

Shopatron White Paper

How to Configure Order Routing Logic to Increase Sales and Inventory Visibility



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Introduction

In mid-August 2013, closeout retailer Tuesday Morning sent shockwaves through the retail industry when it shut down its eCommerce program.

While online shopping has become the norm among today's consumers, as well as an industry standard for nearly every retailer that wants to remain competitive, the reality of implementing online sales into a brick-and-mortar business model is highly complex. Indeed, while Tuesday Morning's announcement was panned by many, other industry insiders labeled it as understandable and even smart maneuver.

In a contributed article to *Forbes*, retail analyst Paula Rosenblum noted that "getting merchandise available for sale online isn't as cheap as you might think."

For example, TJX Companies, the parent company of T.J Maxx, Marshalls, and HomeGoods, spent approximately \$200 million in cash simply to acquire the online fulfillment infrastructure of Sierra Trading Post.

For many of today's retailers, the promise of omni-channel fulfillment—specifically the ability to offer ship-from-store and in-store pickup—remains immensely complicated, logically terrifying, and often prohibitively expensive.

Yet a new rush of forward momentum in retail continues to drive many companies toward making this functionality successful. Terry Lundgren, CEO of Macy's, famously said, "We're no longer going to need fulfillment centers anymore. We've got 800 of them, and they're called Macy's stores."

When it comes to establishing this unification of online and offline channels, there are myriad questions: *How do I synchronize my online listings with offline inventory? How do I determine where online orders are to be routed? How can I extend my product life cycle and reduce in-store price cuts by selling in-store inventory online?*

When all is said and done, addressing such questions is complicated, but well worth the effort. This whitepaper will answer many common questions by showing how to configure order routing logic in order to provide the most value to both your online and brick-and-mortar sales channels. We will highlight the benefits of omni-channel fulfillment solutions and describe what is needed to make your online and offline channels communicate with one another, whether or not you have the capability to track in-store inventory.



Why It's Important

Aligning online and offline channels is the new golden egg for retailers. Today's consumers expect products to be in stock, to receive products quickly, and the guarantee that if a product is listed as being in stock it really is available in a nearby store.

Beyond addressing these consumer desires, the ability to offer cross-channel or omni-channel functionality results in higher sales for retailers who can do so successfully. Cross-channel shoppers generally spend 30% more than single-channel shoppers, according to a report by AMR Research. The same report found that consumers who order online and pick up in a store will increase their order total by 58% by the time they leave the store. And Shopatron's own research has shown that nearly half (40%) of customers who choose in-store pickup for online orders will make additional purchases once in a store.

Ship-from-store fulfillment, which is fast becoming the new standard of multi-channel retail, better leverages inventory across all supply chains whether that inventory is located in a warehouse, on store shelves, or even drop-shipped from the vendor. Although the learning curve for ship-from-store can be daunting—particularly for store associates who aren't accustomed to picking, packing, and shipping orders—it leads to greater ROI, happier customers, and better inventory flow. Warehousing costs are less, as are shipping costs because products can be routed from a store that's nearest to the customer who placed the online order. Retailers that ship-from-store are able to keep inventory flowing as quickly as possible, maximizing the inventory across all of their channels. Furthermore, making in-store inventory available for online orders allows retailers to extend product life cycles and reduce in-store markdowns, thereby protecting margins.

The trick to successful ship-from-store functionality, is that the customer never knows what is going on behind the scenes. What they do know is that the package arrived quickly and the shipping costs were as low as possible.

Leverage Your Website to Drive Foot Traffic

30%

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58%

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Automatic Order Routing With Inventory Feeds

The main hurdle that prevents most retailers from achieving omni-channel success comes in the form of communicating in-store inventory with online product listings. But, as you will see by the end of this section, this can be achieved quite easily—so long as you have the right tools.

Warehouses have spent decades refining their inventory tracking capabilities, with most maintaining inventory accuracy of 90% or higher. However, this is a much heftier task for retail stores, where products can be misplaced, lost to theft, or turning over so quickly that it can be difficult to maintain a minute-by-minute count.

Though some business models, such as grocery chains, have more challenges for tracking in-store inventory, most retailers today are able to at least keep track of what inventory they have available on a daily basis. Fortunately that's all any retailer needs in order to start shipping online orders from stores directly to consumers.

With a simple daily inventory feed, it is possible to align online product listings with real inventory kept on store shelves. Ideally, a retailer will be able to provide a regular trickle feed, ensuring that online listings are as up to date as possible, though this is not always necessary. The real trick, is finding an intermediary solution that can package and communicate that data between all of the retailer's channels.

Whether that data is collected on a daily or multi-daily basis, the next step is to package the data and distribute it using an Application Programming Interface (API), such as Shopatron's "Inventory Import API." This API allows the retailer to aggregate inventory data as an XML document and send real-time inventory to Shopatron in order to begin the process of routing online orders to brick-and-mortar stores. Another API, "Inventory Export," then communicates that information back to the retailer's front-end website, ensuring that the website and in-store systems can communicate with each other.

With these APIs, any retailer can begin fulfilling online orders with in-store inventory. The retailer sends inventory data to Shopatron, which is used to route orders from the website to a stocking retail location for fulfillment.

Inventory Information Flow



Key Steps

1. Inventory Feeds (Nightly and Trickle)
2. Inventory Availability Check
3. Order Placed
4. Order Assigned to Store
5. Store Employee Confirms Inventory
6. Store Employee Fulfills Order (Ship or Pickup)
7. ERP System Updated After Order Ships (TLOG)



Of course, a truly successful program requires a greater degree of flexibility and granularity—and this is why only a SaaS-based, multi-tenant solution with configurable order routing logic can provide the most robust tools for mult-channel retailers.

For most retailers, there are two factors that determine how most orders are routed. The first is whether a given store has inventory to fulfill an incoming online order. The second factor is the store's proximity to the customer.

Shopatron's order routing logic allows retailers to specify source ranking priority, allowing retailers with multiple fulfillment centers to identify groups of fulfillment locations and prioritize those groups as needed. For example, a retailer can choose to give first priority to its warehouse—which is well suited for picking, packing, and shipping orders—followed by nearby stores. On the other hand, another retailer might want to prioritize order fulfillment to give preference to its most well-run stores, and use other stores as backup fulfillers.

Retailers also need the ability to “turn off” or “turn on” various fulfillment centers. After Hurricane Sandy, for example, some Shopatron retailer clients had to “turn off” store locations that had been damaged by the storm in order to prevent online orders from being routed to stores that were literally under water.

A split order is another common issue that requires further customization on the backend. While a split order that pulls products from two fulfillment locations isn't problematic—in fact, this is an excellent example of how order routing logic leverages the inventory of all fulfillment locations—orders that are split across three, four, or more locations start to drive up costs and cut into margins. After enough splits, it's possible for an online order to actually cost the retailer money. Our solution has a “maximum order split count,” which—as implied by the name—allows retailers to determine how many splits are allowed for any given order. Orders that exceed the preset limit are automatically flagged, allowing the retailer to find a solution before problems arise.

Retailers can further set a safety stock factor, which creates a buffer in order to prevent orders from being routed to stores that don't really have the available stock due to shrinkage. For example, a store that has set a safety stock of three for a given SKU will not receive online orders when their available inventory (provided by the daily or trickle feed) falls at or below the minimum threshold. This ensures that online orders won't be placed on backorder or re-routed, and it guarantees that inventory in stores won't be entirely depleted by online orders (after all, in-store customers don't like out-of-stock situations, either).

With the appropriate APIs in place, this is all accomplished seamlessly, and the customer never has to know what happens after they click the checkout button.

In-Store Pickup Means Additional Sales

40%

According to Shopatron's own research, 40% of customers who choose in-store pickup for online orders will make additional purchases once in a store.

“We're no longer going to need fulfillment centers anymore. We've got 800 of them, and they're called Macy's stores.”

Terry Lundgren
CEO, Macy's



Manual Order Routing Without Inventory Feeds

As mentioned in the beginning of this whitepaper, inventory feeds allow retailers to automate their order routing procedures, but they are not a requirement for routing online orders to brick-and-mortar fulfillment locations.

In order for a retailer to offer distributed order fulfillment without real-time inventory data, it is necessary to implement backend procedures that allow stores to manually request orders placed on the retailer's website.

Rather than automatically assigning orders—whether that's to the closest stocking location, or some other location pre-designated by the retailer's order routing logic preferences—these types of orders are placed into a centralized order exchange. Because the order exchange is multi-tenant, members from all stores can log in to review orders that are awaiting fulfillment. A store associate, manager, etc. can then do a manual check of the in-store inventory and request to fulfill the order.

Although the order exchange never interacts directly with the store's inventory management data, the end result is the same: an online order is fulfilled using in-store inventory.

Of course, the same order routing logic can be applied in this scenario as well. Retailers can designate source ranking priorities and choose to make online orders viewable based on store proximity or any other combination of preferences.

Configurable Order Routing Logic





Conclusion

As we said in the beginning of this whitepaper, aligning online and offline channels is a daunting task for retailers. We are in the midst of an eCommerce revolution, one that is driven by rising consumer expectations, the potential for greater overall sales, and a desire to bring together systems that have hitherto operated in silos.

Admittedly, most retailers will find that inventory tracking is the largest hurdle to overcome. But as we have shown, the benefits are well worth the investment. The power of cloud-based systems and the easy integration brought forth by APIs have created a new ecosystem in which store level inventory data can be easily used to create many new fulfillment capabilities.

The traditional warehouse-only model of online fulfillment is outdated and fails to allow retailers to leverage a broader array of inventory across their entire network. Businesses that embrace these changes will reap larger rewards as they are able to refine their fulfillment models—discovering the order-routing priorities that best maximize online and offline sales. But those businesses that resist the change, and stick to “business as usual” will continue to fall by the wayside.



Shopatron is the world's leading provider of cloud-based, eCommerce order management.

Shopatron is the world's leading provider of cloud-based, eCommerce order management solutions. Our patented Shopatron Order Exchange allows manufacturers and multi-channel retailers to seamlessly leverage the available inventory of every retail storefront and distribution center when fulfilling online orders. Unlike legacy order management software or custom-built solutions, Shopatron makes it easy and affordable to deploy advanced capabilities like in-store pickup, ship-from-store, inventory lookup and vendor drop-ship. With Shopatron, retail channels join forces to increase sales, turn inventory, and deliver a superior purchase experience to online shoppers.

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