internetRETAILER®

Omnichannel fulfillment isn't easy

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

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. ●

JAMES@VERTICALWEBMEDIA.COM | @JM_INTERNETRET
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

Automating fulfillment and delivery can help retailers compete in e-commerce

DON CADDY
Chief operations officer at Engineering Innovation, a parcel processing equipment manufacturer

It's never been more important for retailers to stay up to date with state-of-the-art technology that enables them to provide excellent experiences throughout the entire customer journey—including fulfillment and delivery.

"E-commerce changes so fast, and oftentimes updating technology can take a year or more," says Don Caddy, chief operations officer at Engineering Innovation Inc., a parcel processing company. "By then, everything has changed again, and that new technology is out of date."

Amazon.com Inc., Walmart Inc. and other e-commerce giants have driven consumers to expect fast delivery, forcing other retailers to keep up or risk losing sales. That can pose challenges because retailers don't want to undergo costly, time-consuming technology updates, Caddy says.

"Hiring additional labor to support the increased workload seems like the right solution," Caddy says. "But the reality is, in many cases—especially during peak times—there just isn't enough labor out there." For instance, during the 2017 peak holiday shopping season in Indianapolis, one of Engineering Innovation's clients said there was one applicant for every 10 fulfillment and distribution center jobs.

Retailers looking for a more efficient and cost-effective option for improving their fulfillment and delivery capabilities should consider a parcel automation system tailored to their specific shipping requirements, Caddy says. "Retailers with parcel automation can maintain their standards of productivity and accuracy, while using fewer laborers—making it especially beneficial during busy peak shopping seasons," he says.

However, because every retailer is different so are the capabilities they need in their parcel automation systems. "What may work well for one retailer, may not work for another," he says, noting that's why Engineering Innovation created its Chameleon automated system.

Chameleon is made up of different modules that can, for instance, weigh packages, measure a package's dimensions, read bar codes, add labels and sort packages.

A retailer can configure the pieces it needs to fit its specific needs. "The modules allow the tool to be customized for each retailer," Caddy says. "It's essentially a custom, off-the-shelf solution—without the retailer having to undergo the time and expense of building a custom system."

Retailers can also reconfigure Chameleon to operate for different purposes depending on the situation. "One Chameleon user, for example, might use the tool to weigh and dimension the parcel, read addresses on parcels, print and apply a label, and then sort the packages, while another might use it to sort bar coded items for fulfillment," he says. "And because it's modular, Chameleon can easily be moved around to different warehouses if necessary."

Most importantly, Caddy says, Chameleon can grow with a retailer's business. "We provide solutions that can help them out today, but also keep up with the business as it expands—either through added functionality or increased speed," he says. "They don't have to worry about the technology becoming obsolete in a year."

In today's age of increasing competition, advancing technology and growing customer demands, Caddy says retailers need to consider automating their fulfillment and delivery function sooner than later. "Automation tools let retailers process orders with greater efficiency and flexibility," he says. "It's the only way they can compete in this constantly evolving—and often unpredictable—e-commerce landscape."