

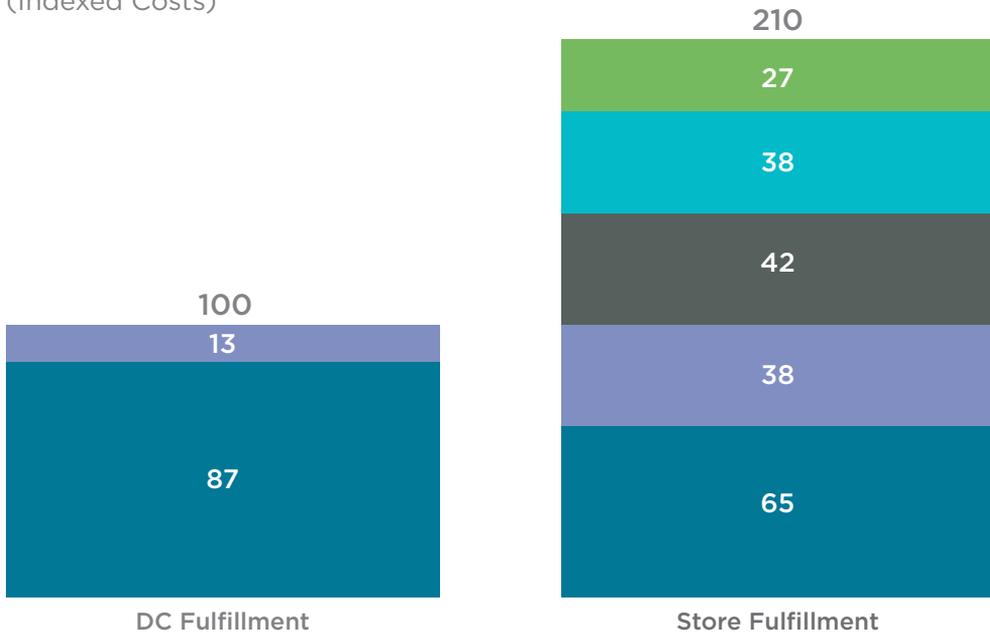
OMNICHANNEL AT A COST

The Price of Saving a Sale with Ship-from-Store

The ability to ship product from a store to a customer in order to fulfill an online purchase can certainly save a sale. But, of course, that capability comes at a cost. Indeed, the initial investment to build this capability can range anywhere from \$4 million to \$8 million, which includes legacy and new system changes, plus an additional \$1,200 to \$4,000 per store in the network. While there is always room to optimize, we draw on our apparel and soft lines experience to build a base case of financial tradeoffs.

SHIP-FROM-STORE TRADEOFFS

(Indexed Costs)





TRANSPORTATION

Sourcing closer to demand can mean a real savings in shipping costs. Plus, thanks to proximity, stores can be up to 60% faster than distribution centers, according to Kurt Salmon research. (However, this benefit can be offset by the costs and scale of the store operation.)



LABOR

The in-store labor cost per unit is about three to five times that in a distribution center because of economies of scale, process efficiency and infrastructural differences.



SPLIT SHIPMENTS

This is the cost of sourcing an order from multiple locations, which includes increased packaging and shipping expenses, as well as increased customer or order management costs.

Stores' inventory accuracy traditionally ranges from 50% to 80%; meanwhile, Kurt Salmon expects to see more than 99% accuracy at a well-run distribution center. This leads to two different issues:



ERROR CORRECTION

Inventory inaccuracy also means some orders will have to be reallocated to other stores for fulfillment. This, in turn, necessitates appeasements. For example, the cost of upgrading shipping to hit promised delivery dates and the promotional cost of coupons and incentives to the customer to promote future loyalty if service dates do slip.



ORDER QUALITY

In combination with a less-skilled fulfillment workforce, inventory inaccuracy means that the probability of order errors increases when retailers ship from their stores. In addition to the softer cost to the brand, there can be a material expense associated with increased call-center inquiries and handling costs needed to correct these issues.

