil this when you treat each channel separately, no matter how much you invest or how far you perfect each one. Instead, retailers need a single solution that ties every aspect of every channel together – including inventory management, order fulfilment and customer service – making the whole add up to far more than the sum of its parts.

Other than rebuilding your company from scratch at great expense, the best solution is an order management system, such as Magento Order Management. This single system can enable the 'endless aisle', optimise fulfilment, increase retail sales associated with 'buy online pick up in store', increase customer loyalty, and let you manage multiple brands and global inventory. Just as importantly, Magento has a large network of system integration partners to ensure Magento Order Management is implemented to take full account of every channel you operate in and your existing software investments.

The result? An optimized global solution that puts the customer at the centre and you in control.

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ABOUT MAGENTO: Magento Commerce is the leading provider of cloud commerce innovation to merchants and brands across B2C and B2B industries, with more than $155 billion in gross merchandise volume transacted on the platform annually. In addition to its flagship digital commerce platform, Magento Commerce boasts a strong portfolio of cloud-based omnichannel solutions that empower merchants to successfully integrate digital and physical shopping experiences. Magento Commerce is the #1 provider to the Internet Retailer Top 1000, the B2B 300 and the Top 500 Guides for Europe and Latin America. Magento Commerce is supported by a vast global network of solution and technology partners, a highly active global developer community and the largest ecommerce marketplace for extensions available for download on the Magento Marketplace. More information can be found at t www.magento.com.

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Devlyn – Achieving the Omnichannel Vision

Boost loyalty among customers

Filling shelves with as many different products as possible in order to demonstrate your range and gain sales is not an option in many businesses. Such was the situation faced by Devlyn Optical, a multinational chain of opticians with over 1,200 stores in the US and Central America.

"Our stores offered, on average, 580 SKUs, yet in our network we have 25,000 SKUs," explained Andrew Devlyn, Director of Innovation at Devlin Group.

The challenges, therefore, were to let a customer in any store or online choose from the entire range held by the company and to ensure no sale was lost – either in retail or online – because the frame someone wanted was held elsewhere in a store.

This is where an order management system could make a huge difference by giving everyone visibility of Devlyn's inventory and revolutionising order processing. By adopting Magento Order Management, Devlyn:

- created a virtual pool of inventory that could be sold by any channel – either online or by staff in-store
- could fulfil sales by various means including shipping from store, shipping to store and by 'click and collect'
- could route orders to the nearest store
- minimised costs associated with delivery, such as split shipments
- made it easy for staff to pick, pack and ship frames to the lab for processing

The move to an order management system had stunning results. In the first year alone, online conversions increased by 163% and mobile conversions by 271%, thanks to improved customer experience at checkout and the ability to generate a sale even when a frame was 'out of stock' in the warehouse, because the in-store frames were added to the inventory. And in store, Devlyn experienced a 200% increase in 'save the sale' orders, as staff could now locate suitable frames in the warehouse or another store if they didn't have it in stock themselves.

Andrew Devlyn identifies one further, less tangible benefit of an order management system: "Omnichannel makes customers loyal," he says.

For more on how the Magento Order Management System is helping Devlyn achieve its omnichannel vision, read a longer version of this case study online and watch the video at:
https://magento.com/customers/devlyn

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Tous – Global inventory visibility

Achieving a global view of multiple brands in every store

Global growth offers great opportunities but can exacerbate inventory management issues, especially when dealing with multiple channels. And when selling multiple brands, you need to maximise visibility, both to gain and then retain customers, so they buy from you and not a competitor.

Luxury lifestyle brand Tous has 535 stores and eight web stores worldwide, but back in 2016 its online and offline stores were not linked, and the web stores were not even connected to each other. The company was also having to manage inventory for multiple brands held in different locations.

Tous could see that it should be possible to increase conversion rates and visits, and decrease bounce rates, by offering an omnichannel experience to shoppers – and identified the need for an order management system to unlock these opportunities.

The target was to get all of its global web stores to talk to one central order and inventory system, for inventory management and fulfilling orders. Magento Order Management, along with its Payments & Risks solution, supported this change, additionally allowing payment handling. It has also let Tous manage promotions and edit CMS content without needing a developer, and the enhanced SEO has improved brand visibility.

The results underscored Tous's investment in order management. Forty percent of those who interact with Tous now do so via multiple channels, getting the omnichannel experience, and 14% of those ordering online collect in-store. Tous has doubled its conversion rate and its customer base is growing at 20% every year.

The integration of online and offline "enables us to send a message of a more consistent customer service experience," explains Bryan Bean, US general manager.

Not wanting to sit on its laurels, Tous now plans to bring online and offline stores closer together to give a 360-degree view of their inventory and customers, and to empower their sales staff with a mobile app that shows worldwide inventory, to enable yet more sales conversions. "Giving our associates access to our endless aisle of merchandise lets them find the product for the consumer... we can see the inventory in all channels and fulfil the customer's needs right then and there."

For more on how the Magento Order Management System turned Tous into an omnichannel giant, read a longer version of this case study online and watch the video at: https://magento.com/customers/tous

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