

SPECIAL EDITION

internetRETAILER[®]

APRIL 2019 | DIGITALCOMMERCE360.COM/IR



The Omnichannel Issue

Stores are taking multiple paths to connect the dots between their online and offline operations.

- + **How Walmart, Target and other retail chains are evolving**
- + **Kroger, Albertsons and other grocers eye growth online**
- + **Indochino's store-based strategy**

a publication of

DIGITAL
COMMERCE **360**



BRINGING STORES UP TO SPEED

Large retail chains are bringing more omnichannel technologies into their stores. But for many it's a challenge to train employees, to provide shoppers with a consistent brand experience and to decide which stores get a service first.

BY APRIL BERTHENE

THERE'S NO EASY WAY TO MAKE A CHANGE EN MASSE to Walmart's 4,756 U.S. stores. "When you talk about Walmart, you are almost always talking about scale," Jeremy King, then-Walmart Inc.'s executive vice president and chief technology officer told attendees at NRF 2019: Retail's Big Show (he left Walmart for Pinterest at the end of March).

As a result, there will undoubtedly be some notable differences across its fleet of stores each time the retailer rolls out a new way to tie together its online and offline operations via a service or technology, such as in-app store navigation, buy online pick up in store (BOPIS), curbside pickup and pickup towers. For example, roughly 15% of Walmart's U.S.



'BOPIS is the closest thing to instant gratification you can get without going to the store.'

GEORGANNE BENDER, A PARTNER AT RETAIL CONSULTANCY KIZER & BENDER

stores have pickup towers, which can hold up to 300 online orders at a time. Other locations feature a self-service kiosk with lockers, a pickup counter or a combination of these options. The towers and kiosks allow a shopper to walk up and scan her confirmation bar code and either the product will dispense or the appropriate locker door containing the purchase will open.

Walmart weighs a host of factors, including foot traffic, size, layout, location and sales, to determine which locations will receive each new feature it rolls out, a spokesman says. And while the individual settings may differ, Walmart aims to ensure that a shopper who chooses to buy an item online and pick it up in a store doesn't experience any hiccups.

Although Walmart has one of the largest store fleets in the U.S., it is not alone in dealing with the challenge of providing a consistent experience store to store in regards to digital features. Omnichannel services, such as buy online pick up in store, curbside pickup and pickup lockers and towers, are the bridges that link a merchant's physical and online stores. But weaving together a retailer's online and offline operations is a work in progress for most merchants. Like Walmart, most retailers with a sizable physical footprint can't make sweeping changes to their stores overnight. They have to pilot features, measure their results, train employees, then create a road map to the stores that

should get the features next and continue to invest. And, even more important than technological bells and whistles, they need to figure out how to deliver a satisfying experience to shoppers no matter which store they visit. That isn't easy.

WITH SO MUCH CHANGE OCCURRING

at once, retailers don't need to worry about deploying every emerging omnichannel convenience at once, says Brendan Witcher, a Forrester Research Inc. analyst. There are a number of tools that consumers have not yet come to expect and they likely won't be disappointed if one location has an emerging feature that another location doesn't.

"I don't think you are going to lose a customer because he can't pick up a product in a locker if he can still pick it up in store at a counter," he says.

The question retailers should ask is not if shoppers are interested in, or would like to have, a feature but if consumers would not shop at the retailer if it were unavailable. That would mean if many retailers offer the service, shoppers view it as convenient and have adopted it into their shopping pattern, he says.

"By not offering the same feature, it doesn't hurt the shopper experience as much as the retailer," Witcher says. "If I offer BOPIS at store one but not at store two, the customer may not choose to buy from me because they assume that if I don't have the item in store two inventory, I don't have it at





all. Customers may not hold it against the retailer, but the retailer loses the sale.”

That suggests trouble for a large share of retail chains that are still in the early phases of integrating their online and offline operations. For example, only 53.5% of the 213 retail chains ranked in Internet Retailer’s Top 1000 offered BOPIS last year. While that was up from 47.0% a year earlier, the 46.5% of merchants that don’t offer the feature demonstrate that there’s still more work to be done.

That particular shortcoming is glaring because a majority of consumers have used BOPIS and its usage is growing. 58% of shoppers have ordered an item online and picked it up in a store, and 53% of all shoppers plan to do so more often this year, according to Internet Retailer and BizRate Insights’ survey of 1,110 shoppers from December 2018.

AMONG THOSE MERCHANTS THAT OFFER

a BOPIS option, many are seeking ways to make the service more convenient. “Convenience is key,” says Georganne Bender, a partner at retail consultancy Kizer & Bender. “BOPIS is the closest thing to instant gratification you can get without going to the store.”

For example, a number of chains are rolling out curbside pickup options or lockers that enable shoppers to pick up online orders. In Internet Retailer’s recent analysis of 10 omnichannel-focused retail chains at an individual store level, 90% had an online pickup area in the front of their store, all had dedicated counters/lanes for online orders, 30% offered curbside pickup and 20% offered in-store kiosks that consumers could use

to retrieve orders. But as retailers add new features, they also increase the likelihood that they won’t be able to add some features in certain locations. For example, Target’s curbside pickup offering isn’t available at its location in the historic Sullivan Center in downtown Chicago.

Even if they don’t offer every service in every location, it’s incumbent upon retailers to find ways to meet consumers’ baseline set of expectations. When asked what makes for a best-in-class store pickup experience, 57% of shoppers in the BizRate survey said quick service, 46% said an easy-to-find counter/location to pick up the item and 45% said a separate pickup line.

Finding ways to deliver that experience to shoppers is crucial for a retailer like Home Depot given that half the retailer’s U.S. orders were picked up in a store in the fourth quarter. To streamline that process, Home Depot is in the process of adding lockers to its stores that allow shoppers to retrieve their online orders. To access their order, a shopper scans his bar code at a station near the front of the store.

The lockers save shoppers “not an insignificant amount of time,” says Chris Duffy, vice president, of merchandising, in-store environment, without revealing specifics.

The pickup experience with a locker is quick because shoppers don’t have to wait in a line or wait for an employee to retrieve the order. In a recent Internet Retailer test of omnichannel services at omnichannel-focused retail chains, it took researchers one to two minutes to retrieve their online orders at the store from the time they entered the pickup line to having the product in hand. The lockers benefit Home

53%

The percentage of shoppers who plan to increase their use of BOPIS this year.

Source: Internet Retailer and BizRate survey



Omnichannel capabilities help retailers outpace their competition

ANTHONY HOCKADAY

director of client services at Radial, a global omnichannel technology and operations provider



Ecommerce is growing quickly. Consumers spent more than \$517 billion online with U.S. merchants in 2018, up 15% from approximately \$450 billion the year prior, according to a new Internet Retailer analysis of industry data and historical U.S. Commerce Department figures. And there's no sign that growth will slow any time soon.

But with more consumers spending online, retail competition is rising. Retail research company PipeCandy reported that there are now about 1.3 million ecommerce companies in the United States. With so many players competing for consumers, retailers are scrambling to find new ways to get their products in front of customers, says Anthony Hockaday, director of client services at Radial, a global omnichannel technology and operations provider.

"Retailers now want their products on a variety of different channels," he says. "Not only selling on their own brand web stores, but also venturing into marketplaces and reverse drop-shipping, where they sell on another retailer's web store because that retailer is a good fit for their end customer."

Retailers with physical stores are also seeking new ways to offer customers multiple purchase and fulfillment options, Hockaday says. "Buy online pickup in store is standard now," he says. "We are seeing some retailers offer reserve online pickup in store as a convenience for their customers."

As retailers expose more consumers

to their products, they're under increasing pressure to fulfill those orders quickly, easily and cost-effectively. That requires them to dig into their data to examine historical purchase behavioral patterns and to identify potential high-selling items, Hockaday says. "They need to understand where their high-selling items are regionally so they can stock those products close to those customers to drive faster delivery times and minimize shipping costs," he says.

That can create issues when merchants try to implement these practices on their own. "When it comes to marketplaces and reverse drop-shipping technologies, understanding what to integrate, how to integrate it and how to do so in a way that provides a seamless

experience to their customer on any of those channels can be complex," he says. "Those same technical challenges exist for integrating with delivery carriers—whether national or local—that allow retailers to offer multiple delivery options."

Hockaday recommends retailers work with a technology provider that offers the technical capabilities and expertise to guide them through the entire process. "Most retailers need a technology suite that solves these problems for them," he says. "Radial, for example, provides out-of-the-box solutions with best-practice configurations that are configured to a retailer's specific business rules. That allows them to expose the products in a variety of channels while giving customers flexibility on how they want to purchase and receive the product."

For example, Radial recently worked with a sporting goods retailer with 465 physical stores and \$165 million in annual ecommerce sales. The merchant had a five-year goal to reach \$1 billion in ecommerce sales. After implementing Radial's omnichannel capabilities, the retailer was able to leverage its store network and ultimately fulfill 72% of the ecommerce orders through those stores. Within only three years, it hit its \$1 billion goal.

"Omnichannel retailing is complex and doing it on your own is challenging," Hockaday says. "Radial has the expertise and proven track record to help retailers solve those complex business problems, maximize their investments and implement technologies that are scalable and flexible to be able to adapt to the ever-changing ecommerce landscape." ■



Simplifying Ecommerce

Radial is focused on delivering technology and services to help you:

- **Deliver Orders Faster**
- **Expose More Inventory**
- **Scale on Demand**
- **Mitigate Fraud**
- **Inspire Customer Loyalty**

Visit **Radial.com** to see how our Fulfillment, Supply Chain Logistics, Customer Care, Payments & Fraud and Order Management solutions can grow your business.

www.radial.com | +1 877 255 2857

Home Depot is in the process of rolling out order pickup lockers to its stores to make buy online pick up in store faster.



Depot as it does not need to have an employee stationed there like it does with a pickup line, Duffy says.

Home Depot tested pickup lockers because speed is important to its shoppers, and lockers would help get shoppers in and out of its stores quickly, Duffy says. But before Home Depot decides to roll out a feature chainwide, it first undergoes a rigorous process, including upfront research and testing and learning in an innovation center and lab, he says. Then, Home Depot will release the feature “into the wild” at designated pilot stores to gather consumer research and insight, he says.

Home Depot has three designated pilot stores that offer geographic diversity and a mid-to-high volume of sales: one near its headquarters in Atlanta, one in Chicago and one near Los Angeles, he says.

The features have to “earn their way” into stores based on shopper response, he says. For the lockers, roughly 94% of customers

rated their locker pickup experience as a five-out-of-five stars, Home Depot reports.

Home Depot then uses statistical models to decide which stores would be best to continue testing the feature based on their geography, demographic and shopper patterns, Duffy says.

“It’s a sliding scale of efficacy,” Duffy says. “When we are in the experimentation phase, there will likely be one pilot store, and then if we start to see signals that resonate with customers we go to three or five, or 10 and then when we really pressure-test customers with 50 and 100 stores.”

If a feature works well, like the pickup lockers, Home Depot’s goal is to get it rolled out to its top 40 markets. These 40 markets comprise roughly 1,350 of its stores, which generate the majority of its overall transactions and sales, Duffy says. This is about 68% of Home Depot’s entire U.S. store fleet.

The lockers are now in roughly 1,000 stores, and it is working toward that 1,350 store goal. The retailer has not determined if it will roll out lockers to its entire fleet in 2021 and 2022 and will reevaluate once it gets them into its top 40 markets. Plus, markets that don’t have a high enough volume of BOPIS orders likely don’t need lockers to accelerate pickup and won’t get them, Duffy says.

1,350

The number of stores that cover Home Depot’s top 40 markets, which is its initial target when rolling out new features.

Source: Home Depot Inc.

WHILE ONLY A SHARE OF stores have all of the retailer’s omnichannel features, Home Depot works to ensure that each store offers a similar experience. For example, the merchant is working to map each of its stores for an in-app wayfinding feature. This way, no matter which store a shopper is going



Home Depot has in-app wayfinding to help shoppers find products and navigate a store.

into, the app can show a consumer exactly where to go, Duffy says.

It can be a tricky balancing act for merchants to pilot features while also providing consistency because shoppers occasionally cross over between locations, such as if they are going to the store closest to their house or on the way home from work. And if one store has a policy, shoppers will expect the other one to have it too, Bender says.

The reality is that discrepancies will exist. But as long as the retailer has good service

and explains which services it offers and which are in a pilot phase, shoppers will not be disappointed, says Charles Dimov, vice president of omnichannel retail at inventory management vendor Order Dynamics. Bender agrees and says if a store location is slated to get a service but doesn't have it yet, shoppers typically understand that it takes time to roll out a feature.

With Home Depot's locker locations, for example, some items might be too big for the lockers, and shoppers still will need to go to a pickup counter. Home Depot's communication system automatically adjusts its message to alert shoppers if their order is in a locker or at the service desk, to help ensure shoppers have a simple and appropriate experience, Duffy says.

Plus, Home Depot knows that all of its stores won't be exactly the same just based on the market they serve. For example, Home Depot's urban shoppers have a higher tendency to buy online and pick up in store than suburban shoppers, and so Home Depot works to ensure its urban stores make space for the large storage areas needed for the higher volume of order pickups, he says.

TARGET IS ANOTHER RETAILER

ACTIVELY remaking its stores to cater to the specific markets where they are located. Target has smaller-format stores for urban areas and near college campuses. An average full-size Target is about 130,000 square feet, while smaller-format stores are on average a third of that size at 40,000 square feet.

"At Target, our stores are designed to meet the needs of the specific community they



Target's marketing materials highlight its multiple omnichannel services that work to marry its stores and ecommerce operations, such as its Drive Up program, delivery from store, same-day delivery and order pickup feature.

serve, which is why no Target stores are exactly the same," a Target spokeswoman says.

For example, Target offers its Drive Up service—when a Target employee walks out of the store and delivers the online order to shopper's car in a designated area—in roughly 1,000 stores where parking is available. Target made nearly 2 million parking lot deliveries in 2018, the retailer reports. For its urban markets, Target has Delivery From Store, which uses store inventory to ship products to a shopper's home the same day, the spokeswoman says.

"We know our guests shop in multiple ways and at multiple stores, depending on their needs and preferences," a Target spokeswoman says. "Target markets to guests nationally about our services, as well as at a local level—including in-store signage and mobile app options—to generate awareness of the convenient pickup and delivery services available to them in their area."

Target is also in the midst of remodeling its stores to help them double as fulfillment centers. The retailer remodeled more than 300 stores in 2018 and plans to remodel hundreds more in 2019, which would put Target on track to remodel more than 1,000 stores across the country by the end of 2020.

"We use a number of metrics to help determine which stores will be remodeled, including store performance, demographics, site constraints, competition and market potential," says a Target spokeswoman. "We also take into account the age and condition of the building."

So far, its investments are achieving the goal. Target stores fulfilled 75% of online orders during the fourth quarter, which CEO Brian Cornell said is doing the work of 14 fulfillment centers. In addition, Target generates an average sales lift of 2-4% per store following a completed remodel, the retailer says.

WHILE THESE ARE PROMISING RESULTS,

the process of rolling out services chain-wide is not always as smooth. In August 2017, Walmart tested Mobile Express Scan and Go at 120 stores. The feature allowed shoppers to use the app to scan bar codes of products as they shopped in-store, pay in the app and leave without visiting the checkout line. Walmart-owned Sam's Club has offered this feature since 2013.

Walmart, however, found that Scan and Go at its stores added more "friction points" instead of convenience, the spokesman says. For example, at Sam's Club, shoppers



Walmart uses virtual reality to train associates on new features in its stores.

usually don't have to bag their items, the produce is prepackaged and shoppers are used to having their receipt checked at the door. This is not the usual way consumers shop at a Walmart store and having to bag items, weigh produce and then get a receipt checked at the door was not easy. Walmart shut down the pilot in May 2018.

But when Walmart does find an omnichannel service that resonates with shoppers, it leans in. For example, Walmart last November rolled out a feature to all stores that allows shoppers to check out from any aisle where they can find a roaming associate wearing a yellow "Check Out with Me" sash. At any time, about three to five associates per store are available to check shoppers out, depending on the time of year, traffic and size of the store, the spokesman says.

The program started in summer 2018 as a service available in Walmart's garden department. Within a few months, Walmart expanded it to all departments in all stores,

which is an indication of its success, a Walmart spokesman says. Between November 2018 and January 2019, Walmart processed more than 1 million transactions with Check Out with Me, he says.

To train employees on this program, Walmart uses virtual reality headsets. The retailer has 200 training centers that have the headsets, which it calls Academies, that are co-located with stores across the U.S. Walmart also recently finished equipping every store with headsets so more associates can access VR training.

"VR allows associates to interact with training in ways they can't with pictures or words on paper by recreating real-life situations, demonstrating how something works and creating a safe environment to learn in real time," the spokesman says.

Walmart will continue to use virtual reality to train associates on new technology and processes because it works. Employee training test scores increased 5-10% when using VR to train compared with employees who trained with computer-based and classroom learning, the spokesman says.

No retail chain, omnichannel feature or market is one-size-fits-all. These large merchants have found that they need to analyze each facet to best roll out an omnichannel service. Retailers are using virtual reality to train employees, statistical modeling to select stores and shopper feedback to judge results to help inform their decisions on how to roll out the next phase of their omnichannel endeavors. [iR](#)

