Mastering the Power of Synchronized Retailing

From the moment a digital purchase is made through delivery to the shopper, everything that happens is orchestrated by the OMS

BY JOE SKORUPA

Retailers always identify legacy systems as one of their biggest headaches. But since the typical retailer has many legacy systems in place, the key question that requires an answer is which one needs upgrading or replacing the most?

One of the strongest candidates when viewed from the perspective of greatest need and biggest benefit to the organization is the order management system (OMS), which in many ways is the one ring that rules them all in omnichannel retailing.

There are many reasons why an advanced OMS system should be at the very top of a retailer's priority list when making plans for upgrading or replacing legacy systems, especially if smoothly operating omnichannel operations are holding back growth and financial performance.

The most compelling reason is the fact that the OMS is the primary system that makes omnichannel retailing work at scale, especially for those who are looking for ways to drive sales and deliver customer satisfaction. The OMS orchestrates everything that happens from the moment a digital transaction is made to final delivery of the products to the shopper and everything in between.

Unified Commerce

But this is just the beginning of what a truly advanced OMS can and should do. It should also be used to drive in-store traffic and online sales, reduce shipping costs and the need for discounting, and increase inventory turns and profit margins.

Even this just scratches the surface because the OMS exerts a powerful influence in such critical omnichannel functions as digital commerce (online and mobile), brick-and-mortar sales (digital sales made within the store as well as endless aisle orders), inventory management (managing stock levels available for purchase), supply chain execution (shipping and fulfillment), and even customer satisfaction and loyalty (when everything operates smoothly and meets expectations).
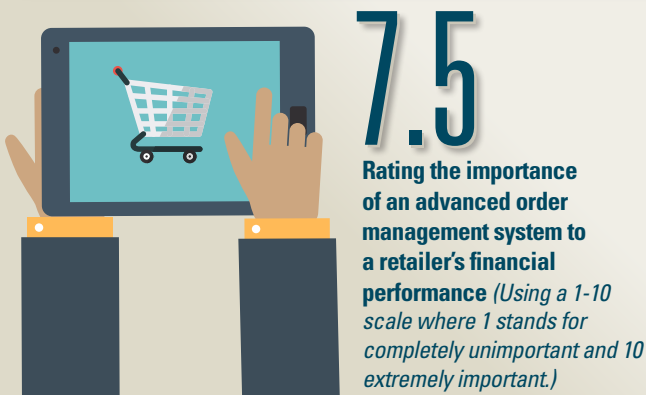
FIGURE 1

7.5

Rating the importance of an advanced order management system to a retailer's financial performance *(Using a 1-10 scale where 1 stands for completely unimportant and 10 extremely important.)*

FIGURE 2

Type of software used for order management today

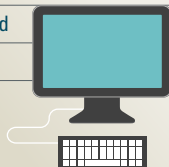|	
Internally developed and proprietary	**48%**
Licensed packaged software (perpetual license)	**45%**
Licensed packaged software highly customized	**42%**
SaaS solution (subscription model)	**10%**

FIGURE 3

Status of order management software used today

Recently upgraded solution is implemented and meets our needs	**13%**
Upgrading now (but not finished)	**23%**
Will upgrade within 1 year	**16%**
Will upgrade within 2 years	**29%**
No plans	**19%**
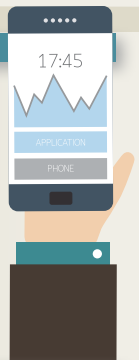
FIGURE 4

Technology architecture for next OMS

Cloud or SaaS	**58%**
Dedicated application software (owned license)	**42%**
Platform approach with broad features/functions (not cloud)	**39%**
Internally developed and proprietary	**23%**
Microservices	**19%**
Platform as a Service (PaaS)	**13%**

In this month's Targeted Research report we examine the state of OMS in retailing today and discover that retailers believe order management is one of the key pillars that drives a retail organization's financial performance. On a 1-10 scale, where one stands for completely unimportant and 10 extremely important, retailers ranked OMS 7.5. A score near 5 is a neutral rating and anything greater than 7 is considered a positive rating. (See Figure 1.)

Still, it seems that if OMS is truly one of the key factors in omnichannel competitiveness an 8+ rating would be justified. One reason for the lower rating is the inclusion of grocers in the respondent pool, who comprise nearly a fifth of responders. Grocers have become increasingly omnichannel, but fulfillment of digital orders is still a small part of their overall business. When we isolate grocers in a cross tab analysis we find they give OMS a 7.0 rating, which is still in the positive range but not nearly as high as the rating given by retailers in other categories.

It is clear retailers are evenly divided on which type of software they believe is the best approach to use for OMS functions with 48% reporting they use internally developed and proprietary software, 45% use licensed packaged software, and 42% use packaged software that is highly customized. (See Figure 2.)

INTEGRATING COMMERCE TO PROFITABLY EXCEED EXPECTATIONS

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FIGURE 5

OMS ability to manage omnichannel orders (Using a 1-5 scale where 1 stands for extremely poor and 5 industry leading.)

High speed	3.5
High accuracy	3.7
Cost efficiency	3.5
Real-time reporting	3.6

FIGURE 6

Top software systems integrated with OMS

POS	87%
Payments	71%
Warehouse management	65%
Store fulfillment	61%
CRM/Customer profiles	48%
Drop ship vendors	35%
Shipping carriers	19%
Logistics	13%
Supply chain execution	13%
Transportation	6%

The reason these numbers add up to more than 100% is that many retailers have a multi-format or hybrid approach in place today. This is probably caused by the fact that instead of a centralized OMS (one ring to rule them all) many organizations spread OMS functions across multiple departments (i.e. supply chain, e-commerce, store operations, etc.). While a decentralized OMS system like this can get the job done and meet immediate needs, most CIOs would agree that this approach is not scalable, reliable and cost-efficient for the long term.

OMS of the Future

A large percentage of retailers (39%) are currently spending hard dollars implementing a new OMS or upgrading their legacy software. This breaks out to 23% who are currently in the process of an upgrade or replacement and 16% who plan to start within a year. Retailers in the latter category, due to the short timeframe, are considered to be actively engaged in the upgrade because the early work of project scoping and vendor research requires resources and budget. (See Figure 3.)

An even bigger percentage of retailers (45%) are planning to upgrade or replace their OMS within two years. This breaks out to be 16% who plan to upgrade within one year and 29% who have a two-year plan. This is a high level of upgrade activity for any solution in the retail tech stack and indicates that OMS plays a critical role in modern retailing.

Although the dominant technology architecture for the next-generation OMS will clearly remain a hybrid model (one that includes multiple approaches in the tech stack as previously noted), the preferred architecture for the future is cloud or SaaS, which was chosen by 58% of retailers. This is a big shift from the 10% that use cloud or SaaS applications today. (See Figure 4.)

Another big shift occurs in the planned use of internally developed software, which drops down to just 23% for future deployments from a peak of 48% in use today.

Inside the OMS

When asked to evaluate how well their OMS managed omnichannel orders today on a 1-5 scale where one stands for extremely poor and five stands for industry leading we find that overall retailers believe their OMS does what it is supposed to do but not extremely well. All rankings for such factors as high speed, high accuracy, cost efficiency and real-time reporting were only slightly above neutral scores. (See Figure 5.)

Status of order data to achieve consistency across the enterprise

|	
Multiple databases, but they use the same data model for consistency	35%
One database (customer profile and transaction/order database)	32%
Multiple databases, but they do not use the same data model	32%

Top priorities for retail OMS

Enterprise inventory visibility and availability	77%
Improve fulfillment/ delivery efficiency and cost	74%
Intelligent order routing	48%
Distributed order management	29%
In-store pickup	26%
Ship-from-store	19%
Ship-to-store	13%
Returns management	13%
Dropship	10%
Advanced analytics	6%

Primary business mission for OMS

74% B2C   **26%** Both B2C and B2B
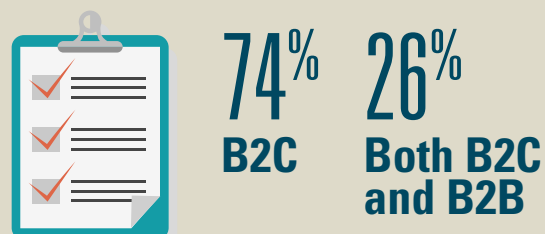
Retailers in the mass merchant category, however, rated their OMS above 4.0 in accuracy and real-time reporting as did retailers with annual revenue greater than a billion dollars. Any ranking above 4.0 indicates strong performance.

It is not surprising to learn that most retailers say the top software systems their OMS integrates with are POS (87%) and payment (71%). These are followed by warehouse management at 65%, store fulfillment at 61%, and CRM/customer profiles at 48%. (See Figure 6.)

One of the key elements of an advanced, high-performing OMS is its ability to act as the application of record. This extends not only to online orders but to related functions for managing inventory for available sale in stores (in the backroom and on the shelf), inside the warehouse, and external stock that is accessible through third parties or drop shippers.

However, the ability of the OMS to act as the application of record only works if it can seamlessly access a complete picture of inventory data, which is something that is not possible for a third of retailers (32%) who have multiple databases that do not use the same data model. (See Figure 7.)

The rest of the retailers in the study are in a better position because they either have one database that aggregates data from transactions and customer profiles (32%) or they have multiple databases but all of them use the same data model for consistency (35%).

Finally, the top two priorities for upgrading the OMS are enterprise inventory visibility and availability, which was chosen by (77%), and improving fulfillment/delivery efficiency and cost, chosen by 74%. (See Figure 8.)

Other top priorities on the list include intelligent ordering (48%), distributed order management (29%) and in-store pickup (19%).

Methodology

This study was conducted during the month of October and only senior executives from national or large regional retailers were invited to participate. The results do not include any store-level, field-level or regional employees. Only headquarters-level staff responses were included.

Conclusion

One of the strongest candidates for replacement or upgrading in today's omnichannel tech stack is the order management system (OMS). When comparing it to other software applications used by multi-channel retailers, the OMS stands out as an essential tool that drives (and streamlines) transactions, inventory management, stock turns and, therefore, customer satisfaction and loyalty.

These operations are especially important for national and large regional retailers who have recently added a host of omnichannel services and capabilities to meet customer expectations and are struggling to make them work at scale and cost efficiency.

The OMS plays the key role – the conductor's role – in orchestrating everything that happens from the moment a digital transaction is made to the final delivery of products to the shopper as well as managing everything in between.

Retailers that do not have an advanced OMS, and this applies to a large majority, are at a disadvantage in offering a seamless shopping experience to consumers as well as cost-efficient operations to their stakeholders.

The good news is that we find this message has reached a large number of retailers (45%) who say they plan to upgrade or implement a new OMS in the next two years. This upgrade activity will streamline current systems that are divided between departments and across multiple databases.

Retailers who want to stay competitive with the current status of the omnichannel landscape should take note of the high level of upgrade activity occurring among their peers and make their own upgrade plans accordingly.

In omnichannel retailing, the OMS is (or should be) the one ring that rules them all. **RIS**