A GUIDE TO:

itimL

Building the Business Case for an Order Management System (OMS)

### Introduction

There are many articles available describing what an order management system (OMS) will do for your business from a functional perspective. But there is very little material available detailing cross-sector benefits achieved from actual OMS projects which is one of the reasons many retailers find it hard to create a business case. This guide looks to fill that gap and provide a useful tool for retailers.

# Background

We are assuming that readers already have a basic understanding of what an OMS does to facilitate omnichannel retailing. But let's take a few seconds to recap on what any OMS worth its salt will do for you:

- **Provide unified real-time inventory visibility** (for both staff and customers)
- ✓ Process orders regardless of source (online/mobile, POS, in-store tablets, kiosk or third party)
- ✓ Orchestrate and route orders for fulfilment from the most profitable inventory location: (distribution centre, store, supplier or any combination of these)
- Enable store fulfilment and 30-minute Click & Collect (using tablets to pick/ pack/despatch)
- ✓ Process returns (from any channel)

#### ✓ Provide management with controls and feedback

45% of shoppers want online ordering for instant pick-up in store."

From a customer's perspective, it means that every product at every location across the retailer's estate and supply chain is available to them through whichever shopping channel they choose and via any delivery or collection method they want in the most rapid timeframe possible.

This is all good, but major technology investments are not signed off on the basis of functional ability alone – the gains must be objectively quantified in order to form a coherent business case. In this guide, we share some of the Key Performance Indicators (KPIs) that retailers can expect to be impacted by an OMS implementation along with some insights about how the various gains are facilitated.

Members of the itim team have been involved in many OMS implementations across a range of retail sectors. Whilst there are many variables at play and no two businesses are the same, we have identified correlations and similarities across numerous case studies. These form the basis of our findings.



Customers can buy from any channel to whatever destination they choose.

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### **Assessing online sales benefits**

We have detailed below the observed effect on various Ecommerce KPIs in a logical sequence, with the earlier ones driving those further down the list. We also explain the reasoning and quantify it with objective data.

	KPI	Increase	
	Availability	+10% (early season) +27% (late season)	In seasonal retail, popular items tend to sell out quickly from web stock while store stock typically becomes fragmented across the estate as the weeks go by. By unifying stock across all stores and warehouses (possibly across suppliers and concessions too) and offering it via all channels, you inevitably increase availability. We have found that <b>availability at SKU level can realistically be increased by 10% in early season and 27% in late season. This sees a shift from circa 80% to 88% average availability at the start of a season and a shift from circa 60% to 76% average availability in late season.</b>
	Conversion	+15%	Simply put, having more availability means you have more product to sell. This is particularly useful where you have variants within a product (e.g. style, colour, size combinations within fashion and footwear). Having more styles available and a greater range of colours and sizes within the range has frequently been known to <b>drive conversion rates up by at least 15%</b> . The immediacy of a Rapid Click & Collect option is extremely compelling to today's "want it now" consumers, especially in the gifting sector and those competing directly against the likes of Amazon. After all, this is even better than the best (and, let's be honest, most optimistic) Amazon Prime proposition. This will have an <b>additional positive effect on conversion</b> .
( <del>]</del>	AOV	+5%	Another benefit that can be expected from the preceding factors is an increase in Average Order Value and it's quite easy to see why. The increased range of choice means that a subset of customers are tempted to add an extra item to their basket. We regularly see cases where averages of 1.2 items per order start to push 1.26 or 1.27 and cases where 2 items becomes 2.1. On average, <b>AOV will increase by around 5%</b> .
	Online sales	+15% (total) +12% (incremental)	The above factors combine to ultimately drive an uplift in online sales. Across the cases analysed, the <b>total uplift averages 15%</b> . The challenge is assessing how much of this increase is genuinely incremental. For example, it's not possible to know for sure whether a customer buying an item online shipped from a store (not available in the warehouse) may have bought something else instead and also whether the item shipped from the store may have sold from the store shelves soon anyway. Analysing the brands that have disclosed this data after implementing an OMS, we discovered that on average <b>79% of additional online sales were found to be genuinely incremental. This translates to a genuine increase in Like for Like (LFL) online sales in double digits – typically around 12%.</b>
	Click & Collect orders	+35%	Making store stock available for online purchase via a Rapid Click & Collect model (e.g. 30-minute order to collect time) has been shown to have a dramatic effect on Click & Collect orders with <b>retailers reporting a 35% increase</b> in the number of orders placed for collection. It is difficult to determine exactly how many of these orders would be truly incremental but the effect on store traffic and incremental store sales has been clearly observed (referenced further in the next section).

### **Assessing store sales benefits**

	KPI	Increase	
	<b>Store</b> <b>Sales</b> (from Assisted Selling)	<b>+5-8%</b> (total sales)	In addition to boosting the online channel, access to a unified inventory also helps avoid lost sales in store. Where items are unavailable in the store, store associates can potentially 'save the sale' by placing customer orders via an 'assisted selling' tablet app or via the POS. In the cases studied, this has been shown to add an additional 5% to 8% to store sales.
		+4-6.5% (incremental sales)	Again, most of these sales can be considered incremental. The brands featured applied the same thinking around propensity to buy in-stock alternatives as they did to the calculation of online incremental sales, recognising 8 out of 10 of these as being genuinely incremental.
	Store Trans- actions (from rapid Click & Collect)	<b>1 in 5</b> Click & Collect customers will make an extra in-store purchase	Click-and-collect orders taken via the online channel drive additional footfall into stores as orders are collected. Whilst in store, customers will often browse and make an additional purchase. In the brands featured in this study, we found that on average 1 in 5 customers (21% to be precise) will make an additional purchase when collecting their order. As a retailer's Click & Collect service is evolved to a rapid collection offer (made possible by the OMS), the expected 35% increase in Click & Collect orders will drive additional store traffic. With a fifth of this incremental store traffic making an additional purchase, the number of additional in-store transactions can be estimated as the equivalent of 7% of current (non-rapid) Click & Collect order volume.



## **Additional margin improvement**

We've already seen how sales will typically increase in both online and offline channels as a result of implementing an OMS. A further down-stream benefit is that these sales are typically made at a higher margin.

	KPI	Decrease	
	Markdowns		Due to items on the shelves of all stores also being available to the online customer base, they have a higher likelihood of selling through at full price or at a lower markdown depth.
£%;		-5%	Our analysis shows average weekly markdowns peaking at 10% lower across entire ranges when an OMS is used. Interestingly in seasonal retail (two seasons per year), the sharp upward bend in markdowns that you typically see just after mid-season tends to arrive 3-4 weeks later when comparing YOY data. The overall estimated effect is a 5% reduction in total markdown budget.

TO RECAP: the retailers analysed experienced an average of 12% incremental online and 4% incremental in-store sales increase. In the example of a 30/70 online/offline multi-channel retailer, this equates to an additional 6.4% in genuinely incremental sales across the board - not forgetting that the sales will take place at a higher margin with weekly markdown depth being around 5% lower.

## **Other important (but less measurable) benefits**

Aside from the above measurable KPIs, several other benefits are typically realised that have important implications for the business.



#### Improved customer experience

There is a huge positive impact for the customer. The increase in online availability, ability to check store stock while on the move, ease of in-store ordering, and option for rapid collection mean that the customer has a much-improved multi-channel experience. In turn, this can be expected to have a positive effect on customer satisfaction and retention.



#### Sweating retail assets

The OMS approach means that quieter, less profitable stores can make a greater contribution by assisting in online fulfilment. This can help a retailer to better justify a physical presence in lower footfall locations. The 'Halo Effect' of this is well documented, whereby maintaining a physical presence in certain locations has a knock-on effect on regional online sales.

#### Reduced need for consolidation

Shipping from store using an OMS can continue to drive sales from stock which isn't even on a shop floor. Some brands we have worked with have a number of small stores where fragmented stock is quickly cleared off the shop floor as new stock comes in, and whilst the shop can't sell this stock, the online channel can. The stock is subsequently shipped from back-of-house to fulfil online orders. This reduces the need to consolidate stock and send it back to the warehouse.

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Improved stock accuracy

A good OMS should include self-healing capabilities. This means that if an order is unable to be fulfilled by a store due to inaccurate stock data, not only will the system automatically re-route the order but it can also update the stock management system (pending a manual confirmation if required). Over time, failed pick rates decline steadily (to as low as 2% in some cases!), resulting in a highly accurate picture of stock levels for the business.

A positive effect on customer satisfaction and retention

£6.5m increase in sales over the first year (based on a £100m

**10x return** of total year 1 spend in the first 12 months

### **Payback window and conclusion**

The numbers obviously need to be analysed for each individual business to give a more accurate picture of predicted gains. Not every business has the same online/offline split, stock-out level, seasonality, AOV, ASP, margins, shipping costs and return rates. But taking a high-level, normalised example using figures across the gifting, footwear and fashion sectors, a £100m multi-channel business could realistically expect to see incremental sales of around £6.5m over the first full year of operating a fully-functioning OMS.

Implementing the OMS technology is, of course, only part of the project. Considerations need to be given to change management, staff incentives to drive the necessary behaviour, shipping arrangements, optimal stock-holdings and more. Any associated costs need to be factored in as well as the cost of the OMS system itself.

With the necessary drive towards shorter implementation cycles and faster payback windows in retail technology initiatives, it's essential that the correct software vendor and integration partner is selected as this can have a huge bearing on upfront costs, running costs, timeframe, and benefits realisation. If done correctly, a project of this kind should see upfront costs (both internal and third party) recuperated in just a few short months and at least a 10x return of total Year 1 spend in the first twelve months\*.

Our itim experts are happy to engage with you and your business in order to ascertain potential benefits in the specific context of your business.

\* Based on a £100m multichannel retailer with a 70/30 online/offline split.

#### VOICE OF THE CUSTOMER

"Through our 30-minute Click & Collect service, we have managed to successfully drive customers to thetoyshop.com whilst also increasing footfall in-store, demonstrating that the website is an integral part of the experience but the high street still has a vital role to play." Gary Grant, Founder of The Entertainer

### **About itim**

Itim is the UK's leading independent retail software company, offering an integrated suite of solutions that enable greater customer-centricity and truly unified retailing.

Itim's solutions include enterprise order management, a multi-channel sales platform (with in-store tablets and digital clienteling), price and stock optimisation, supplier management and a robust retail operational platform. Itim delivers stand-alone applications that work with existing IT investments or a modern, flexible and lower cost alternative to the retail ERP system.

Itim works with over 65 retailers across 11 countries including leading UK retailers such as Debenhams, The Entertainer, John Lewis, Sainsburys, Office and The Works.

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