



RETAIL INDUSTRY INSIGHTS

Expanding Assortment While Keeping Profits Afloat

As more and more retailers boost assortments and slash shipping costs to compete with Amazon's endless aisle, the rest feel compelled to do the same. But in the rush to compete on assortment, many are sacrificing profitability. Before jumping on the bandwagon, first consider whether or not your core customer even wants a wider assortment. If a broader assortment is, in fact, a clear competitive necessity, implementing a controlled drop shipping program can be an easier and quicker entry point than moving directly to taking an inventory position.

Get your feet wet: drop shipping

To avoid getting left behind without getting in over your head, bet on drop shipping core products for quick growth, followed by a strategic assessment of your merchandising and order management processes to ensure that growth will be sustainable.

Drop shipping can be especially effective when a retailer wants to expand its assortment to include an item that its current distribution network isn't equipped to handle quickly and efficiently.

Of course, drop shipping doesn't come without its risks. A third party can't guarantee the same level of customer service as your internal team, which has the potential to hurt your brand if goods arrive damaged. Vendors may also not be able to offer extra services like monogramming or gift wrapping.

But an even bigger risk is leaping head-first into drop shipping without considering its impacts on profitability. Take the example of a department store retailer that expanded its online assortment aggressively through drop shipping. But so many products were drop shipped that an average five-unit online order contained two drop

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shipped items, each from a different vendor. It's easy to see how this can zap profitability, as the customer continues to pay one low rate for shipping, but the retailer must pay three separate shipping charges.

To minimize damage to profitability, start small. Initially offering your core assortment through drop shipping can buy time for a more strategic analysis that includes both what the customer wants and what's profitable. This big-picture view can help inform not only order management decisions, but merchandising decisions around which products should be sold in which channels.

Build experience: ship or pick up from store

After deciding that drop shipping certain products won't be profitable, deciding how to ship them through your own supply chain—through a distribution center or retail store—has significant implications on costs and customer experience.

Assuming the customer lives closer to a store than to a distribution center, it may be cheaper to ship from a store, and the product arrives faster.

Shipping from the store can be especially helpful in moving items on the fringe of a retailer's offerings. These items may not be the most popular in a retailer's assort-

ment, and shipping from the store helps move one more item that then doesn't have to be marked down. Neiman Marcus and Nordstrom both saw increased online and overall revenues when they began shipping certain fringe items from the store. Nordstrom's inventory turns also increased from 4.84 to 5.41.

Offering the option to pick up a product in-store also improves the customer experience. This decision also has implications for store design, customer-facing technology and employee training.

Shipping from the store has similar implications on profitability. While it may be cheaper to ship just one item from the store, if an order includes multiple items and not all of them are held in-store, overall shipping costs could increase. But holding all inventory in-store is often not a cost-effective use of labor and space, meaning that ship from store, like drop-shipping, shouldn't be rushed into for profitability's sake.

Never before has a well-run supply chain been so essential to delivering an exceptional customer experience. Starting small and gradually building your capabilities, ensuring each new step is a good fit for your brand, will help develop a competitive edge without risking profitability. ❖

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