PROFITABLE OMNICHANNEL ORDER FULFILLMENT REMAINS RETAIL’S ELUSIVE HOLY GRAIL.

Findings & analysis from a global survey of leading food and non-food retailers
WHY WE CONDUCTED THIS RESEARCH.

Retailers are responding to consumer needs by offering greater choice of shipping and delivery options.

- **95% of shoppers** say they would go elsewhere if a retailer couldn’t offer delivery to suit their needs.

- **26% of retail CEOs’** capital budget is being spent on omnichannel readiness, specifically the “omnichannel basket of capabilities”.

But, are they equipped to deliver a consistent, profitable customer experience?

To enable these new capabilities, retailers must fine tune or re-architect their supply chain and order fulfillment business processes and systems.

How are they faring?

---

Omnichannel Basket of Capabilities

- Buy online pick up in store (BOPIS)
- Ship from store
- Quicker delivery
- Free returns
- Buy online return to store
- Ship to store
- Store inventory lookup
WHAT WE HOPED TO LEARN.

PROFITABILITY
How profitable are retailers’ omnichannel order fulfillment initiatives?

BUSINESS CHALLENGES
What key issues do retailers face in further improving profitability of omnichannel order management?

MANAGING COMPLEXITY
How well are retailers equipped to manage the increased complexity of omnichannel order management?

TECHNOLOGY
What are the most glaring functional gaps in retailers’ omnichannel order management systems?

FOOD VS. NON-FOOD
What can we learn by observing two unique retail formats at different stages of digital transformation maturity?

US VS. EUROPE
What are the key differences in retailers in the two largest retail markets?
RESEARCH DEMOGRAPHICS.

A ROBUST SURVEY OF QUALIFIED RETAIL EXECUTIVES IN USA AND NORTHERN EUROPE

Incisiv conducted a quantitative and qualitative survey of 62 retail executives spanning key business functions such as ecommerce & digital, supply chain and store operations.

Respondents’ average digital (web, mobile, social) revenue contribution as a percentage of annual sales

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>8.9%</td>
</tr>
<tr>
<td>EUROPE</td>
<td>8.2%</td>
</tr>
<tr>
<td>USA</td>
<td>10.1%</td>
</tr>
<tr>
<td>FOOD</td>
<td>3.0%</td>
</tr>
<tr>
<td>NON-FOOD</td>
<td>15.4%</td>
</tr>
</tbody>
</table>
OMNICHANNEL ORDER FULFILLMENT IS NOT PROFITABLE FOR A MAJORITY OF RETAILERS

A vast majority of retailers are either flying blind or turning a blind eye towards omnichannel order profitability.
8 in 10 retailers are unsure of profitability, depending on type of order

How profitable are the following modes of online order fulfillment?

<table>
<thead>
<tr>
<th>Method of Fulfillment</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliver from our distribution center</td>
<td>34%</td>
</tr>
<tr>
<td>Deliver using third-party services</td>
<td>15%</td>
</tr>
<tr>
<td>Deliver from our stores</td>
<td>31%</td>
</tr>
<tr>
<td>Click &amp; collect / BOPIS</td>
<td>30%</td>
</tr>
<tr>
<td>Deliver using vendor drop-ship</td>
<td>40%</td>
</tr>
</tbody>
</table>

% of respondents who cited the type of online order fulfillment to be “significantly profitable”
LOOK BEFORE YOU LEAP.

Omnichannel order fulfillment isn't delivering any profits for a vast majority of retailers. Retailers must therefore carefully consider the customer experience capabilities they invest in, and in-turn shore up their business process and technology capabilities before jumping head-first into the unknown.

- **23% of online orders**
  - Familiar capability for retailers, and cost is passed on to supplier
  - **Retailers must focus on:** SKU synchronization, automation, and vendor performance

- **55% of online orders**
  - Yet, only 1 in 3 significantly profitable
  - **Retailers must focus on:** shared inventory for online + offline, automation, and distributed order management

- **8% of online orders**
  - Europe significantly ahead (13% of online orders) in use than US (3% of online orders)
  - **Retailers must focus on:** Accurate in-store inventory, OMS and POS integration, and order pick accuracy

- **8% of online orders**
  - Europe’s urban concentration vs. US’ “middle-America” expanse present unique challenges
  - **Retailers must focus on:** Delivering a frictionless experience, driving attachment and extending click & collect to other supply chain nodes

- **6% of online orders**
  - Fewest retailers able to drive profitability
  - **Retailers must focus on:** Easy integration with third parties, managing order profitability, and building own capability for profitable scaling

---

**PROFITABILITY**

- **23% of online orders**
  - Familiar capability for retailers, and cost is passed on to supplier
  - **Retailers must focus on:** SKU synchronization, automation, and vendor performance

- **55% of online orders**
  - Yet, only 1 in 3 significantly profitable
  - **Retailers must focus on:** shared inventory for online + offline, automation, and distributed order management

- **8% of online orders**
  - Europe significantly ahead (13% of online orders) in use than US (3% of online orders)
  - **Retailers must focus on:** Accurate in-store inventory, OMS and POS integration, and order pick accuracy

- **8% of online orders**
  - Europe’s urban concentration vs. US’ “middle-America” expanse present unique challenges
  - **Retailers must focus on:** Delivering a frictionless experience, driving attachment and extending click & collect to other supply chain nodes

- **6% of online orders**
  - Fewest retailers able to drive profitability
  - **Retailers must focus on:** Easy integration with third parties, managing order profitability, and building own capability for profitable scaling
OUT-OF-STOCK AND INACCURATE STORE INVENTORY ARE HOLDING RETAILERS BACK

Turning on new customer experiences such as Click & Collect or ship-from-store without addressing fundamental gaps in capability creates a counter-intuitive outcome for retailers.
FEW RETAILERS ARE SATISFIED WITH HOW THEY FULFILL ONLINE ORDERS.

Retail CEOs and Boards invested omnichannel investments expecting they would drive growth, profitability and differentiation. Retailers are far from that reality, and starkly aware of it.

How satisfied are you with the way you fulfill online orders?

8% VERY SATISFIED

Non-food retailers, further along their omnichannel initiatives, are less likely to be very satisfied

64% AMBIVALENT OR DISSATISFIED

The status quo isn’t working for a majority of retailers

How would you rate your online order fulfillment capability against your competition?

5% SIGNIFICANTLY BETTER

Omnichannel as a competitive differentiator is the exception, not the rule.

71% AT PAR OR BEHIND

Most retailers aren’t doing enough to pip the competition

% of respondents who chose the answer option related to the questions above
CHALLENGES

RETAILERS’ OUTSIZED OUT-OF-STOCK PROBLEM.

Out-of-stock scenarios introduce friction in the customer experience. The jarring gap between consumer expectations and retailer readiness means the cost of an out-of-stock goes far beyond that of the potential lost sale of that item (cart or trip abandonment, loss of attachment sell, loss of customer engagement).

Consumers offer retailers many chances to recover from an out-of-stock fumble.

- 76% of consumers want store associates to find out-of-stock items for them.
- 78% will buy an out-of-stock item online if associates can locate it online.
- 74% will switch to a competitor if associates can’t locate an out-of-stock item online.
- 77% of retailers say store associates are unable to fulfill in-store orders that are out-of-stock.

15.75%

Average out-of-stock rate of the survey respondent base.

$40M-$75M

In lost sales annually for a $1B retailer, according to analysis from Harvard Business Review.

…..and yet, retailers are ill-equipped to save the sale.
INACCURATE INVENTORY IS RETAILERS’ CRIPPLING BLIND SPOT.

Store associates are hamstrung by inaccurate inventory information. Combine that with lack of inventory visibility, and you’ve got a deadly combination that is hard to recover from without focused attention and investments.

Retailers will continue to deliver sub-standard customer experience across their omnichannel basket of capabilities and bleed margin unless they fix what’s clearly broken: accurate inventory and transparent visibility, especially in-store.

How accurate is your store inventory system?

69%

of retailers rely on inaccurate or extremely inaccurate in-store inventory

What is the main reason of your out-of-stock scenarios?

2 in 5 retailers cite lack of inventory visibility as the #1 contributor, along with long lead time to fulfillment.
RETAILERS’ PLANNED SOFTWARE INVESTMENTS CAN HELP ALLEVIATE KEY CHALLENGES

Retailers must strategically focus on upgrading existing capabilities or adding new ones that have the greatest impact on bridging the operational gap between their omnichannel vision and its reality.
9 IN 10 RETAILERS PLAN TO ACQUIRE OR UPGRADE ORDER MANAGEMENT CAPABILITIES OVER THE NEXT 2 YEARS

What are your plans related to the following order management software capabilities over the next 2 years?

- Delivery slot quota management system: 10% Add software for the first time, 54% Upgrade existing system, 12% Change to a new supplier
- Distributed order management: 19% Add software for the first time, 57% Upgrade existing system, 13% Change to a new supplier
- In-store fulfillment: 29% Add software for the first time, 39% Upgrade existing system, 15% Change to a new supplier
- Automatic route planning system for deliveries: 26% Add software for the first time, 17% Upgrade existing system, 19% Change to a new supplier
- Picking Optimization: 15% Add software for the first time, 53% Upgrade existing system, 22% Change to a new supplier
- Mobile fulfillment tools for pickers: 15% Add software for the first time, 35% Upgrade existing system, 32% Change to a new supplier
- Customer service tools: 28% Add software for the first time, 26% Upgrade existing system, 35% Change to a new supplier
- Inventory Visibility: 11% Add software for the first time, 38% Upgrade existing system, 36% Change to a new supplier

This chart depicts respondents who stated plans to upgrade or acquire new capabilities.
A FEW KEY CAPABILITIES EMERGE AS THE FOUNDATIONAL BUILDING BLOCKS OF IMPROVING OMNICHANNEL ORDER MANAGEMENT MATURITY

90% PICKING OPTIMIZATION
Directly impacts labor productivity and order accuracy

89% DISTRIBUTED ORDER MANAGEMENT
A vital hub between order acceptance and order fulfillment

89% CUSTOMER SERVICE TOOLS
An essential capability to improve pick accuracy and efficiency

85% INVENTORY VISIBILITY
One of the biggest gaps for retailers currently, and an essential enabler of all omnichannel order fulfillment

83% IN-STORE FULFILLMENT
Real-time access to fulfillment information, activities and processes across the entire store network

82% MOBILE FULFILLMENT TOOLS FOR PICKERS
Provide a real-time view of an order and allow representatives to update the order

% respondents who plan to invest in adding, upgrading or replacing software to support these capabilities over the next 2 years
A MOVE TO THE CLOUD IS IMMINENT.

For the first time, across a wide variety of retail software categories, retailers exhibit a preference for cloud services over an in-premise solution when considering an order management solution.

**How would you prefer to deploy your order management solutions?**

<table>
<thead>
<tr>
<th>On-Premise</th>
<th>Cloud Service</th>
<th>No Preference</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>51%</td>
<td>14%</td>
</tr>
</tbody>
</table>

65% of retailers are open to a cloud service, with a large majority preferring it over an on-premise solution.

**But, retailers must work through key organizational hurdles to ensure a successful transition.**

**CHANGE MANAGEMENT**

The effort and cost associated with moving to a new system, combined with business process and workflow changes are the top 2 challenges retailers need to overcome.

**TECHNOLOGY TEAM BUY-IN**

1 in 3 retailers cite lack of IT team buy in as one of their top 3 roadblocks to adopting cloud based OMS.
LEARNING FROM THE DIFFERENCES BETWEEN INDUSTRY SEGMENTS AND MARKETS

Food and non-food retailers are at different stages of digital or omnichannel adoption, have differing priorities and a unique set of challenges each.

USA and Northern Europe (UK, Germany, France) are the world’s largest and most advanced retail market segments. Yet, with different cultures, consumer behavior, regulatory frameworks and geographical characteristics.

What can we glean from a comparison of these industries and markets?
Non-food retailers have a larger digital sales footprint, contributing 15.4% to their overall revenue. **Non-food retailers are still in the early stages of digital transformation** with 3% of digital sales contribution.

**Third Party Delivery Can Be A Slippery Slope**

It is the fulfillment option least likely to be profitable for both industries. Both food and non-food retailers should use third party delivery to test the model, and look to build their own capability once orders reach a critical mass.

**Out-of-Stock Scenarios Are Even Costlier for Food Retailers**

Food retailers find it even more difficult to convert an in-store out-of-stock scenario into a sale (84% lose the sale). Further, supermarkets generally don't have real-time inventory, and therefore omnichannel teams need to create specific mechanisms to counter this lack of capability.

**Non-Food Retailers Are Further Along Digital Transformation**

Non-food retailers are less satisfied with their omnichannel order management than the industry average, and **food retailers more satisfied**. Perhaps a function of greater experience providing a more circumspect perspective.

**...and, They Are More Dissatisfied with the Status Quo**

Non-food retailers are less satisfied with their omnichannel order management than the industry average, and **food retailers more satisfied**. Perhaps a function of greater experience providing a more circumspect perspective.

**Industry Comparison**

While 3 in 4 non-food retailers plan on acquiring or upgrading capabilities around automated route planning, only 1 in 2 food retailers plan to do so. This could be a missed opportunity for food retailers to embrace automation in a high-growth, low-profitability area (deliveries).

**...While More Food Retailers See Themselves Leading the Pack**

More non-food retailers (79%) state they are at par or behind their competitors than do food retailers (63%).

**Food vs. Non-Food**

**Third Party Delivery Can Be A Slippery Slope**

It is the fulfillment option least likely to be profitable for both industries. Both food and non-food retailers should use third party delivery to test the model, and look to build their own capability once orders reach a critical mass.

**Out-of-Stock Scenarios Are Even Costlier for Food Retailers**

Food retailers find it even more difficult to convert an in-store out-of-stock scenario into a sale (84% lose the sale). Further, supermarkets generally don't have real-time inventory, and therefore omnichannel teams need to create specific mechanisms to counter this lack of capability.

**Non-Food Retailers Are Further Along Digital Transformation**

Non-food retailers have a larger digital sales footprint, contributing 15.4% to their overall revenue. **Food retailers are still in the early stages of digital transformation** with 3% of digital sales contribution.

**...and, They Are More Dissatisfied with the Status Quo**

Non-food retailers are less satisfied with their omnichannel order management than the industry average, and **food retailers more satisfied**. Perhaps a function of greater experience providing a more circumspect perspective.

**Industry Comparison**

While 3 in 4 non-food retailers plan on acquiring or upgrading capabilities around automated route planning, only 1 in 2 food retailers plan to do so. This could be a missed opportunity for food retailers to embrace automation in a high-growth, low-profitability area (deliveries).

**...While More Food Retailers See Themselves Leading the Pack**

More non-food retailers (79%) state they are at par or behind their competitors than do food retailers (63%).
EUROPEAN RETAILERS ARE MORE DISSATISFIED WITH HOW THEY FULFILL ONLINE ORDERS

37% of European retailers, compared to just 20% of American retailers, view themselves as lagging behind their competitors in terms of order fulfillment capabilities.

BUT, EUROPEAN RETAILERS ARE ABLE TO CONVERT MORE OUT-OF-STOCK SCENARIOS

While they still have a lot of work to do, compared to their American counterparts more European retailers are able to empower store associates to fulfill in-store orders that are out-of-stock.

THIS, PERHAPS DUE TO EUROPEAN RETAILERS’ GREATER OMNICHANNEL MATURITY

European retailers are using stores as fulfillment centers more effectively both in terms of click and collect, and ship-from-store.

BOTH US AND EUROPEAN RETAILERS ARE READY TO EMBRACE CLOUD SERVICES

65% of American retailers actively prefer a cloud-based OMS over on-premise, and a further 5% have no preference. 38% of European retailers actively prefer a cloud-based OMS over on-premise, and a further 22% have no preference.

LACK OF INVENTORY VISIBILITY IS A GREATER ISSUE IN EUROPE

Perhaps due to the relative maturity of Europe’s food retailers especially, the difference between US retailers (33%) and European retailers (44%) who cite lack of inventory visibility as a key contributor to out-of-stock is stark.

EUROPEAN RETAILERS NEED TO FOCUS ON STAKEHOLDER BUY-IN

For European retailers, lack of the business team’s buy-in is the top challenge related to adopting a cloud based OMS. For American retailers it is not even in the top 5.
Talk to us to dig deeper.

In partnership with

Digital Foodie

Digital Foodie is a global software company specialized in on-demand ordering and fulfillment solutions for grocery and other retail. In addition to the development of our award-winning commerce platform, we help our customers with their data, online marketing and picking optimization.

Digital Foodie’s disruptive cloud native Connected Commerce platform is included in the Gartner 2017 Digital Commerce Vendor Guide among the leading applications of the digital commerce ecosystem.

www.digitalfoodie.com

In partnership with

Salmon

Salmon is a global digital commerce consultancy that defines and delivers ecommerce solutions and customer journeys for the world’s leading brands. Founded in 1989, with operations in London, Amsterdam, Sofia, New Delhi, Seattle, Beijing and Melbourne, we have over 750 experts in multichannel commerce, shaping client platforms that drive €7.5 billion in revenue annually.

Clients include Argos, Audi UK, DFS, Halfords, Jumbo, Premier Farnell, Sainsbury’s, Selfridges, Ted Baker and Sligro Food Group.

Salmon was acquired by WPP in 2013 and is its largest digital commerce consultancy. In June 2017 Salmon partnered Wunderman to form the ecommerce division, Wunderman Commerce.

www.salmon.com

Incisiv offers digital transformation insights to consumer industry executives navigating digital disruption.

www.incisiv.io

Copyright © 2017 by Incisiv Inc
REFERENCES.

1 | Retailers Under Pressure This Christmas | Shutl
2 | JDA & PWC CEO Survey 2016 | JDA & PWC
3 | Stock-Outs Cause Walkouts | Daniel Corsten & Thomas Gruen
4, 5, 6 | An Open And Shut Case For Order Management | Salmon Ltd & Bridge Solutions