

A man with a beard and short hair is smiling as he looks at a tablet computer. He is wearing a blue button-down shirt over a grey t-shirt. The background is slightly blurred, suggesting an office or business environment.

CUSTOMER COMMERCE: TURNING YOUR ERP INSIDE OUT

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Customers, Not Channels



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The Need to Reorient Your Business Around Customers

Today's consumers have never had more options for researching and purchasing products. Online sales and new digital channels provide virtually unlimited assortment, price transparency and visibility to the opinions and experiences of millions of shoppers around the world. Ubiquitous information on demand has raised consumer expectations of businesses. If shoppers can see the price for a product on the other side of the globe, they expect just as much transparency from businesses in their community. Because they are empowered with knowledge and alternatives, more than ever before, the power rests with customers.

Yet most businesses are struggling to keep pace with rising expectations for consistently excellent brand experiences across all channels and touchpoints. Because ERP technology was built to serve the needs of employees, not the needs of empowered shoppers, customer needs can go unmet. Today's customers expect accurate inventory information, cross-channel order history

and flawless order execution, but legacy technology in place at many businesses is poorly suited to meet those expectations.

As businesses look to support these new customer expectations, they are realizing that their back-office systems, which were designed to support employees and internal operations, handicap them when it comes to orienting around the consumer. Many organizations have '80s-era traditional ERP at the center of the enterprise, surrounded by a patchwork of point systems for specialized functions. The result is that businesses can't adapt to evolving customer expectations, instead spending millions of dollars to stitch together and maintain a patchwork of siloed systems.

Since legacy systems were designed around departmental processes, rather than around the customer, these businesses are unable to understand their customers and turn insight into business advantage. Because their customer data is spread across CRM, ecommerce, marketing and multiple systems of record, they cannot reward their most profitable customers, predict demand or ensure repeat business.

The future belongs to companies that can capitalize on the potential of technology to serve their customers better and orient around them. This orientation around customer experience is frequently called omnichannel commerce or, more accurately, Customer Commerce. Enabling Customer Commerce requires creating an organization that is channel agnostic. It also requires fundamental changes to systems and processes that support your business (see Table 1). It requires redesigning the ERP system from the inside out, with the explicit goal of improving the customer experience.

Customer Expectations	Technology Considerations
Anytime, anywhere brand engagement.	Support web, mobile and in-store on same platform.
Consistent, relevant and personalized offers, and shopping and service experiences across all channels.	Need a single cross-channel view of every customer.
Buy, fulfill and return anywhere.	Centrally manage orders from multiple channels. Provide real-time enterprise-wide inventory visibility. Connect global supply and distribution chains.

Table 1: Technology Considerations for Meeting Customer Expectations

The Limitations of Traditional ERP

Enterprise Resource Planning (ERP) software rose to broad popularity in the 1990s and revolutionized the business world by providing companies with greater accuracy, visibility and insight into their operations. ERP allowed companies to create systems of record and share information between departments. It became the core system in most businesses.

Although far from perfect, ERP software helped companies move beyond a paper-based world where decisions were made based on data that was weeks or even months old. Suddenly, companies were able to gain greater visibility and analysis into their operations, across departments and in different geographies. Despite its advantages, ERP was always designed to allow employees to do their jobs better, locked away behind a firewall.

Functional Silos, Traditional Roles

While ERP software supported businesses and employees in their day-to-day jobs, it was not designed to directly support the needs of customers, let alone the partners and vendors that are a critical part of any modern enterprise. It was a technology built on the pre-Internet model, in which live conversations, either on the phone or in person, were the means by which companies communicated with each other and customers. Rather than supporting customers, the software supported internal processes.

- Sales people were the point of contact for commerce—in stores or over the phone.
- Support teams were responsible for answering questions on a product's function, addressing any product defects and validating and processing returns.
- Finance teams produced invoices that would be sent to customers.
- Supply chain partners were generally managed through phone calls or faxes, and they rarely received advance notice of impending changes in demand.

This approach, as good as it seemed for the time, came with built-in disadvantages that severely limit business operations:

- Business can only be conducted during working hours.
- Service quality depends on who is interacting with the customer or external partner.
- Anyone outside the organization receives out-of-date, imperfect or no data.
- Information exchange is extremely inefficient.

While businesses have adopted Internet technology, outdated ERP at the center of their infrastructure forces most organizations to labor on with the status quo of inefficient and manual processes, and mission-critical information that is inevitably outdated, inconsistent and inaccurate.

Adding Ecommerce on Top of ERP

In the late '90s, the rapid rise of the Internet enabled companies to implement new systems to deliver product and support information to consumers. At the time, few business leaders fully appreciated how dramatically the Internet would disrupt the business world.

Rather than re-engineering or replacing their operational software to support the new web paradigm, most companies bolted on content management and ecommerce systems that were disconnected from the systems of record. Companies viewed their websites and partner portals as a small slice of their business, frequently unprofitable. Although this approach

allowed companies to roll out ecommerce capabilities fairly quickly, it served simply as a Band-Aid to the real change the Internet was bringing to the enterprise.

The Customer-Driven Revolution

Even with their limited capabilities, early ecommerce websites were quickly accepted by consumers. Whereas previously customers had been subject to the limitations of a sales clerk's knowledge, location and working hours, now they could serve themselves whenever and wherever they chose. Customers became empowered, and they demanded more—accessibility, visibility and control.

The Growing Importance of Efficient Supply Chains

As B2C companies were adapting to their customers' rapidly evolving online habits, they recognized the need to continuously expand assortment and find lower-price suppliers. To do that they needed more advanced technology in their supply chain to allow them to connect customers with products that existed anywhere in the world. This transition to a digital supply chain gave retailers and distributors greater visibility into partner and supplier inventory, resulting in leaner inventory positions.

As these companies moved to increasingly digital interactions with their customers and ever more sophisticated supply chain technology, it became increasingly apparent the system at the core of the enterprise, ERP, was being asked to run businesses in ways it was not designed to support.



“The built-in data and process integration of an ERP suite is of limited value in an environment where most of the people and material reside in someone else’s facility. The real business problem that today’s manufacturers and distributors are struggling to manage takes place between companies, not within them.”

Jim Shepherd
Gartner¹

¹ Jim Shepherd, Gartner, “Multi-Enterprise Commerce May Be What Comes After ERP,” blog post, August 17, 2011.

The Amazon Effect

Over the next decade, a new generation of businesses built for the Internet age began to emerge, most notably Amazon. Rather than being tied to the traditional way of doing business, these companies integrated their customer-facing transactional systems with fully digital back-end supply chain systems, offering transparency across the organization and out to its customers, partners and suppliers.

No longer does a company need to physically own a product to sell it on their website. If a retailer knows a vendor has inventory, it can take the order without ever possessing the product. And beyond supply chain efficiencies, there was incredible efficiency from operating at scale. As the businesses grew, the incremental costs associated with demand could be handled with far fewer employees and far lower inventory costs.

Having built their business from the ground up with ecommerce and a digital supply chain in mind, Amazon and others were able to reap significant competitive advantages, including:

- Visibility into supplier and manufacturer inventory.
- Responsive, consistently excellent customer service.
- The ability to track and evaluate customer buying histories, behaviors and preferences.
- Customer profiling and product recommendations for better targeting.
- Customer self-service through low-cost online portals.

Convergence of B2B and B2C Commerce

Despite the different buying needs of B2C and B2B buyers, the expectations for rich user experiences and predictable transaction capabilities are becoming universal. Slick, multifaceted B2C ecommerce sites have changed the expectations of business buyers. On their own time, they shop retail sites that are easy to navigate, personalized to their preferences and full of the information consumers want before purchasing.

They now expect the same when they go online to place orders for business. That means B2B websites can no longer be utilitarian versions of a print catalog, with online processing added on. B2B buyers expect all the features they've become accustomed to on top retail websites.

The Curse of the Hairball

Amazon and other successful Internet companies raised the competitive pressure on all retailers and distributors. Traditional businesses reacted by implementing point solutions for commerce, service and supply chain coordination, all tied to their aging ERP infrastructure. IT departments stitched the new systems to their ERP through a spider web of integrations. At best, these integrations worked reliably, without manual interaction—until an application needed an upgrade, which invariably caused breakage. More commonly, they were batch-based, latent and error-prone.

In every case these integrations shared only a fraction of the available data, resulting in fragmented information in siloed systems scattered throughout the enterprise. This meant companies running on multiple systems struggled to compete

with their nimble competitors running on a modern, single, unified platform (see Table 2).

In short, by leaving traditional ERP at the center of the enterprise and surrounding it with a range of highly specialized point systems, organizations have rendered their systems of record frustratingly incomplete. They no longer hold the information most critical to their business: accurate information on customers' orders and inventory.

	Multiple Systems	Single Platform
Customer Insight	Customer data contained in siloed, channel specific systems is often inaccurate and redundant.	Single cross-channel view of customer enables consistent and personalize service and offers, builds loyalty and grows lifetime value.
Inventory Optimization	Inventory dedicated to specific channels limits capability to efficiently manage inventory.	Accurate, real-time inventory visibility across the entire enterprise helps optimize decisions for profitable fulfillment that meets customer expectations.
Order Management	Limited ability to manage orders across channels to meet customer expectations.	Centrally manage orders from all channels to meet custom expectations to buy, fulfill and return anywhere.
Returns	Cross-channel returns and exchanges not accepted or very manual and costly to process.	Accept returns from all channels, fulfill exchanges, manage credit processing and ensure saleable items make it back into inventory.
Product Content	Product data and attributes managed in silos, multiple versions of same data.	Consolidate and centrally manage product data and attributes across all channels from a single source truth.
Pricing & Promotions	Prices and promotions are channel specific.	Prices and promotions are easily rolled out based on channel or segment.

Table 2: Multiple Systems vs Single Platform



“The shift to digital at organizations is not happening—it cannot happen—at an incremental pace. Too much is riding on it. This is a transformative change, and to date too many organizations that have paid only lip service to supporting the customer across all digital channels have felt the sting of competition beating them to the punch.”

David Aponovich
Forrester Research²

² David Aponovich, Forrester Research, “The 14 Digital Customer Experience Tools You’re About to Invest In,” blog post, September 4, 2013.

The Customer is in Charge

Businesses realize that customers have access to almost endless information on products and price. With the rise of the smartphone this visibility is everywhere, including when shopping in stores. Customers are in control. Product availability, ratings and reviews, product specifications and personal order history were finally at the shopper's fingertips. In-store sales associates using old-world ERP systems had less information than a consumer had online, and shoppers became frustrated.

As a reaction, progressive businesses are realizing the need to move away from the traditional enterprise software model, predicated on channels and departmental software, to one organized entirely around the needs of the customer. This new model is frequently called omnichannel commerce, or more descriptively Customer Commerce.

The rise of Customer Commerce is a reflection of the two key changes that have happened over the past 15 years:

- Software has become a primary means by which customers interact with an enterprise, as opposed to the human-to-human interactions.
- Now that customers have perfect unlimited visibility into product availability and price, companies are being forced to implement systems designed to provide transparent information and offer great customer experiences on any device, from anywhere.

Designing for Customer Commerce

Unlike traditional systems, the future of business management systems will include financial management that is more than just a bottom line reporting mechanism. The modern financial management system will be integrated with supply chain, commerce, CRM and marketing, and able to influence business success all the way to customer touchpoints. While understanding the overall profitability of a business is valuable, financial management in the context of Customer Commerce means understanding the tradeoffs of generating immediate sales through fulfillment, promotions and loyalty programs to drive customer lifetime profit.

As businesses look to support new buying patterns for both B2C and B2B shoppers, many recognize that ERP systems designed for internal operations will never be successful as the foundation of a digital, increasingly global commerce infrastructure. Instead they need software designed to provide a holistic experience across every customer touchpoint but, as importantly, one that can present accurate information to the customer whether it is information about the store down the street or from the furthest reaches of the supply chain.

Building a Platform for Customer Commerce:

- **Comprehensive support and understanding of the customer.** Customers demand that retailers understand who they are, recognize their history with the company and fully support all prior transactions anytime they engage with a brand. They no longer will tolerate retailers that don't fully serve their needs across every channel.

Getting to a customer 360 view is just as valuable to the business. By creating a consolidated view of each customer, businesses are able to gain new insights into their activities and value. This 360 view is particularly important in identifying cross-channel shoppers of particularly high value. However, with the proliferation of transactional systems, building a single, complete view of the customer has become more difficult. Using traditional ERP, even with CRM, most companies have a difficult time correlating transactions that occur across different channels back to a single shopper.

- **Inventory visibility and intelligent order orchestration.** Most customers are astute enough to understand that a product won't always be available in every location. However, they increasingly expect companies to tell them where the product is available, when they can get it and at what cost, and allow them to make the best decision about whether to buy it. To support this expectation to buy, fulfill and return anywhere, businesses must be able to profitably execute on a wide variety of fulfillment options, such as direct ship from warehouse, split shipment, store fulfillment, drop ship and continuity/subscription programs.
- **Business expansion.** Ecommerce eradicates the limitations of physical store locations. Smart businesses are choosing systems that allow them to fulfill demand from multiple location inventories, including drop shipping, as well as accepting payments from shoppers in any currency. At the same time, they're laying a foundation for future expansion into additional countries without a dramatic increase in cost and complexity from their IT infrastructure.

- **Continually innovate new customer experiences.** The words “customer experience” and “ERP” are rarely spoken in the same breath—largely because the ERP systems that hold customer and inventory data were not designed to be customer-facing. However, supporting Customer Commerce requires both easy access to enterprise data and the ability to create whatever experience is required to engage a customer on any device, now or in the future.
- **Enterprise-wide visibility into the supply chain and financial insight.** It no longer matters where a product is located, or if it is owned by the company selling it, if it can be routed to a location of the customer’s choosing in a cost-effective and timely manner. In addition, businesses need a fundamental understanding of the economics of fulfilling demand:
 - Cost of a product, including cost reductions that may result from volume discounts.
 - Cost to acquire a customer, divided by the number of transactions per customer.
 - Profitability of a given order, including accounting for any unanticipated savings realized or costs incurred in that order.

Turning Business Software Inside Out to Support Customer Commerce

Most companies looking to deliver on omnichannel commerce fail to realize the depth to which they need to redesign their core infrastructure. Every aspect of this infrastructure needs to be evaluated to design in customer centricity from the start (see Figure 1). Further, it needs to recognize that companies that orient around their customers and directly connect demand to a digitally enabled supply chain will be the long-term winners.

In short, this new approach requires buy-in across an organization, not just a single department. Because most software buying decisions are made at a departmental level, there is a propensity to focus on the symptoms of a problem, rather than the root cause. Many companies are spending hundreds of thousands of dollars integrating separate systems to support their omnichannel ambitions, without addressing the core problem, which is their software having been designed to support employees, rather than customers.

By comparison, many leading ecommerce companies, particularly Amazon, have built their infrastructure to take advantage of global product and price transparency, even dynamically pricing versus competitors. Starting with a clean slate, they were able to build their software with an understanding that it would become a foundation of their customer relationship. And they started with an expectation that to keep up with the ever-evolving needs of their customers, their systems would need to be continually refreshed and improved.

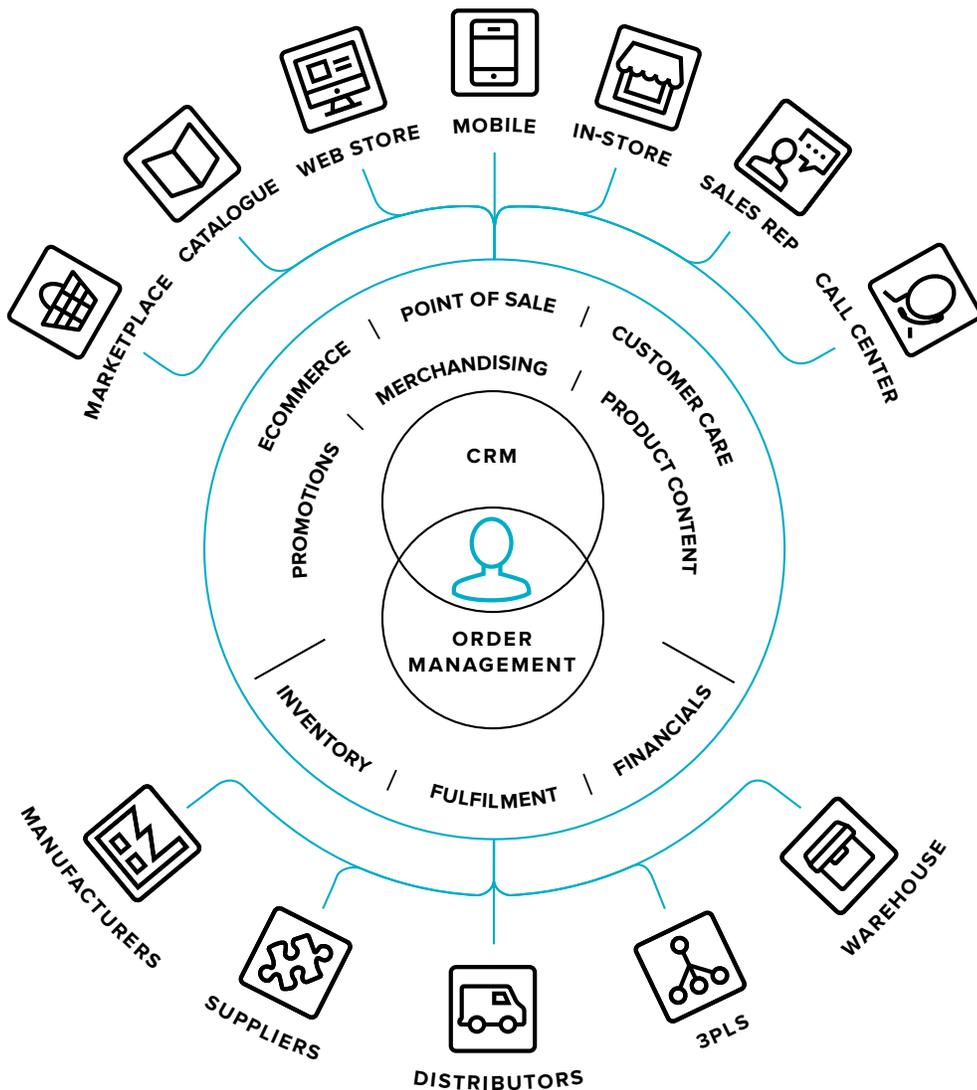


Figure 1: Commerce Infrastructure Designed Around the Customer

Innovate or Stagnate: The Time is Now

History books are littered with examples of companies that didn't feel the latest disruptive technology applied to them—only to go out of business. Newspapers and the music industry have already been irreversibly changed by the rise of the Internet, but now that change is roiling even the most old-world industries by efficiently connecting supply with demand.

Five years ago, would anyone have expected that the taxi industry would be disrupted by innovators like Uber and Lyft? Certainly the hotel industry would have found it unlikely that the persistent supply of empty homes could be utilized by Airbnb to provide a revolutionary lodging model.

By now, the most astute businesses realize that we're in the early innings of a long game and have just begun to see the foundational disruption promised by the Internet. If you are not redesigning the core of your business to better connect your customer-facing systems with the internal operational aspects of your business, someone else in your industry is.

Because this Customer Commerce revolution is irreversible, the changes over time will only be greater, encompassing portions of the organization up to now unchanged. The key is putting in place a foundation that supports this change by having digital commerce, both for the customer-facing system and the supply chain, at its core and software that is constantly up to date. With that, organizations will be prepared to compete in the decades ahead.

Delivering the best customer experiences requires wholesale changes: in organizational structure, in culture and in IT systems. It requires a more modern infrastructure built around the customer. A modern infrastructure is an investment that will pay off in the years and decades to come. But finally, the ultimate goal is within reach: give customers a personalized, relevant and consistent experience across every channel.

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