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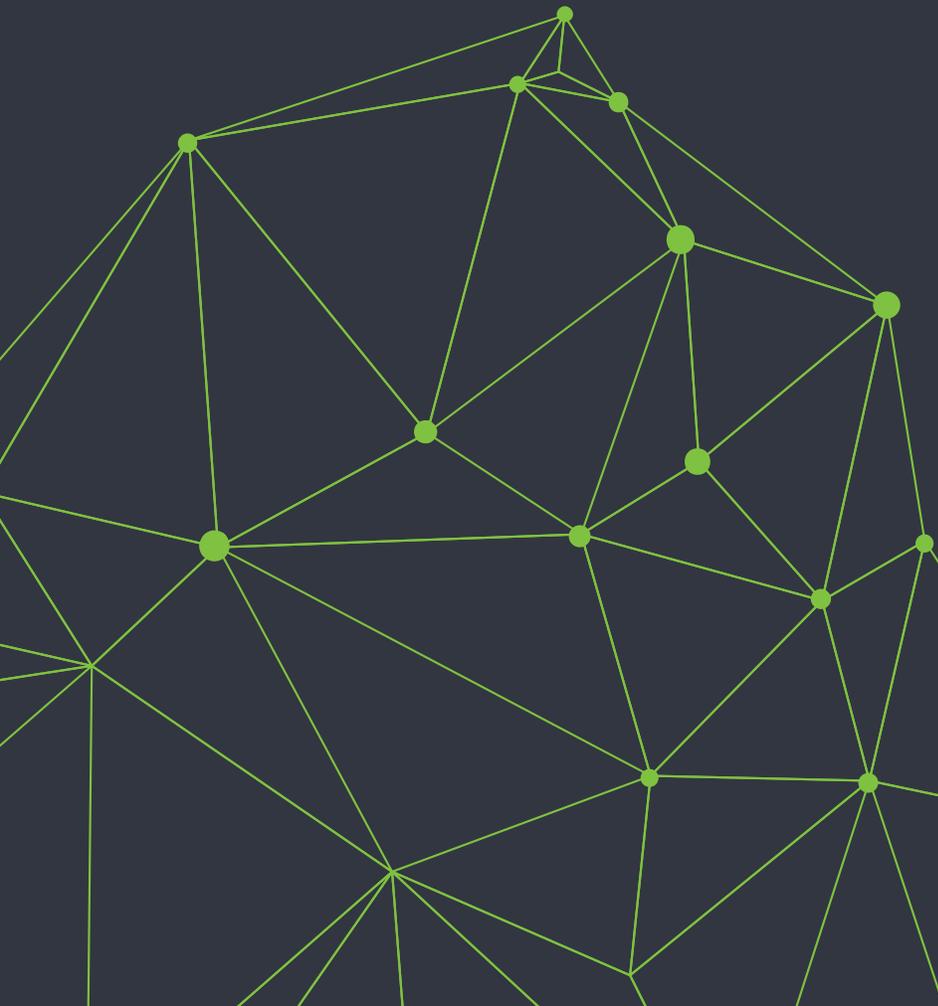


**A road map for
omnichannel fulfillment**

Assessing your omnichannel
retail strategy

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Introduction

With the holiday season on the horizon, it is time for retailers to assess their omnichannel fulfillment strategies. In the first COVID-19 holiday season, it is increasingly clear that a retailer's success will depend on their ability to leverage omnichannel store fulfillment as consumers continue to shop using e-commerce channels at an accelerating pace that is greater than pre-COVID-19 levels.



Preparing for the holiday season will be very different this year. Many companies have suffered disruption due to the pandemic and are still trying to recover by adapting to the new normal created by forced consumer preferences and safety protocols. This is driving increased in-store and online shopping integration so that the path toward purchase (and fulfillment) is not based on satisfaction in one channel over another, but rather on safety, convenience, and flexibility.



One approach legacy brick-and-mortar retailers have taken is taking advantage of the local store inventory while minimizing shipping costs using store locations for omnichannel fulfillment. Target has set the pace by making multipurpose use of what it already has in abundance: physical stores. During the first quarter of 2020, the retailer fulfilled 80% of its online orders through its nearly 1,900 retail locations.¹ Curbside pickup of web orders increased 500% year over year as Target extended the service to about 1,750 of its almost 1,900 stores.² Target also plans to open more smaller-footprint stores in cities and on college campuses (about the size of a typical convenience store), providing more locations where consumers can buy goods and also pick up online orders.³



Walmart's US e-commerce sales are expected to rise 44.2% to \$41.01 billion in 2021, a significant bump from 2019's stellar 36.8% growth.⁴ To keep up with increased demand during the pandemic, it has quickly ramped up its operations by utilizing its vast physical footprint to fulfill online orders. The company has temporarily started using 2,500 stores to fulfill orders and address the backlog in its online operations.⁵ Walmart also recently launched Express Delivery at 1,000 stores, which promises to deliver online orders in less than two hours.⁶

Following the trend, 32% of retailers currently allow customers to buy items online and pick them up in-store, while 75% enable in-store returns of online merchandise.⁷ Looking forward, those figures may continue to rise. A recent survey found 76% of retailers use store inventory to fill online orders, and 86% plan to implement "order online/pick up in-store" within the next year.⁸ Many retailers have begun implementing curbside pickup, allowing consumers to not even get out of their cars at the store. They simply pull up, and the retailer brings their order out to the car, providing a contactless and frictionless experience.

But while the attractiveness of using stores as fulfillment centers is clear, there are a host of issues, ranging from inventory availability, visibility and tracking shortcomings, store labor, and systemic inflexibility to physical stores that are not configured as effectively as a fulfillment center for picking orders. Though an important first step, this not the end goal on the path to omnichannel fulfillment.

Be prepared for the challenges and risks

Perhaps some of the greatest challenges facing retailers that are contemplating how to do omnichannel store fulfillment in response to the current pandemic include managing inventory and stock, optimizing the packages-per-order ratio, leveraging technology to enhance customer experience and satisfaction, and, most importantly, minimizing impact on human capital.



Managing inventory and stock

In stores, customers are facing out-of-stock inventory; empty shelves are detrimental to store traffic, pushing shoppers toward online ordering and away from in-store purchases.

Retailers can embrace technology that provides inventory visibility. There are instances where retailers' IT systems have proven inadequate to meeting the needs of their omnichannel ambitions. One key problem has been tracking inventory. For example, employees may be issued tablets to carry around in-store to help customers locate products; unfortunately, the information the devices carry has not always matched up with what is in stock and what is available to order. This issue is a fundamental one that any brick-and-mortar company must address in order to achieve inventory visibility. This visibility can be enabled by innovations such as radio frequency identification (RFID) tags embedded into a product's packaging to help the retailer track the location of a given item.

Perhaps most essential is process discipline. Retailers can eliminate siloed channel strategies altogether. Regardless of who is ultimately responsible for omnichannel, a successful strategy requires more than just deep cross-functional alignment. Many retailers today are going further by unifying their P&Ls, organizations, and technology to ensure an obsessive focus on the needs of the customer rather than the needs of legacy channel structures. These corporate alignments need to be reinforced at the storefront level. But for that coordination and immediacy to work, there needs to be a smooth backroom operation in place. Customers should not have to waste time waiting while backroom inventory is being located.

The backroom in stores needs an extensive reorganization. Many of these areas have not been truly updated or reimagined since the 1990s, and a change in supply chain is essential to encourage in-store pickups, especially considering the successful variety of online shipping methods and consumers' demands for minimal or free shipping costs. As many retailers contemplate smaller backrooms to maximize selling space in the store, using the backroom space effectively is critical. Some retailers are considering new stackable solutions that allow them to store more inventory in the same space.



Optimizing packages per order

Another risk is the retail packages-per-order (PPO) ratio, which has an impact on customer satisfaction (split shipments), supply chain labor efficiency, and the transportation costs of shipping multiple packages.

One of the requirements of the omnichannel setup is locating or leveraging the inventory close to the customer in the mini fulfillment centers or retail stores. Since the available inventory is now more segregated to fulfill an online order, if inventory positioning in the network is not allocated properly, additional fulfillment channels such as drop-shipping could increase PPO and add to the complexity of keeping shipping costs down unless shipping is built into the cost of the SKU.

The PPO ratio measures efficiency, whether a retailer is shipping multiple packages for every digital order or managing to ship a single package, better known as split shipments. How closely to 1.00 a company can maintain the ratio indicates the level of sophistication, inventory, preparedness, and profitability of the supply chain.

The importance is the impact on freight charges; the first pound for each shipment is the most expensive, so splitting shipments has an outsize impact on costs. With most carriers, the overhead cost per package is typically more than the variable cost as a result of weight or shipping distance. Ideally, the PPO ratio is 1.00, where the retailer is shipping one package for every digital order, inclusive of all items ordered.

The impact on last-mile costs could be significant, considering the balance required to meet same-day or next-day delivery commitments while keeping shipping costs low for a profitable sale. When addressing this challenge, however, companies and retailers often approach their last-mile strategy as a last-minute issue, treating it as a logistics or distribution matter—and by then, it may already be too late.



Leveraging technology to enhance customer experience and satisfaction

Customers love convenience and choice—and avoiding paying shipping fees. Plus, once the customer enters the store, there are even more opportunities to expand the customer experience and size of their order. Target has reported that 80% of its e-commerce orders are handled at the store level.⁹

Retailers can automate the fulfillment function, enhancing the ability to support omnichannel fulfillment at the storefront level. New technologies like heat mapping, embedded sensors, digital store tags, and connected assets allow customers, associates, and store managers to interact with each other based on geographic location and inventory availability. In addition to infusing greater customer engagement, these technologies set the stage for store associates to reasonably fulfill in-store orders in a matter of minutes.



Minimizing impact on human capital

Finally is the impact and risk omnichannel fulfillment could pose to human capital. Omnichannel fulfillment refers to a range of activities: stopping and shopping at the store; buy online, ship from store (BOSS); buy online, pick up in-store (BOPIS); or curbside pickup, where the store associate brings your order outside to your car and puts it in the trunk for you. Asking employees to multitask using current brick-and-mortar operations can result in a staff that, tasked with doing everything, manages to do nothing. In addition, store employees are also filling online orders during store hours using products on the shelves, often creating congestion on the floor and access challenges for the product and space with store customers. This calls for serious staff training—frequent, bite-size learnings that need to be intuitive and that become second nature to the workforce.

In addition, a human capital and cultural shift is needed. It is important to keep in mind that store managers and their staff are incentivized to make sales and satisfy in-store customers, not online customers. Addressing this issue will require change management among store managers and associates, which could include changing job descriptions and roles at the store level and restructuring customer satisfaction metrics and compensation plans, as they could be performing multiple functions in the store.

In addition to the changes described above, consumers are starting to want a frictionless shopping experience to ensure their safety while in the store. More self-service stations will appear at checkout with contactless payment on the rise.

How can retailers strategize and execute omnichannel fulfillment effectively?

As retailers have started to recover from the disruption caused by the pandemic, they are adapting to the increase in fulfillment volume from stores, resulting from a significant increase in online sales and corresponding service options like store fulfillment, in-store pickup or curbside. This is requiring them to convert space-constrained store backrooms into fulfillment floors while managing higher-than-normal inventory on the store floor due to shutdowns. Some of the benefits they could realize with an omnichannel setup include:



A higher utilization of store labor for customer service, upselling, and order fulfillment to balance out slow and busy periods in the store



Higher foot traffic and radiated sales from BOPIS and curbside pickup

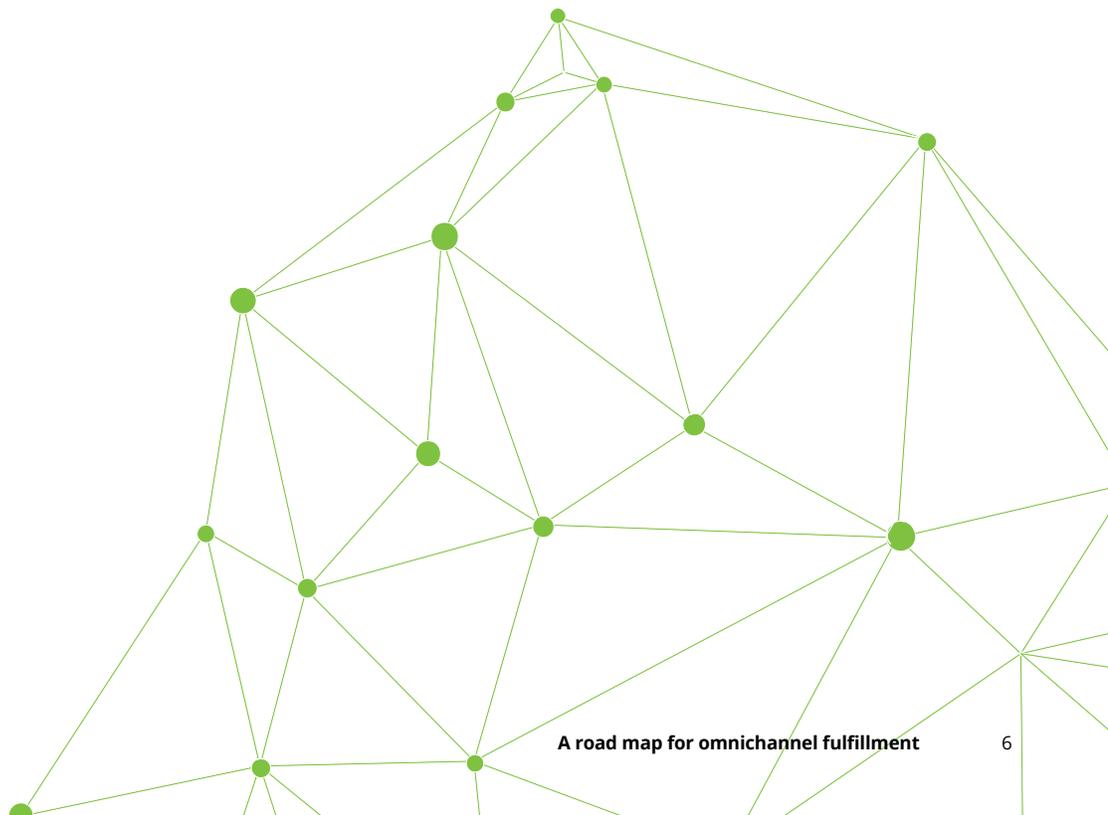


Elimination of delivery costs for mailed returns



Opportunities for exchange sales

However, many retailers with small backrooms could consider complementing their store network by using the closed store assets as local fulfillment centers (dark stores) or microfulfillment centers, enabling a rapid increase in their fulfillment capacity effectively. This could also provide opportunities to automate fulfillment functions with stackable and other automated picking and packing technologies designed for a relatively small footprint, thereby maximizing space utilization and labor productivity and reducing fulfillment costs.



So what does this all mean?

The current environment is a new challenge for retailers, as they have had to learn as consumer sentiment for convenience has shifted at a rapid pace. Historically, a retailer's identity was based on the physical store and a certainty that the customer would come to them. As such, merchants focused on location, assortment, and a price-based model, with an eye toward supply chain efficiency. The rise of e-commerce led to the recognition that, to remain viable, retailers needed to sell online, resulting in resources being poured into building an online arm of their business and creating separate organizational structures for the new sales channel. E-commerce gave way to the multichannel customer: the recognition that customers shop across multiple channels and that there are channel-specific processes, thinking, and metrics.

This evolution brings us to omnichannel in the present moment, a period that is dominated by the need to offer relevant products anywhere, to any place, at any time.

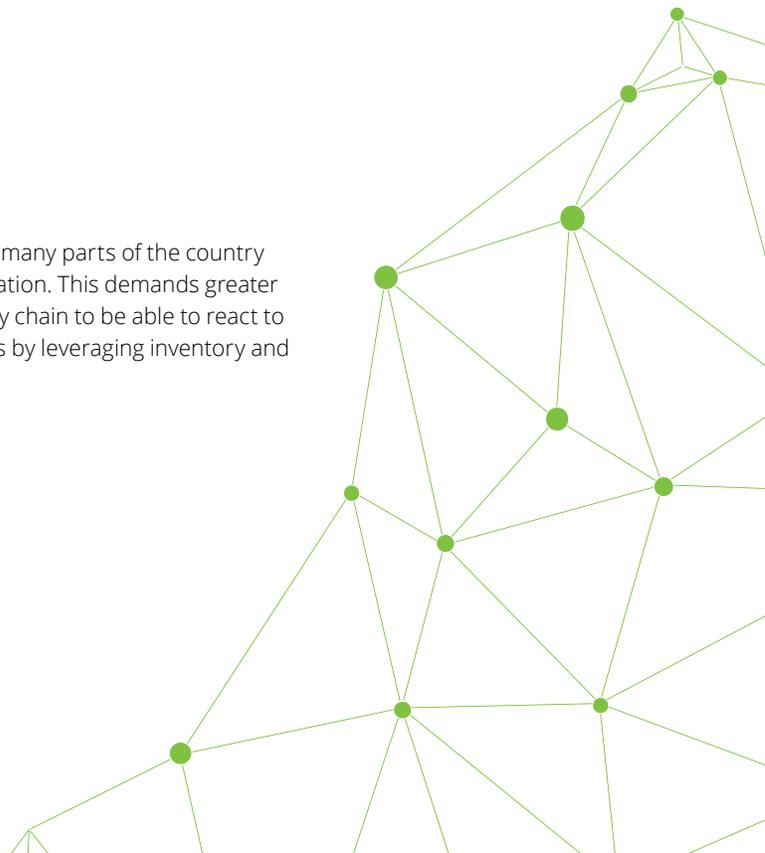
Connected consumers interact physically and digitally at the same time. Distinctions between channels disappear. And customers' demand to interact however, wherever, and whenever they wish is driving digital innovation.

Addressing the desires of the omnichannel consumer through in-store fulfillment is a necessary step toward the next stage of the retail experience. It revolves around an ecosystem of products, services, and the networks of all partners to seamlessly meet customer needs.

To reach this next phase, retailers must take a holistic approach toward every aspect of omnichannel fulfillment: merchandise, technology, store operations, and supply chain. Doing so requires a road map for microfulfillment and automation at the store level, integrating technology (systems), material handling solutions, and process discipline into a multivariant solution. The introduction of smaller, smarter, and integrated solutions is the long-term key to omnichannel fulfillment.

The need for urgency

As you prepare for the holiday season, the pandemic is already resurging in many parts of the country and the world, adding further complexity to omnichannel fulfillment preparation. This demands greater urgency in establishing your omni infrastructure and positioning your supply chain to be able to react to changing market conditions, minimizing impact on the bottom line and sales by leveraging inventory and store assets across your network.





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