

Quantifying the value of seamless cross-channel order management

Identifying the ROI and deciding where to start



Executive summary

Cross-channel order management has gone from a good idea to an essential capability for today's multichannel retailer. The smarter consumer—having experienced a seamless cross-channel experience with some retailers—has come to expect it from *every* retailer. At the same time, the everyday fiscal pressures that retailers face, such as optimizing operational efficiency, make cross-channel order management an essential survival strategy. Enabling your company to sell, source, track, fulfill and support via any combination of channels has become a competitive necessity and an operational no-brainer. This ability to create a differentiating customer experience—while improving operational efficiency—is a classic example of the IBM Smarter Commerce™ approach.

Still, even companies that openly recognize the compelling need for cross-channel order orchestration in today's environment want to quantify the impact they can expect from a cross-channel order management initiative. Unfortunately, because many strategies can be applied to implementing cross-channel order management in a retail environment, it can appear that calculating the value of such implementations is a complex task.

Fortunately, six primary areas of direct financial impact can be attributed to enabling cross-channel order management in a retail environment:

- **Buy online; pick up in store**—enabling consumers to create an order in one channel and pick up their merchandise in the store
- **Buy online; return to store**—enabling consumers to return their online or mobile purchases to a store
- **Save the sale**—finding an in-stock location and getting the product to the customer to save the sale when faced with an in-store stock-out
- **Cross-channel sourcing**—having the flexibility to source inventory from any channel's inventory pool regardless of the order capture channel
- **Available-to-promise (ATP) sourcing**—having the visibility and order sourcing flexibility and intelligence to source online and special orders from inbound, in-transit inventory rather than from on-hand inventory
- **Sourcing from end-of-life (EOL) inventory**—having the visibility, order sourcing flexibility and intelligence, and in-store fulfillment capabilities to fulfill online orders from stores in such a way that end-of-season or end-of-life merchandise can be sold at full price rather than having to be marked down to sell

Taking into account the behavioral inclinations of consumers and the resulting effect on sales, inventory and costs, it is possible to arrive at a reasonable estimation of the financial impact that can be expected from a cross-channel order management implementation in a retail organization. This paper identifies the classic areas where such an initiative can be applied and provides insights into how the financial impact of those implementations can be quantified.

Introduction

Cross-channel is no longer a “nice-to-have” capability. Consumers who have discovered how convenient a seamless cross-channel experience can be may now expect it from all of their multichannel retailers.

A survey of consumers in the United States and the United Kingdom querying consumer expectations for a seamless cross-channel retail experience emphasizes how essential today’s smarter consumer now considers cross-channel capabilities to be:¹

- Eighty-five percent of consumers expect a seamless experience across all channels for a retailer.
- Sixty-one percent expect to be able to complete an order anywhere.
- Eighty-seven percent expect to be able to track their order anywhere.

- Ninety-one percent expect to be alerted about shipping delays.
- Seventy-nine percent expect to be notified that their purchases were delivered.
- Ninety-one percent expect to be told when an item is ready for in-store pickup.
- Of the six mobile capabilities that consumers ranked most important, five out of six require cross-channel capabilities.

With these heightened consumer expectations, cross-channel order management has become a competitive necessity. Now, with more retailers enabling it, a second major motivator for implementing seamless cross-channel order management has emerged: competitive pressure. A survey of North American retailers showed an appreciable percentage of respondents who were already capable—or planning to be capable—of supporting the following cross-channel capabilities:²

Capability	Already support	Will support in 2012
In-store pickup of nonstore orders	46 percent	23 percent
In-store returns of nonstore purchases	57 percent	20 percent
Cross-channel shipment status	47 percent	29 percent
360-degree view of customer purchases	40 percent	36 percent

What is also noteworthy from that study is that 84 percent of respondents indicated that *improving* their cross-channel capabilities was either a medium priority (52 percent) or a high priority (32 percent). So improving cross-channel capabilities is clearly a priority for the majority of retailers.

As more retailers have adopted cross-channel retailing and begun reporting results, a third major motivator for moving ahead has become evident: the opportunity to derive significant financial benefits. However, as companies view the many ways that cross-channel capabilities can be applied in a retail setting, they question where they should start, how they should evolve and the financial results they can expect to see along the way. These questions beget the need to estimate which options have the greatest potential impact on customer satisfaction and financial return. And although the former may seem intuitively obvious, the latter appears elusive to many companies.

It is this third area of motivation for enabling cross-channel retailing that is the primary focus of this paper—how to reasonably quantify the financial impact of a cross-channel order management smarter commerce strategy in a retail setting.

Defining scope

As previously implied, the potential scope of cross-channel order management can be expansive. For the sake of this paper, we will limit that scope to those steps that occur after a customer order is captured. That includes the capabilities necessary to collect the order from multiple channels, source the individual product and service line items in the order from one or more sources (including in-transit and on-order inventory), fulfill the order using one or more fulfillment methods, and potentially handle the return of one or more items in the order via one or more channels.

To further understand each of these areas, consider the following cross-channel capabilities:

- **Multichannel order capture**—the ability for a customer to start an order in any channel and complete it in any channel, including a website, store, call center, mobile application or kiosk
- **Cross-channel sourcing**—the ability to independently source each line item in an order from inventory in any channel, anywhere, whether on hand in distribution centers (DCs) or stores, in transit from suppliers, on order, or from other supply chain partners.
- **Cross-channel fulfillment**—the ability to independently use any combination of fulfillment methods, such as pick and hold in a store for customer pickup, store-to-store transfer for customer pickup, ship from DC to store for customer pickup, ship from supplier to store for customer pickup, ship to home from a DC, ship to home from a store, ship to home from a drop-ship supplier, or ship from a supplier to a DC for home delivery—to get individual order lines into the hands of the consumer
- **Cross-channel customer order tracking**—the ability of the customer to track the status of an order—and its associated shipment and delivery—via any combination of channels and the ability of the retailer to report on key milestones in the order’s lifecycle, including order receipt, inventory availability confirmation, shipment, delays and delivery
- **Cross-channel returns**—the ability to accept the return of an item via any channel regardless of the channel through which it was purchased and the ability to process that return with nothing more than the credit card used in the initial purchase

Where to start

With so many potential facets involved in cross-channel order management—and with so many ways to apply it in a retail setting—many retailers wonder where they should start. The answer is that it depends on where you have the greatest needs to address.

Consider the three primary motivators to implement cross-channel capabilities: customer expectations, competitive pressures and the alluring possibility of financial returns. The first two motivators will usually dictate which cross-channel capabilities you should implement first.

Classic examples of where retailers first apply cross-channel order management include:

- **Comprehensive 360-degree view of the customer**—Because cross-channel order management collects orders from every channel, it affords the retailer a holistic picture of all customer purchases from the retailer regardless of channel. This is often a key motivator for retailers implementing cross-channel capabilities because they can better understand what their brands mean to customers and market to them more effectively. This capability does not deliver value until the information it provides is used in a beneficial way. For example, the information is used to support in-store pickup and return of nonstore purchases or to enable more meaningful personalized marketing offers to the consumer.
- **In-store pickup**—Retailers wanting to drive increased in-store traffic and seize cross-sell and up-sell opportunities will often choose this capability as a starting point for cross-channel retailing.
- **In-store returns**—Retailers that want to drive increased in-store traffic and convert returns into sales will opt for this strategy, although they will typically offer in-store pickup before supporting in-store returns. In addition, increasingly retailers are implementing shipments from stores to home before enabling in-store returns so that their intelligent sourcing engines can source subsequent online orders from resellable “Internet only” items that were returned to a store.
- **Inventory optimization**—A key motivator for some retailers is the opportunity to minimize inventory by sourcing across channels for on-hand inventory or sourcing from in-bound, in-transit inventory.
- **Fulfillment optimization**—This focus is a close cousin to inventory optimization and allows a retailer to reduce fulfillment costs by applying the intelligent sourcing aspects of cross-channel order management to source and fulfill from the least-cost location.
- **Save the sale**—Retailers wanting to reduce lost sales because of stock-outs will address this area first, enabling store associates faced with an out-of-stock item to efficiently find the item in stock elsewhere and get the product into the customer’s hands.
- **Ship to home from store**—Retailers wanting to reduce shipping costs by shipping from a location closest to the customer or to sell excess inventory from an overstocked store location will choose to enable this capability.

Most retailers implement cross-channel order management capabilities in an evolutionary manner, one phase at a time. Often the goal is for each phase to produce results that can fund the next phase. One example of such a self-funding phased approach is as follows.

Phase 1: Save the sale—from the DC

First, provide store associates with visibility into inventory at the direct-to-consumer (D2C) warehouse—because that fulfillment location is already accustomed to handling single-line-item parcel shipments to consumers' homes. Give associates a convenient mechanism to capture orders for out-of-stock items in the store via the point of sale or a mobile device and trigger a pick-and-ship notice to the D2C warehouse, where the item is then shipped to the customer's home.

Phase 2: Save the sale—involving customer pickup at other stores

Give store associates visibility into ATP inventory at nearby stores, and roll out the necessary processes for triggering and monitoring the pick-and-hold process at an in-stock store. Ensure the timely and reliable pick of the purchased item at the in-stock location, and deliver a convenient, reliable pickup experience for the customer.

Phase 3: Buy anywhere; pick up in store

Build on the ability to receive and reliably act on a pick-and-hold order at the store level and expand the number of sources from which such an order could come by adding online and call center channels. In this way, stores—which are already familiar with the procedures for receiving a pick-and-hold order from an out-of-stock store—can now execute the same process for an online or call center order.

Phase 4: Ship to home from store

With the ability to receive an order from any order capture source and act on a pick-and-hold notice in the stores, retailers have an opportunity to expand those in-store processes to include shipments to customers' homes. After the ship-to-home capability from stores is enabled, the retailer can decide to ship from the store whenever it minimizes shipping costs or time—or when the store has excess inventory that is at risk of being marked down.

Phase 5: Buy anywhere; return to store

The objective of phase 5 is to accept in-store returns of merchandise purchased in other channels. The 360-degree, cross-channel view of all customer orders gives retailers the visibility needed to:

- Verify that the item was purchased from them
- Confirm the identity of the purchaser with the credit card used in the purchase
- Determine the purchase price to be refunded, even without an original receipt

With the capabilities established in phase 4, retailers will have the flexibility to handle the return of items not normally carried in stores because the intelligent sourcing engine in the cross-channel order management system can recognize the existence of a returned item in “like new” condition at the store. It can then choose to have it shipped from that store, avoiding the need for reverse logistics and the costs associated with returning the item to the warehouse for restocking. The combination of capabilities leading up to phase 5 sets the stage for handling cross-channel returns in the store efficiently and effectively.

Phase 6: Optimize inventory utilization and fulfillment

In phase 6, retailers can begin sourcing orders in different ways:

- Across channels when appropriate—Retailers frequently segment inventory by channel and, as a result, experience situations in which an item is out of stock in one channel but available in another.
- From in-bound, in-transit inventory—With the ability to source and fulfill an order from anywhere, the retailer can then map out a strategy to minimize inventory in every location, source from the most appropriate inventory pool and fulfill from the location that will minimize costs while meeting the expectations of the customer.

Note that the example above is only one way to roll out a phased cross-channel order management program. There are numerous other approaches that can be equally valid based on a retailer's initial capabilities, needs and objectives. When considering where to start with order management, it is important to realize that there is no single right answer for everyone. Not all retailers will choose to implement all the phases just described. In addition, variations in product assortments, store logistics, customer requirements, distribution strategies and a host of other variables will make one starting point more applicable than others for different retailers. What is most important is to first determine which of the key motivators are triggering the need to enable cross-channel order management—customer expectations, competitive pressures or upside opportunities—and then determine which evolutionary strategy will best serve those masters.

Areas of significant financial impact that are most reliably quantified

When considering the dollar return from a cross-channel order management investment, there are six areas of virtually indisputable direct financial impact. Although there are more areas of financial impact, plus numerous indirect and soft-dollar impact areas that can be linked to a cross-channel order management implementation, many are either too company dependent to cover in a general discussion or so indirect that they can be debatable. For the purposes of this paper, we will focus on the six largest and most direct areas of financial impact—recognizing that there may be additional areas of benefit for specific company types and situations.

For the sake of brevity in the following discussions, any reference to an online purchase should be construed as a purchase made through any channel other than the store.

The six primary areas of financial impact are:

- Buy online; pick up in store
- Buy online; return to store
- Save the sale
- Cross-channel sourcing
- ATP sourcing
- Sourcing from end-of-life inventory

Financial impact: buy online; pick up in store

Enabling a consumer to purchase a product through any non-store channel and pick it up in a store drives increased store traffic and creates opportunities for cross-sell and up-sell. Sixty-seven percent of consumers consider it important to very important to be able to pick up merchandise at a store after ordering online.³ When asked how often they would most likely buy something else when using an in-store pickup option, 40 percent of U.S. consumers said they would purchase additional products more than 25 percent of the time, and 22 percent said they would make additional in-store purchases more than half the time.⁴

Knowing these percentages, you simply need to determine how many online orders you receive each year and you can calculate how many orders are likely to be picked up in the store. From there, you can calculate how many of those in-store pickups will likely result in additional sales.

Mitigating factors

It is not unusual for certain online items to be unavailable in stores and thus not eligible for in-store pickup. When only a portion of online items can be picked up in stores, it is necessary to reduce your calculations to the number of online orders that will be eligible for in-store pickup.

For retailers that already offer some form of in-store pickup of online orders, automating that capability will not provide 100 percent upside. In such cases, the benefit will typically come in the form of an improved customer experience and liberated in-store personnel. Customers will benefit from a more organized, more convenient and less time-consuming process, and store associates will have less manual work to do so long as the process is properly executed and backed by a well-integrated order orchestration hub.

The amount of additional money the customer will spend while in the store picking up an online purchase will vary from retailer to retailer. The average amount of an online purchase is often a useful barometer for how much more the customer is likely to spend while in the store. The nature of the merchandise purchased online and carried in the store will also influence the size of the in-store purchase. Products such as apparel, electronics and tools, which have accessories or accompanying items, are good candidates for additional in-store purchases. In addition, the up-selling skills of store personnel will have an effect on how much more money a customer is likely to spend.

Depending on whether you offer free shipping with any of your online orders, for every online order that is picked up in the store you can also save the cost of shipping that item to the customer's home.

Over time, as customers have positive experiences with your in-store pickup process and begin to appreciate the convenience and immediacy—and the avoidance of shipping costs—you will likely find that the percentage of online purchases that result in in-store pickup will increase.

Financial impact: buy online; return to store

Much like the impact of in-store pickup of online purchases, the ability to support in-store returns of online purchases drives increased store traffic and creates the opportunity to convert the return into a sale. In fact, 81 percent of consumers consider it important to be able to return an online or telephone purchase to a store.⁵ When returning merchandise to a store, 55 percent say they are likely to get a replacement for what was returned and look around at other merchandise in the store. Thirty-nine percent say that they are likely to very likely to make additional purchases while in the store.⁶ But unlike the calculations for in-store pickup of online purchases—that is, where online orders that have the potential to drive in-store traffic are limited to only those that involve items sold both online and in stores—in-store returns do not carry that same limitation. Therefore, we can calculate the total number of returns from online purchases that will net additional in-store purchases as follows:

Total online orders per year × percentage of customers
opting for in-store returns × percentage of customers
likely to spend additional money in the store

This number multiplied by the anticipated average value of an additional in-store purchase shows the total anticipated value of supporting in-store returns of online purchases.

Mitigating factors

Many of the mitigating factors for in-store pickup also apply to in-store returns of online purchases. But some differences exist. As mentioned, you need not rule out orders with Internet-only items. And as you enable ship-to-home-from-store capabilities, the intelligent sourcing engine within the order management system can trigger fulfillment of resellable Internet-only items from the stores where they were returned.

The amount of money spent during an in-store return has the potential to be higher than during an in-store pickup. If the item being returned has a comparable substitute in the store, then there is a high likelihood that the amount of the in-store purchase will be very similar to the amount of the online purchase being returned.

Just as positive customer experiences with in-store pickup can drive increased usage over time, customers will likely respond to positive returns experiences by increasingly choosing the store for online returns. But there is an additional upside from the positive returns experience. As customers discover how seamless and effortless it can be to return an online purchase, they may have greater confidence to buy items online that they might have otherwise been reticent to buy because of concerns over fit, color or feel. This can ultimately create a slight uptick in online sales. And even if those additional online sales have a higher return rate, they may net additional trips to the store—where there are opportunities to convert a significant percentage of those returns back into sales.

Financial impact: save the sale

Out-of-stock (OOS) situations are serious business. They can erode revenue, undermine customer loyalty and—with the reach and immediacy of information exchange via social networks—become highly visible to entire consumer communities in a matter of minutes.

The good news is that 72 percent of consumers consider it important to very important for a store associate to be able to find an OOS item at an in-stock location and find a way to get it to them—implying their willingness to purchase the OOS if it can be found at another location.⁷ So although retailers may never eradicate stock-outs, they do have the chance to recover from them and save the sale in a majority of cases.

The financial impact of saving the sale using cross-channel order management falls into three categories: sale of the OOS item, sale of companion items and salvaged future shopping trips.

The sale of the OOS item—Determining the effect of implementing save-the-sale functionality begins with estimating the average number of lost daily sales per store and multiplying that figure by the total number of stores and the number of days they are open for business each year. Next, estimate the percentage of time that you believe an OOS item in one location is in stock somewhere else within your network of inventory pools.

Using these numbers—along with the statistic that 72 percent of consumers will likely buy an OOS item if it can be found elsewhere—we can estimate the number of recoverable OOS items that can be reasonably expected to convert into a sale. Multiplying this number by the average sale price of an item will provide a dollar estimate of the core impact of a save-the-sale initiative.

The sale of companion items—When a customer encounters a stock-out on one item, it will frequently affect her willingness to buy an accompanying item. For instance, if a skirt is OOS, a customer may refrain from buying matching shoes. Or if a Blu-ray player is OOS, a customer may not buy new connector cables and Blu-ray movies. In fact, when faced with an OOS in a store, 33 percent of consumers say they frequently leave the store without purchasing anything, and 9 percent almost always leave without making a purchase. Fortunately, if the retailer can find the OOS item and get it to the customer, 59 percent of consumers say they will purchase the companion items.⁸

From this figure, we know that saving the sale on the OOS item can also save the sale on one or more companion items 59 percent of the time. Multiplying the number of recoverable OOS situations by the percentage of instances where customers will likely purchase companion items gives you the number of companion item sales you can save with your save-the-sale initiative. What's left is to estimate the average value of those companion items and determine whether they will be equal to—or less or greater than—the price of the recovered OOS item. This, of course, will vary widely based on retailer type, product categories carried, and the ability of store associates to up-sell and cross-sell.

Salvaged future shopping trips—Every saved sale comes with the potential to save the purchases from one or more future shopping trips. Twenty-nine percent of those consumers who experience an OOS situation will forfeit at least one future shopping trip to the offending retailer. Thirteen percent will forfeit at least two future shopping trips to that retailer. And six percent will forfeit three or more future shopping trips to that retailer.⁹

By multiplying the number of recoverable stock-outs by these percentages and the number of shopping trips that would be forfeited, you can determine the number of future shopping trips you can save. Multiplying that number by the average revenue per shopping trip will indicate the dollar impact that your save-the-sale initiative can have on future shopping trips.

Mitigating factors

One of the most obvious factors influencing a retailer's opportunity to save a sale is its product mix. Clearly, certain product mixes lend themselves better to saving the sale than others. If the OOS product is cauliflower, the ability to hold it at another location for pickup or shipping is simply not a factor. On the other hand, if the OOS product does not typically require immediate access by the customer or the product is not easily obtainable from a competitor just down the street, then the ability to get the product to the customer with some minor delay could be a viable alternative.

Companies that carry retailer-specific products that cannot be conveniently obtained elsewhere clearly have less to fear when it comes to the impact of stock-outs. When you are the only game in town, you are substantially less threatened by stock-outs than when your competitor is just as easily accessible as you are. But Internet accessibility has changed the game for most retailers. Thus, having a quick turnaround recovery strategy for addressing stock-outs is essential for most.

The upside companion-item impact of saving the sale on a core OOS item varies widely based on the type of item involved. Apparel, electronics, tools and home improvement, and other sectors with similar characteristics are clear item categories in which the loss of the sale of one item has a high likelihood of affecting the sale of one or more associated items. When attempting to determine the impact of being able to save the sale, it is therefore important to assess the degree to which accompanying items are part of the mix.

Financial impact: cross-channel sourcing

When many retailers first set up their online business channel, they establish a separate business unit to manage it. The resulting separation of profit and loss (P&L) business units, inventory pools, distribution channels and more often created duplication within the company. In such situations, it is not unusual to find a significant number of stock keeping units (SKUs) that are common between the online and store channels.

When the store and online business channels are managed as separate business units, their inventory pools are often kept separate as well. This typically means that each channel maintains its own safety stock. When multiple channels hold safety stock for the same items, the retailer is maintaining excess safety stock—when you consider all available inventory across all channels.

Cross-channel order management enables a retailer to source items in an order from any inventory pool, including inventory held for other channels. In so doing, cross-channel order management can enable retailers to eliminate duplicate safety stock while maintaining adequate in-stock quantities.

To determine the financial impact of the ability to source across channels, we begin with identifying the percentage of SKUs that are common to both store and online inventory. These are the items for which we have the potential to reduce duplicate safety stock. As a rough percentage, this figure will represent the portion of overall inventory overhead that we will use in our calculations. Of course, we need to determine our overall average cost of inventory (at cost) to which we will apply our percentage of common SKUs across channels to determine the overall value of the inventory that is duplicate safety stock.

From there, we need to estimate the percent of inventory that is safety stock for each channel and the percent of excess safety stock per channel that is being maintained. This stock will be unnecessary once we can flexibly source from any channel's inventory pool to fulfill an order for any other channel.

These estimates will help determine all of the critical elements for this calculation:

- Value of inventory in store and online channels
- Percent of SKUs in each channel that are common across channels
- Percent of inventory represented by safety stock in each channel
- Estimated percent reduction in safety stock courtesy of cross-channel sourcing

These calculations show how much cash could be liberated by reducing on-hand safety stock. This, then, can be used to calculate the present value of that improved liquidity given the current corporate cost of capital.

Mitigating factors

After the ability to source from any channel's inventory pool is enabled with cross-channel order management, the concern over who gets proper credit for inventory ownership often surfaces. It is therefore critical that the cross-channel order management capabilities that are put in place also account for automatic updates to the appropriate backend financial systems. The solution must apply the correct debits and credits to the applicable business units' P&L ledgers to ensure that the company's policies—regarding who owns the inventory and who gets credit for the sale—are followed. For all the capabilities that can be enabled in terms of cross-channel sourcing, it is critical to apply all financial metrics correctly as well.

Financial impact: ATP sourcing

When a retailer has visibility into inventory that is not on hand in stores, in DCs, or in transit between DCs and stores, it has an opportunity to use available-to-promise inventory for order sourcing without depleting on-hand inventory that might be required for more immediate needs. In other words, inventory that is on order and in transit from a supplier to the retailer can be considered as available sourcing inventory when two conditions are met:

- The retailer has visibility into the inventory's current location and estimated arrival time.
- The retailer has the sourcing flexibility and intelligence in its order management system to account for that ATP inventory and determine whether it is the best source from which to fulfill an order.

Calculating the financial impact of the ability to source from ATP inventory is relatively straightforward. First, only online and in-store special orders are typically included in this calculation. These involve circumstances in which the customer is generally accustomed to waiting a few days before receiving a purchase. This leeway allows the retailer to put off the fulfillment of the order for one or more days and still meet the customer's expectations.

We start by determining the average value of a day's inventory (at cost) for any channels in which order fulfillment is assumed to take a few days (such as Internet orders). Instead of sourcing orders from on-hand inventory, you can draw from in-transit or on-order inventory and still reliably meet customers' expected ship dates. For example, if in-transit inventory is two to four days away from being delivered to the warehouse, you can use that inventory to fulfill orders that typically ship within five to eight business days—and reduce your on-hand stock accordingly. On average, a retailer with sufficient visibility into orders and inbound shipments can reasonably expect to reduce on-hand inventory by at least three days by sourcing from in-transit ATP inventory.

By multiplying this number by the average value of a day's inventory for those ATP items that can be sourced from "future" inventory, you can determine how much working capital will likely be liberated courtesy of the ATP sourcing capability. Then, by applying the average corporate cost of capital to this number, you can determine the potential hard-dollar impact of this capability in terms of interest savings.

Mitigating factors

It should be noted that, for the most part, sourcing from ATP inventory is most applicable to nonstore orders. With the exception of special orders, which are often taken in the store, the customer likely will not be interested in waiting the extra days for you to fill the order from inventory that is numerous days from being shipped. Certainly, when the promise date is far enough in the future that an intelligent sourcing engine can take that into account—and opt to source from inbound in-transit inventory—you can source from ATP inventory. But for the sake of calculating the financial impact of this order management capability, we do not typically include these unusual circumstances in the overall estimate of what cross-channel order management might mean to any given retailer.

To the extent that there is a portion of your inventory for which you do not have visibility into its shipment and delivery status, you would remove that portion of your inventory from return on investment (ROI) consideration for this benefit area.

Financial impact: sourcing from end-of-life inventory

The “source from anywhere” and “fulfill from anywhere” opportunities that cross-channel order management presents set the stage for fulfillment from stores, whether it involves picking and holding merchandise for in-store pickup or shipping to a customer’s home from the store. This, in turn, sets the stage for sourcing from stores that have excess end-of-life or end-of-season inventory—that is, items that are likely to be marked down.

Calculating the potential upside of this cross-channel capability requires more estimating than was required with other categories, but the upside can be determined nonetheless. Start by estimating the percentage of common SKUs sold in both store and online channels. For these SKUs, estimate the percentage of cases in which a SKU sells out online but is marked down in stores. Next, estimate the converse—the percentage of cases in which a SKU sells out in a store but has to be marked down online. Then reduce each of these percentages by the percentage of inventory that will likely be marked down even if there is a possibility of sourcing across channels.

With these estimates in hand, we can then determine the dollar value of the store inventory that cross-channel sourcing will enable us to sell at full price online rather than being marked down to sell it in stores. Similarly, we can calculate the dollar value of online inventory that we can sell at full price in stores rather than having to mark it down to sell it online.

Mitigating factors

Beyond the markdown avoidance calculated here for cross-channel SKUs, it is also possible to expose Internet-only items to additional channels—in-store kiosks, store associates’ mobile devices, consumer mobile applications and more. By doing so, retailers can potentially sell items at full price rather than having to resort to markdowns online. These additional approaches are not included in the calculations described above. Rather, they represent additional upside.

Most retailers have no hard data on how often an item is out of stock in one channel and marked down in another. Thus, they employ best-guess estimates that they consider directionally correct. Regardless, for these estimates—and any others throughout the ROI analysis—you should always select numbers that seem reasonable and with which you are comfortable.

Summary

Cross-channel order management can deliver indisputable benefits to those who properly apply it within their organization. The areas of impact depend on how and where cross-channel order management is implemented. The degree of impact it can have often depends on a number of factors that differ from retailer to retailer. Regardless, the benefits of enabling cross-channel order management capabilities are identifiable in several key areas discussed in this paper. And they can be clearly linked to the effect that cross-channel order management has on a retail organization. They can be quantified in terms of their likely hard-dollar impact and therefore prioritized—if financial return is an important motivator for your cross-channel order management implementation.

Why IBM?

For 100 years, IBM has been in the business of helping businesses operate more effectively. With IBM Sterling Order Management and IBM Sterling B2B Integrator software, IBM can deliver the breadth of applications, integration solutions, industry expertise and professional services necessary to achieve seamless, comprehensive cross-channel order management.

Our solutions are comprehensive, spanning the commerce lifecycle from order capture and sourcing to fulfillment and returns across a combination of channels. They are integrated with other IBM solutions and non-IBM systems to help accelerate implementation. They are outcome driven—designed to generate measurable business outcomes; address rising consumer expectations for cross-channel support; and drive powerful inventory, fulfillment and process optimization capabilities. Finally, our solutions are flexible and open, offering a highly configurable design to accommodate varied retail business models while providing modular capabilities to support diverse deployment strategies.

About the author

John Stelzer is worldwide industry lead for retail smarter commerce at IBM, where his work with retail industry leaders, associations, standards bodies and industry councils has placed him at the forefront of nearly every major industry initiative in the last three decades.

He pioneered many of the earliest standards used throughout the retail industry to facilitate security-rich, timely information exchange and improved business execution. He worked at the epicenter of industry efforts to standardize and implement global data synchronization for retailers. He worked with industry leaders within the global commerce initiative to identify opportunities for retail process optimization. And he has been at the forefront of enabling retailers to deliver the next-generation digital customer experience while also achieving seamless, comprehensive cross-channel execution. Today, he counsels leading retail executives, helping them see where and how to apply smarter commerce strategies to their businesses to create brand intimacy with their customers while achieving best-in-class operational excellence to drive profitable growth.

Stelzer is a highly respected thought leader whose 30 years of work with many of the best and brightest in retail have provided him with a unique perspective on where and how organizations can take their businesses to the next level of excellence while managing to avoid the classic pitfalls.

For more information

To learn more about the IBM Smarter Commerce approach in the retail industry, please contact your IBM representative or IBM Business Partner, or visit:

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IBM Corporation
Software Group
Route 100
Somers, NY 10589

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