



Championing the Ship from Store Race – A UK Perspective

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Retailers are lagging behind consumers' omnichannel expectations

For today's consumers an integrated, fast and convenient omnichannel experience is the expectation. They want retailers to supply them with products anytime, anywhere and as quickly as possible. For years, pure-play e-tailers have succeeded in delivering these services faster, with slicker systems and platforms, and at a lower cost both for themselves and their customers. But brick-and-mortar retailers are transforming the fulfillment landscape – using their “store overheads” to their advantage to create a network of mini warehouses that increase stock availability and position inventory closer to their online customers than ever before.

The potential gains from in-store order fulfilment are extremely attractive – significant revenue growth, improved sell-through and decreased write-offs, and delayed capital investment. And with the current UK driver shortage and the strain put on the distribution network by promotional activity like that seen on Black Friday and Cyber Monday, being able to fulfil from store and reduce dependence on carriers services is not only attractive but, in many cases, essential in 2015 and beyond.

Despite these incentives many UK retailers are only just beginning to trial ship-from-store initiatives, or are struggling to determine how to move from investments in selective in-store trials to a profitable, scalable programme. Kurt Salmon believe that success in launching ship-from-store requires a comprehensive assessment of store and supply chain operations and how these can to be cost-effectively aligned with customer service expectations now and in the future.

Why Ship-from-Store? A Benefit Assessment

Ship-from-store holds considerable benefits for both the consumer and the retailer. Kurt Salmon has defined four primary benefits of ship-from-store:

» **Enhanced customer experience through higher availability & faster delivery**

Ship-from-store provides retailers with much-enhanced capabilities to meet the increasing service expectations of their consumers. Through increased availability and 24-hour access across multiple channels, consumers can get the product they want, enjoy

a consistent brand experience in store, online, and on-the-go, and receive faster delivery to a location of their choice and at a time that suits them – including same day and even in-hour fulfilment.

» **Revenue growth through saving lost sales**

Incremental top-line growth is the biggest benefit enjoyed by many retailers executing ship-from-store, driven by capturing sales that would otherwise have been lost without access to store inventory. Immediate revenue growth of 10 to 20% can be achieved from being able to use store inventory to fulfil online and other-store demand for products that are out-of-stock in the distribution centre.

» **Margin improvement through increased full-price sales**

The probability of a full-price sale before or during the markdown cycle is increased significantly when in-store products are available to be sold online. Retailers who have successfully implemented ship-from-store processes have seen their margins grow up to 30% on items nearing markdown. Faster and higher sell-through also reduces space requirements centrally and in stores – a significant advantage when increasing demands for constant “newness” puts a strain on shop floor layouts and warehouse storage.

The benefits of ship-from-store are significant, prompting many retailers to begin trialling these processes in their stores. But benefits vary from one retailer to another, influenced by factors including current availability, existing systems, and in-store and supply chain operations which impact implementation timelines and success rates.

Kurt Salmon helps retailers optimise their supply chains and store operations – working with them to assess and prioritise current challenges and capability gaps and to implement future-proof solutions – making us uniquely equipped to support retailers in the development and execution their ship-from-store roadmap.

Preparing for Ship-from-Store: Critical Considerations

Building the flexible supply chains, systems and

store operations required for reliable in-store order fulfilment processes is by no means simple. A successful programme needs to properly and proactively assess the factors that will influence success in order to develop a robust foundation of systems and processes and avoid the potential risks large-scale change can pose to service and reputation:

Labour costs and utilisation: understanding the true costs, drivers and utilisation of a retailer's workforce is essential to planning how and where new pick and ship processes should be implemented in the estate. This assessment should include the complete supply chain and central management functions in order to establish where savings might be made, utilisation increased or investments required.

Distribution: distribution networks, and their costs, have changed significantly for retailers as the options for getting products to customers proliferate and service expectations increase. Assessing the costs, constraints and strategic objectives of a retailer's distribution network must inform the ship-from-store business case and how costs and benefits might be shared across departments and channels. Channel and geographical sales projections must be compared with the performance and service levels of the current logistics functions and existing supply chain systems. Retailers can then ascertain what commercial and operational priorities could be addressed through ship-from-store and which of these should be pursued first.

Inventory accuracy: Kurt Salmon found that around 20% of retailer out-of-stock situations can be attributed to data. Distribution "complexity" such as store transfers often exacerbates these issues and is, therefore, a concern for ship-from-store plans which both add complexity and require improved inventory accuracy. Not being able to find items in store threatens service levels and necessitates corrective that drive up costs. Understanding how current inventory accuracy would impact in-store picking operations is vital. Every retailer must be focused on understanding the real driver of availability and implementing process changes to increase stock accuracy.

Inventory visibility and planning: central and at least close-to real time visibility of inventory across channels is a requirement of ship-from-store. However, as Retail Week's recent Retail 2015 report demonstrated 43% of retailers do not currently have these capabilities in place. But it isn't just systems that need to adapt to the demand of omnichannel retailing; a central, shared pool of inventory has implications for everyone involved in managing stock – from those sourcing it, forecasting demand for it and allocating it across the estate to those responsible for selling of it. Under-estimating the risks, complexities and investment required to manage these organisational changes is one of the most significant causes of transformation programmes running late or over-budget.

ENABLING SHIP-FROM-STORE: KEY DECISIONS

Ship-from-store can enable retailers to be more responsive to the changing demands of their customers. To reap the benefits, retailers are in a rush to implement these capabilities. But significant changes like these also require thorough planning and management. Without a carefully planned approach, retailers can put their customer experience and profitability at risk.

Kurt Salmon has already helped many retailers to plan, implement and manage ship-from-store, supporting them with strategic and tactical decisions such as:

STRATEGIC	TACTICAL
Store coverage	Optimal store operations
Product coverage	Accountability
Fulfilment logic	Management processes
Systems requirements and selection	Performance measures
Organisational changes	Incentivisation

The ability to execute against these strategic and tactical issues will separate winners from losers over the next five years.

SUMMARY

Successful omnichannel retailing requires organisations to provide access to products and services across all channels as seamlessly as its customers move between them. Ship-from-store takes this a step further, breaking down the physical and systematic barriers between online and in-store. It enables a retailer to offer the best possible availability of products, and utilise the best possible fulfilment method to deliver these to its customers. But the level of change needed to build a network responsive enough and resilient enough to support a successful, fully-optimised pick and ship-from store programme cannot be underestimated and should be fully considered before rolling out these processes across a retail estate.

There are immediate benefits available once the foundational requirements of supply chain, organisational, system and operational processes are in place. These benefits can quickly alleviate the challenges of unmet service levels, overcapacity or over-stretched DCs and increasing e-commerce competition. However, store fulfilment requires significant change management; something that a recent survey of retailers by Kurt Salmon found was not being executed effectively. Retailers without the underlying foundational infrastructure in place may find themselves losing sales, leaking margin and straining under organisational chaos. ❖

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