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JUNE 2018 TECHNOLOGY FOCUS REPORT

Omnichannel fulfillment isn't easy

This special report examines the various ways merchants are adapting to consumers' needs.

From the editors of Internet Retailer

Omnichannel fulfillment isn't easy

Many online retailers fail to offer shoppers the fulfillment options they desire.

BY JAMES MELTON

While consumers' fulfillment and delivery expectations are increasing, many leading e-retailers are not offering a full menu of options.

Among the Internet Retailer 2018 Top 1000 e-retailers, just 57 fulfill online orders by shipping inventory directly from their stores. Much more common—but still not universal—are in-store pickup and returns of online orders.

Nearly half (45.7%) of the 221 retail chains in the Top 1000 allow customers to buy products online and pick them up in stores. That option is extremely popular among online shoppers. A recent Internet Retailer survey conducted by Bizrate Insights found that 61.8% of consumers have used the service.

Also, 59.3% of retail chains in the Top 1000 allow customers to return online orders to stores. Some are even expanding the options they offer shoppers. For instance, Amazon.com Inc. recently aligned with Kohl's Corp. to allow shoppers to return Amazon orders to Kohl's stores.

OFFERING A RANGE OF OMNICHANNEL options isn't easy or cheap. For example, Home Depot Inc. plans to spend $5.4 billion over the next three years on strategic investments to support the home improvement retailer's "One Home Depot" vision—which is what Home Depot calls its quest to deliver shoppers the ideal omnichannel experience. As part of those plans, the retailer plans to hire more than 1,000 technology professionals.

Home Depot's omnichannel investments so far—which include a robust mobile app, fulfillment options including ship to store; buy online, pick up in store; buy online deliver from store; and online information about local Home Depot stores, such as inventory levels and product location—appear to be paying off.

Home Depot's web traffic exceeded 1.9 billion visits in 2017, according to data from SimilarWeb Ltd. During an investor webcast in December, Kevin Hofmann, Home Depot's president of online and chief marketing officer, said 60% of the retailer's sales—online and in stores—are influenced by those online visits.

That's because consumers often come to Home Depot stores knowing exactly what they want, having gone online first. In addition, the retailer has grown its online sales by about $1 billion per year for the past four years. In a first-quarter earnings call with analysts on May 15, Home Depot CEO Craig Menear said online sales grew about 20%, compared with the first quarter of 2017, according to a Seeking Alpha transcript.

Most retailers don't have an omnichannel vision as well-defined as Home Depot. In fact, 33% of merchants do not have a clear omnichannel fulfillment strategy in place, according to a recent survey of 76 North American retailers conducted by Forrester Research Inc. on behalf of the National Retail Federation. Another 33% don't have the right metrics in place to measure the effectiveness of their omnichannel experience strategy.

Asked about their top customer-facing fulfillment priorities for 2018, 42% of respondents to the survey cited "generally faster shipping." Adding ship-from-store capabilities was mentioned by 15% of respondents and omnichannel fulfillment—which includes shipping from stores and in-store pickup of online orders—was mentioned by 12%.

The emphasis retailers place on fast shipping makes sense. But what consumers seem to want most is shipping that is both fast and free. When Internet Retailer surveyed consumers in late December about what matters to them when shopping online, 52.8% said free shipping was most important. Also, 9.4% said fast shipping was their primary concern and 37.8% said free and fast shipping are equally important. The survey of 510 U.S. consumers was conducted by digital insights firm Toluna.

Overall, major store-based retailers are making good progress integrating omnichannel fulfillment, but there's more work to be done, says Ken Cassar, vice president, principal analyst for data firm Slice Intelligence.

"It's easy to beat brick-and-mortar retailers up for how long it took them to get the online religion," he says. "The biggest issue that persists today is inadequate inventory tracking. Too many items turn out to be 'out of stock' when the consumer gets to the store to pick up their click and carry orders. We are seeing positive moves forward on this front, as retailers experiment with robots and drones to keep inventory up to date, but there is a lot of room for improvement."

Cassar says that among mass merchants, Target Corp. and Walmart Inc., are doing particularly well with omnichannel fulfillment. Target says it fulfills 70% of orders from stores and is coupling that capability with recently acquired delivery company Shipt, and nearly half of Walmart's online orders are picked up in-store.

OMNICHANNEL FULFILLMENT ISN'T JUST FOR BEHEMOTH RETAILERS like Home Depot. In some cases, retail chains have had success using their stores as a prime source of inventory to fulfill online orders. And, in the past few years, more small and midsized digitally native retailers and consumer brand manufacturers have opened stores, showrooms or temporary "pop-up" shops in order to engage customers face-to-face.

Take Lululemon Athletica Inc., which began shipping online orders from its stores in late 2016. It now has the ability to ship online orders from 186 stores of its roughly 400 locations. It plans to expand that capability to more locations throughout this year. The retailer has been successfully "leveraging the website as a clearance vehicle" for excess inventory in its store, said Stuart Haselden, the retailer's chief operating officer and chief financial officer, in a recent quarterly earnings call with analysts.

Meanwhile, Dormify, a web-based college dorm room furnishings retailer is opening temporary "style studios" in New York City, Chicago and Bethesda, Md., from May to August. The goal of the studios is to help boost the retailer's sales at least 80% year over year, says Lauren Ulmer, director of product at Dormify.

For the past few years, Dormify has offered by-appointment styling services at its New York City headquarters. In true omnichannel fashion, shoppers who book the styling sessions select products that are then shipped to their homes, or directly to the customer's school at a later date, Ulmer says. The new style studios will operate in the same way.

Although all of the sales are technically online, Ulmer estimates that sales from styling appointments at its headquarters account for up to 10% of its overall sales. Dormify is opening the pop-up studios just for the summer months because the back-to-school period is responsible for 65-80% of its annual sales, she says.

Dormify grew sales 192% from 2015 to 2017 and has generated millions in sales annually. Dormify projects to double in revenue in 2018. In 2017, the retailer switched to a Shopify Inc. e-commerce platform from its Magento e-commerce platform, Ulmer says.

While slightly less than half of Top 1000 retailers offer in-store order pickup, those companies have either figured out the logistics or are learning as they go. More than half of those retailers offer in-store returns of online purchases. Storage space issues and additional staff can be substantial investments, but if nearly two-thirds of consumers have used such features, more soon will likely expect such services. Omnichannel retailers can expect to hear from unhappy customers if they don't unite web and store fulfillment. ●

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April Berthene contributed to this story.

61.8%

THE PERCENTAGE OF CONSUMERS WHO HAVE BOUGHT AN ITEM ONLINE AND PICKED IT UP IN A STORE.

Source: Internet Retailer survey conducted by Bizrate Insights

Why retailers need to bolster their fulfillment and delivery capabilities

SEAN MCCARTNEY
Executive vice president of global operations at Radial Inc., a global omnichannel technology and operations provider

It's difficult to succeed in e-commerce, even for large, well-known brands. For instance, after H&M reported a sizable drop in profits, the fashion retailer's CEO Karl-Johan Persson said the online retail industry requires companies "to transform and rethink faster and faster."

Sean McCartney, executive vice president of global operations at Radial Inc., a global omnichannel technology and operations provider, agrees.

"E-commerce is in a constant state of flux, and those who can't adapt quickly will lose market share and customers," he says. "To succeed, retailers need to replicate what the leading players, such as Amazon, are doing in the area of customer experience—and fulfillment and delivery are central to that strategy."

However, many retailers face several fulfillment and distribution challenges, such as labor, he says. "Labor is the fuel of e-commerce facilities," McCartney says. "Right now, there just isn't enough manpower out there to handle the demand—especially during peak seasons."

Integrating different systems can also be difficult for retailers—particularly for those still working with older networks, McCartney says. "Being best in class requires robust networks that give the retailer a full view of inventory, and it won't get that on these older systems," he says. "This tends to be the biggest obstacle for retailers wanting to transition to a modern fulfillment and delivery system."

McCartney suggests retailers take on a multi-location, regionalized fulfillment strategy, and then harmonize it with omnichannel technology to leverage the store network as fulfillment points.

"Omnichannel technology is an essential component of winning in fulfillment because it connects inventory across the entire chain," he says. "The technology allows retailers to optimize fulfillment and delivery based on business rules and algorithms within their network to scale e-commerce shipments." For example, it helps them understand when to ship an item from a fulfillment center or a store.

Implementing omnichannel technologies and strategies can be difficult for retailers to handle on their own. That's why McCartney suggests merchants work with a partner, such as Radial, that has the technology to manage intelligent order routing as well as the expertise and best practices to set up business rules in order to optimize order distribution, minimize split shipments, and set store level maximums, to name just a few key considerations. "We're one of the largest e-commerce solution providers in North America," he says. "Our solutions help retailers be more efficient, maximize inventory sell-through, reduce costs, and ultimately drive more revenue."

Radial has more than 11.7 million square feet of fulfillment capacity in locations throughout the country. "This means we can deliver orders to customers faster and reduce shipping costs for retailers," he says. In 2017, Radial shipped 242 million units—50 million of which were shipped during the peak shopping season; in addition to $1.3 billion in-store fulfilled sales.

Partnering with a vendor such as Radial also alleviates the labor challenges most e-commerce companies face. "By leveraging the volume of multi-tenant fulfillment centers, it's easier to keep labor year-round and hire temporary workers during peak seasons so that retailers can focus on their business," McCartney says.

Radial's data analytics technology gives retailers better visibility into their inventory, as well. "It allows intelligent inventory placement across fulfillment locations to match supply with demand," McCartney says. "Retailers are able to avoid inventory inaccuracies and reduce split shipments and transportation costs."

Thanks to Amazon.com Inc. and Walmart Inc., consumers have high service-level expectations when it comes to e-commerce. "There is an element of speed to compete," he says. "To do that, it's absolutely imperative that retailers have the capabilities in place—the right infrastructure, people, networks, technology, and partners—otherwise, they will be swallowed up by the competition."

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