

# Making Omnichannel Fulfillment a Less Daunting Task

By **Tim Parry**, Multichannel Merchant

**T**he Home Depot CEO Craig Menear unveiled a fact during the company's second-quarter earnings call last month that told the story of how popular its interconnected strategy has become.

Menear told analysts that approximately 42% of Home Depot's online orders are now leveraging its store footprint for fulfillment. And Menear added that nearly 90% of Home Depot's online product returns are processed through its stores. And as the big box home improvement store rolls out its buy online deliver from store initiative, Menear says that the fulfill from store figure will grow even more.

Omnichannel fulfillment has thrown the proverbial wrench in the works of merchants of all sizes, as consumers are dictating how and when they want to receive orders they have placed online. And that's not just for online orders earmarked for pick up in store, but for customer orders destined for delivery at as fast a pace as can be offered by ecommerce marketplace giant Amazon.

"When an order comes in, all I want to know is 'do you want to pick it up in the store, or have it delivered?'" said Scott Spata, vice president supply chain specialty distribution of Home Depot in July at the D3 Dynamic Distribution Disruption Retail conference in Brooklyn, NY. "I think it's a tremendous value-offer to the customer, and you, behind the scenes, need to make sure you have the tools to make the commit-



ment."

Offering customers the convenience of buy online pickup in store and ship to store, and transparently speeding up delivery to homes with ship from store, can be a daunting task. All three omnichannel fulfillment options require more than just technology: they require complex scheduling of your store teams, and training your store staff for a new skill set.

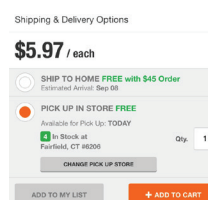
On top of that, you justify the expense of omnichannel as an enhancement to the customer experience. In fiscal year 2015, Home Depot's total online sales were \$4.7 billion. That's just 5.3% of Home Depot's \$88.5 billion in total sales for the fiscal year.

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## The Pureplay Disadvantage

Pureplay ecommerce retailers are disadvantaged by the high cost of marketing and shipping, making their business model challenging and ultimately unsustainable in the long-term, according to a report released in January by L2.

By contrast, the report finds that online retailers leveraging physical stores drive higher organic site traffic and lower customer acquisition costs while elevating brand awareness across multiple channels. L2's report stated that brick-and-mortar retailers offering in-store pickup and returns have a competitive advantage.

While pureplay ecommerce orders typically net 77 cents on the dollar, retailers that offer both in-store pick-up and returns enjoy an accretive effect, whereby shoppers walk out of the store with 107% of their original basket size after exchanging merchandise and making incremental purchases.

While the intent of L2's "Death of Pureplay Retail" report is to show the value of being an omnichannel merchant, it should be noted that the report is sponsored by Simon Property Group, a retail real estate ownership, management and development group which, of course, wants shoppers in its malls.

## Staffing The Stores

As consumers become increasingly more demanding in their desire for an efficient and unified shopping experience, the role of the retail store is shifting. If consumer expectations and experiences ultimately determine a multichannel retailers' success in acquiring and winning repeat business, then it is essential that retailers put themselves in a position to better accommodate shopper demands.

A win-win strategy for all involved, in-store pickup helps shoppers get their products quickly and on their schedule, while eliminating shipping expenses and driving in-store sales for retailers.

But this increasingly popular fulfillment method requires sophisticated coordination between your retail commerce technology and in-store associates, making it challenging to implement and maintain. In fact, if you don't plan properly, ship from store can interfere with the in-store customer shopping experience.

At the D3 conference, Spata said Home Depot will

leverage its store inventory only when it is necessary to do so. When he spent some time working in a store (which is something all of Home Depot's upper management is required to do throughout the year), he discovered that the sales staff shouldn't be picking orders, but taking care of the in store customers.

Bryan Eshelman, COO of Aldo Group, echoes Spata's assessment. However, Eshelman said at the D3 conference that 80% of Aldo's online orders are ful-



filled in the store.

"[The customer associates] are not the best people for the job, but we do it so we do not disappoint the customer," Eshelman said.

So what's the proper way to handle instore fulfillment? In a BOPIS situation, the staff needs to pick the order immediately. But in a ship from store situation, there are a few options.

During the inaugural Shoptalk conference in March in Las Vegas, Target.com president Jason Goldberger said his stores have dedicated team members who both pick and pack ship from store orders. Goldberger said it's worked well for Target, and that it's helped carve out process efficiency.

"Because they are dedicated and recruited from within the store team, they know they are there to pick and pack ship from store orders," Goldberger said. "There is a sense of pride when they ship a toy on Dec. 20 and it's under a child's Christmas tree on Christmas morning. They are our most happy store team members."

Kevin Ertell, SVP Digital of Sur La Table, said at Shoptalk that the kitchenwear products retailer added incentive structuring around ship from store to help build the initiative. Ertell said stores are all thinking

about payroll dollars, and when Sur La Table made additional payroll dollars an incentive for ship from store execution, the stores loved it.

“Salespeople could pick and pack in the morning, and stores will get extra payroll dollars on weekend,” Ertell explained.

Annie Schmidt, Senior Project Manager of commerce platform provider Kibo, said there are a few things merchants need to keep in mind when executing a ship from store strategy.

First, Kibo recommends to its clients that these activities should be scheduled in the middle of the day, when there’s a little more downtime in the retail store, Schmidt said during a Multichannel Merchant-hosted webinar on leveraging stores as distribution centers. Another idea is to only have ship from store in larger well-staffed stores.

“You obviously don’t want to assign [ship from store orders] to a store where there’s only one person on staff,” Schmidt said. “If you have a store with a very small store staff, you may want to leave them out of your ship from store rotation.”

Also, you should use your technology to set rules to limit the number of ship from store orders you handle per day. You can make it five or 10, depending on the size of the store.

“One of your flagship stores might be able to handle 20 ship from store orders a day, while some of your smaller ones might only be able to handle five,”

Schmidt said. “Start with a low number and then communicate with your stores on a regular basis and find out if they’re having problems meeting the customer ship from store needs on a regular basis.”

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## Store Fulfillment vs. Omnichannel DCs

Your customers do not care where the merchandise is shipped from, as long as the merchandise arrives on time, in good condition and accurately.

The advantage of omnichannel distribution centers

is that they are built for storing, packing, and shipping merchandise. But the advantage of stores is that they exist in closer proximity to many customers.

The picking processes in a store will often be less automated and less natural than they are in a distribution center, but you must hold distribution centers and stores to the same packing standards and timing standards. Walter Wallace, senior manager of ecommerce operations at Tory Burch, says omnichannel alignment for distribution center and store operations can be furthered when there is an overarching set of priorities, deliverables and goals. They are less about channel specifics or functional silos and all about giving the customer a great experience.

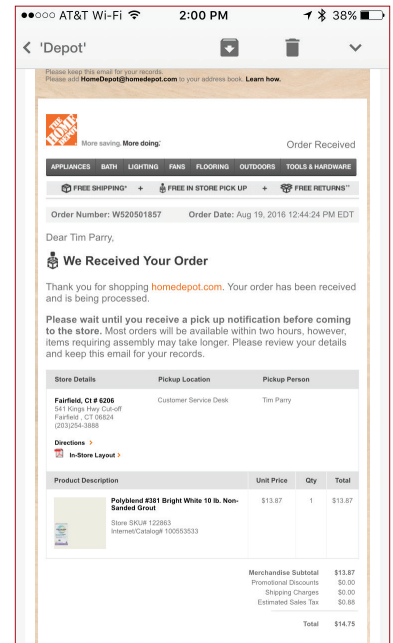
Wallace says both stores and distribution centers can benefit greatly from taking a shared and collaborative approach in process and operations design to support omnichannel.

“In the ever-evolving world of omnichannel fulfillment, distribution center and store operations have to be aligned in order to ensure that a great customer experience is delivered in a seamless manner, regardless of where the customer chooses to engage in the purchase and/or return cycle,” Wallace says.

A little over a year since going live with the nation’s first all-waveless picking omnichannel distribution center in Hazle Township, PA, American Eagle Outfitters is continuing to reap the benefits in terms of improved operational efficiency, turning around more orders faster and with reduced manpower.

In American Eagle’s facility, a single pool of inventory is shared between channels, and orders are sent to the floor continuously as they arrive instead of being held until a wave of orders can be released.

“When we expanded our operations to the east coast in 2014 to get closer to the majority of our DTC customers and high-volume retail stores, it made sense to commingle our inventory and make it avail-



able for all channels," said Christine Miller, American Eagle's director of operations. "That has given us great rewards as we're no longer playing a guessing game in terms of locating inventory and in what configuration. With it all commingled it becomes a much more fluid process."

## Is Inventory Accurate?

At the D3 conference, Aldo's Eshelman said inventory accuracy keeps him up at night.

Inventory accuracy can affect more than just store replenishment and BOPIS, but how you drop ship, how you sell in marketplaces, and even the customer experience of the shopper who is checking a mobile device before deciding to come to your store to make a purchase.

"Customers go online to see the size and product selection per store," Eshelman said. "If the size you want is not in stock, we will ship it to you. But those days of that being a way to surprise and delight the customer are waning. Now it's 'I took time out of my day to come to your store, and you don't have what I want in the size I want.'"

If you have an inventory management system that allows you to set for in-store safety stocks, it's recommended you set it, Kibo's Schmidt said.

Clearly, Schmidt said, you don't want to oversell out of your local store, especially from a ship from store situation where you can potentially ship from a distribution center. And for each store, you can set a minimum of how many products you want on the shelf. If an order came in and it put you near your safety stock level, it would assign a different store to ship from.

Douglas Smith, vice president of direct-to-consumer operations at Sheplers, said some of the particular challenges of omnichannel inventory management include internal expectations of the benefits; the requirements of a seamless real-time inventory picture across all channels that is consistently available to all stakeholders; the increased complexity in operational execu-

tions as distribution points continue to expand; and the necessity of a strong reverse logistics system that is cost conscious.

Asked how he sees these challenges being addressed, Smith said solutions include increased use of intelligent inventory management systems, handling disparate inventory across channels.

"You're also seeing more specialized planning systems with intelligent algorithms to complete predictive modeling are being utilized that can plan demand across multiple locations and channels," Smith said.

## The More You Know

When a customer chooses to pick up an online order in the store, the message to the store has to get there quickly so they know an order has been placed. Not only do you have to make sure that your in-store staff picks that order very quickly, but that confirmation that the order is ready for pickup is sent to the customer ASAP. What you don't want to have happen is to have that consumer place that order, immediately go to the store, and have the store staff not know an order was even placed.

Ideally, you're sending the customer an email or a text on the front end to notify them when the order is ready to pick up, so they aren't jumping in the car arriving before your store logistics team has picked it.

Back and forth communication has to be thorough, and either supported by text or by email. A lot of consumers now rely on text, so it's strongly encouraged that merchants take advantage of both technologies to communicate with the customer.

Expedited ship-from-store orders become more popular in November and December, at the height of the holiday season. When they come into the system, you need to flag those orders as more important.

It's also important to have more robust communication with the store staff on these expedited orders, because you need to make sure those orders are shipped as quickly as possible so they meet customer expecta-