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White Paper

Omnichannel Order Management & aroma®

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1 Summary

Retail companies integrate their online and offline businesses to increase customer satisfaction. At the same time, the aim is to achieve higher sales and contribution margins. These requirements are often described as squaring the Circle perceived. This white paper describes the best practices that can be used to meet this challenge. Here plays an order management system plays an important role.

How can small and large, national and international retailers simultaneously improve customer service and optimize their margins - in other words, how can they "digitize" themselves as efficiently as possible? In the past, the place where customers informed themselves about products was also the place where they placed their order and from which the ordered item was delivered or to which it was returned: Customers who obtained information and made purchases in a store also received the item in the store or returned it to the store in the event of complaints. And customers who researched and shopped in the online store received the item from the e-commerce warehouse. **This firm bond has been broken.** Of course, the place where customers inform themselves is no longer tied to the place where they shop. But also the place of purchase and the place of delivery and return are decoupled. Today, the commercially optimal shipping route and return location for customer orders is identified and implemented. This can mean, for example, that an article ordered in the online store is packed in a store and sent to the end customer. Setting up such processes in a scalable and economical way is a challenge for many retailers. **Arvato Systems has been dealing with such omnichannel issues for decades and has developed the omnichannel order management system aroma® as an answer to these questions.** This white paper describes the key challenges and solution options for retailers on their way to efficient omnichannel processes.

2 Typical customer requirements

Today, customers use all available channels to buy from companies, return items or obtain information. As a result, retailers must enable the following processes for customers, among others:

- Order in the online store and pick up in a branch
- Reservation of an article that is in a store by mouse click or touch screen in the online store
- Returning an article purchased online to a store, possibly with payment of an amount
- Shipping an item purchased online from a store
(i.e. Pick-in-Store and Ship-from-Store)
- Partial cancellation of an online order by calling customer care
- Exchange an item ordered in the online store by calling customer care or in a store (e.g. different size or color)

Retailers are also increasingly working with partners such as **marketplaces** or [dropshippers](#), so that corresponding processes are also to be supported. Typical requirements from this environment are e.g:

- Quickly activate/deactivate partners and provide simple web tools
- Reservation of stocks for marketplaces
- Easy connection of IT systems, e.g. marketplaces for data exchange

Overall, requirements are becoming more and more complex today, as customers need to be served faster and across channels, and partners have higher demands. At the same time, the commercial pressure on companies is increasing. It is **not enough to introduce omnichannel processes, but commercial optimization must always take place as well. The combination of convincing service and economically sensible work is a challenge, especially in the area of omnichannel.**



3 Typical challenges: Costs, stores, culture and IT

Many retailers have already gained experience on their omnichannel journey. Unfortunately, these experiences are often painful. Practically speaking, the following challenges in these areas crop up time and again:

- Incentive models and corporate culture: Active change management
- Costs: Increase in margins
- Process automation and IT: Scaling processes through modern IT
- Omnichannel store: Help in the pandemic through ship-from store

Incentive models and corporate culture

Omnichannel processes ultimately combine different channels (through which a customer can have contact with a company) into a whole that is as harmonious as possible. But if the people and departments responsible for the channels in the company have conflicting goals and ideas, neither a harmonious customer experience nor a profitable business can be expected. **The goals and KPIs of the company and the departments must be calibrated to the new reality.** Here, an honest review of the current situation, open team discussion and the support of top management are important.

Costs

The introduction and operation of omnichannel processes costs money. Even if it is nice to offer customers more services, it is often not easy to see if and how the corresponding business case will be positive. **Also in the omnichannel area - as in the retail industry as a whole - a lot of small processes have to be mapped quickly and efficiently in order to earn money overall.**

Process Automation and IT

Ultimately, complex omni-channel processes can only be realized if you have a powerful IT architecture because the processes have to handle many transactions and a high level of automation is only possible with the help of IT. However, building and operating an efficient IT architecture in retail companies sometimes requires relevant restructuring measures that are relatively expensive and not easy to justify in view of uncertain business plans. Instead of modernizing the IT, for reasons of cost, sometimes attempts are made to convert various existing systems in such a way that omnichannel processes can be implemented to a reasonable extent.

Since the legacy systems were originally built for completely different processes, however, this often results in complex procedures and system landscapes that not only cost a lot of money, but can never really meet the expectations placed in them. It is **difficult to build a speedboat from a truck. In the end, there is no way around supporting the desired omnichannel processes with modern IT.**

Omnichannel Store

Store processes pose a particular challenge because establishing omnichannel processes in stores requires the collaboration of many people from departments that traditionally work quite differently. Furthermore, omnichannel store processes, such as ship-from stores, are quite complex. **In the store, it becomes particularly clear how difficult it is to provide good customer service and earn money at the same time.**

4 Costs: Increase in margins

A recent study found that retailers who implement omni-channel processes improve their margins on average between 3.4% and 8.9%. The study evaluated the effects of different omni-channel scenarios such as click-and-collect, return in store and ship-from store. ¹

Average Margin Improvement Optimized		
Margin Improvement over non-optimized process		
Customer Journey	Food/ Drug/ Mass	Dept and Specialty Stores
Buy Online Return in Store (BORIS)	+3.5	+6.5
Click and Collect (Same Day Pickup)	+4.1	+3.7
Buy Online, Local Delivery from Store	+5.0	+6.9
Buy Online, Shipped to Store (BOPIS)	+4.3	+7.1
Ship from Store to Consumer	n/c	+4.7
Buy in Store, Ship from Warehouse	+3.8	+8.9
Buy in Store, Pickup from Another Store	+3.4	+3.4

Source: IHL Group 21

Overall, the implementation of omnichannel processes can provide **positive economic leverage**. To achieve this, the essential processes must be executed and i.e. automated in a highly efficient way and this automation requires **a modern IT landscape**.

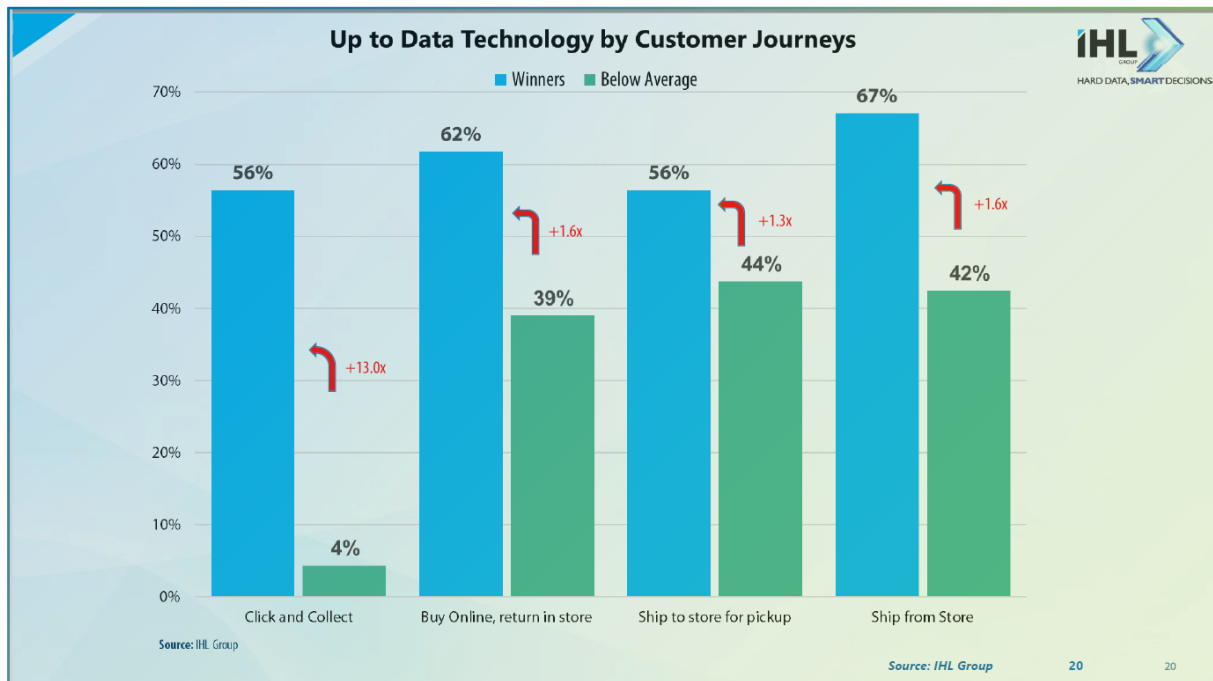
These effects are achieved in particular by the following factors:

- Increase of customer satisfaction and customer willingness to buy, as well as extension of the life cycle. Several empirical studies have shown that omnichannel customers buy more and are more profitable than customers who operate in one channel.
- More efficient use of stocks and thus reduction of markdowns and residuals (Basically, the place of sale is decoupled from the place of delivery and can be determined by the order management-system in each case to determine which delivery location is also optimal from a commercial point of view. This saves costs overall. (Cf. also the explanations on the topic Ship-from-Store in chapter 6)
- Opening of a path to show-rooms and for the reduction of areas and stocks in stores. (When customers in stores can easily place orders for out-of-stock items, the articles no longer have to be kept in stock and the stocks and areas can be reduced. These are the so-called endless aisle processes).

¹ IHL 2020: Impacts of COVID 19 on Retail Forecasting and Analytics

5 Process Automation and IT

Analyses show that companies that achieve positive economic effects by investing in omnichannel processes have particularly modernized their IT, whereas companies that achieve below-average economic results also suffer from outdated IT. ².



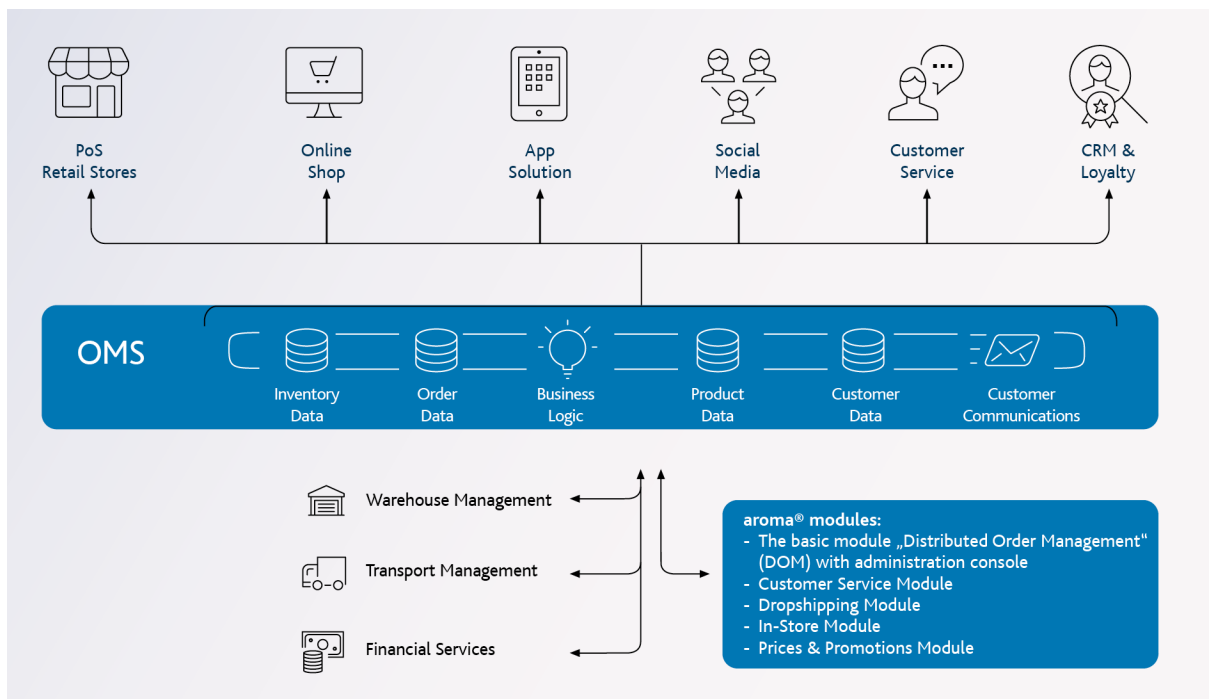
How can the IT task be solved once it is understood that it is not enough to make cosmetic changes to existing legacy systems? In the end there are 2 typical approaches:

1. Use of an order management system
2. Use of an ERP system as an order management system combined with various extensions and the use of various supplementary peripheral systems.

² IHL 2020: Unified Commerce, Where to Start and the Customer Journeys Driving the Most Profit Return

Use of an Omnichannel Order Management System

The omnichannel processes mentioned in Chapter 2 can be easily implemented when companies use a centralized omnichannel order management system (OMS). Such a system mediates between the customer's touchpoints and various background processes and systems:



The OMS...

- knows all inventories (from all warehouses and stores and from relevant partners such as dropshipper) or can determine them online via web service from third party systems
- knows all orders and thus also all customers and the entire order-related customer communication
- decides which order from which warehouse, store or partner is processed (Fulfillment optimization)

- ensures the correct handling of financial processes by controlling appropriate subsystems
- enables the processing / modification of orders in customer care and stores including the provision of modules for the store e.g. for pick-in-store and ship-from store
- supports returns processes including the calculation of amounts to be paid out (even if a partial return of an order, in which one or more promotions have been reduced to of the sales price) and control of the corresponding financial systems and processes
- supports the entire order-related customer communication (e.g. a customer becomes automatically informed when an article ordered online arrives in the store)

Arvato Systems has been active in this field for decades and has unique experience from numerous customer projects. This experience has been used to develop a modern order management system: aroma®
This system is used by numerous customers from various industries and can be used in
be introduced within a few months.



For retailers, a modular system design and modern service-oriented architecture is important to keep integration and operating costs low and to make changes easy.

Modern order management systems such as aroma® are therefore modular in design:

- Core module for order processing (so-called [Distributed Order Management](#))
- Customer Care module for the Service Center
- Module In Store for omnichannel store processes
- Module Dropship for cooperation with [Dropshippers](#)
- Price & Promotions module for the efficient management of prices and promotions even across different channels

An extensive administration console supports the configuration and administration of the system. This allows your own IT department to work with the system independently of the service provider and launch new countries and stores, for example. Omnichannel is therefore no longer a technical challenge.

The alternative to OMS: ERP and distributed architecture

Not all companies choose to implement an omnichannel order management system. The main alternative is not to map the required functionalities in a central system, but to distribute them to different systems. The most important systems that are used for this purpose are often a combination of ERP, CRM system, warehouse management system, POS system, in-store solution/app and, if necessary, plus an ESB and a repository for order data and customer data. Such a distributed architecture is of course basically possible and is also recommended by some software manufacturers. For this purpose, the various components that are not traditionally omnichannel-capable must usually be subjected to a relevant upgrade, individually adapted and also supplemented by new modules (e.g. SAP CAR).

The central disadvantage of such a distributed architecture is that it is very complex, the systems used were actually invented and optimized for other tasks, and now the same functionalities have to be programmed into different systems and constantly kept synchronous and maintained.

Let's consider the following typical requirement: A customer wants to make a partial cancellation or change of an order and, for example, no longer have a white T-shirt or receive it in a different color. The customer can express this wish by calling customer care, visiting the self-service area in the online store, or going to a store. No matter where the customer expresses the wish, the order must always be changed in the background. If no omnichannel order management system is used, the corresponding functionality must be maintained and modified in all systems involved, e.g. in the separate system for the call center and in the system used by employees in a store, and of course in the component that distributes the orders to the warehouse and controls the financial process (typically the ERP).

If the omnichannel order management system aroma® from Arvato Systems is used, the place where the change is made centrally is the OMS. This makes the architecture as a whole leaner, faster and cheaper.

Which architecture ultimately makes sense for a company depends on many factors and can only be decided in individual cases. Arvato Systems has implemented various implementation variants with customers and offers appropriate consulting services.

6 Omnichannel store: Help in the pandemic with ship-from store



During the Corona pandemic, many stores were temporarily closed and, even after reopening, are realizing less sales than before the pandemic. At the same time, although e-commerce business is picking up, it is not able to compensate for the losses of the stores business. Unfortunately, many logistics chains are also overstretched, so that the delivery of orders placed via e-commerce stores or marketplaces often takes too long. **In this situation it is attractive for retailers to direct online orders into their own stores and send them from the stores to the end customer.** This results in positive economic leverage, because it allows articles to be delivered from stores that would otherwise simply be left lying around, sold off via expensive price reductions or processed as leftovers. Ship-from-Store reduces store inventories and avoids expensive markdowns. At the same time, articles from the stores can often be delivered to end customers much faster than via the traditional e-commerce warehouse. This is because the distance between an end customer and the next store is usually less than the distance between the end customer and the e-commerce warehouse. Since fast delivery is an important driver of customer satisfaction, this also increases it. **Arvato Systems enables the rapid introduction of the ship-from store scenario via the aroma® order management system, thus helping retailers to better manage the corona crisis.**

7 Live already in 3 months



The length of time it takes to implement an omnichannel order management system depends on many factors. However, simple processes and system implementations can be accomplished in just a few months (when necessary decisions are made quickly and pragmatically). **In particular, Arvato Systems can implement the omnichannel processes in stores within the framework of a standardized process model and predefined realize solution scope within 3 months.**

Complex projects with an international rollout across thousands of stores take longer. However care must be taken to ensure that a first end-to-end case in a simple country is completed within a maximum 6 months live sets. **The order management system aroma® helps with its modular, service-oriented Architecture for the rapid introduction of order management processes by ensuring that there is normally little or no need for adaptation in the existing systems.**

8 Conclusion

Customers today expect to receive comprehensive harmonized services online and offline. Providing these services profitably presents challenges for many companies. Changing corporate culture, adapting processes and IT, redesigning store processes and, in particular, the commercial dimension are often particularly difficult. Arvato Systems helps to overcome these challenges: Quick checks can be used to identify optimization potential. With experienced change management partners, the cultural requirements for a successful project are created. Omnichannel practitioners and IT experts help with the necessary business decisions and subsequent operational implementation - especially in IT. **Based on decades of experience, Arvato Systems decided to develop its own order management system, aroma®, which can be introduced in just a few months.** aroma® enables the efficient realization of omnichannel processes and helps retailers to achieve two outstanding goals at the same time: Improving customer service and optimizing their own margins.

About Arvato Systems

As an internationally active IT specialist, Arvato Systems supports well-known companies in digital transformation. Around 3,000 employees at over 25 locations worldwide stand for a high level of technical understanding, industry know-how and a clear focus on customer needs. As a team, we develop innovative IT solutions, bring our customers into the cloud, integrate digital processes and take over the operation and support of IT systems. In addition, we are able to map entire value chains in the network of Arvato, a member of the Bertelsmann Group. We shape our business relationships personally and in partnership with our customers. This is how we achieve sustainable success together.

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aroma® - the Arvato Order Management System

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