

# Stores as Successful Omnichannel Distribution Hubs

## Three Key Considerations



**Omnichannel retailing** is perhaps the hottest topic in the industry right now, and it's easy to see why. The strategy has considerable upside—from moving slow-selling store merchandise online without deep discounting to offering larger assortments to creating a compelling, differentiated experience and beyond.

In fact, omnichannel customers are among the most profitable, spending an average of four to five times more than single-channel customers, according to Forrester Research. Or as Macy's CEO Terry Lundgren puts it, "Every dollar spent online influences \$5.77 spent in the store."

As a result, implementing omnichannel distribution options like in-store pickup and ship-from-store are rising to the top of many retailers' priority lists.

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But several store-level challenges must be addressed to realize the significant sales bump that can accompany omnichannel distribution. Retailers cannot create profitable, successful omnichannel operations without remembering that a store cannot operate as efficiently and effectively as a warehouse.

Kurt Salmon believes any retailer seeking to implement in-store fulfillment or pickup must—at a minimum—have a solid plan to address in-store inventory accuracy and visibility, store processes and workforce management, and shipping and network decisions.

### **In-Store Inventory Accuracy and Visibility**

Thanks to sophisticated warehouse management systems that granularly track inventory as products are put away, moved and picked, fulfillment centers boast inventory accuracy north of 99%. Retail stores, on the other hand, historically did not require this level of inventory tracking. Couple that with regular movement and touching of merchandise within the store and it is no surprise that store-level inventory accuracy commonly ranges between 50% and 80%.

Omnichannel fulfillment complicates this issue. Think of an in-store customer purchasing the last of an item that was just sold to them online with the promise that it would be ready for in-store pickup within the hour—but it's not in stock. Out-of-stock experiences like this not only result in lost sales now, but down the road as well, and must top the list of priorities for any retailer seeking to implement an omnichannel experience.

Identifying inventory policies and practices to improve in-stock dependability is the first step toward successful omnichannel selling. Tactics can include:

#### » **Implementing new technology.**

Leading retailers like Macy's, Saks and Lord & Taylor are all jumping onto the RFID bandwagon. RFID enables precise visibility into exactly what inventory is available and where, reducing the risk of out-of-stocks. In pilots, Macy's saw a 50% higher sales growth rate for products tagged with RFID.

As may be apparent from the technology's earliest adopters, RFID has found particular success in the department store segment. But it could also be a real competitive advantage for specialty apparel retailers, who have traditionally worried very little about inventory accuracy but may now find omnichannel sales are a wake-up call as to the importance of greater accuracy and visibility.

Many hard goods retailers with longer replenishment cycles already have a strong grasp on their inventory accuracy and need only to adapt their processes for an online world. For example, Home Depot uses 34,000 handsets that allow workers to see when an order has just been placed for in-store pickup at their store. The workers then immediately go verify that the item is actually in stock before the customer arrives.

#### » **Setting boundaries.**

Starting small with omnichannel can help preserve profitability. For example, some retailers are setting minimum safety stock quantities at the SKU level before promising certain products online. This can be an especially smart move for core items.

Alternatively, one home improvement retailer is limiting the number of SKUs it offers online and offers some of them via in-store pickup only. For heavy or bulky items, this has helped eliminate shipping costs upwards of \$45 an item, of which the retailer recouped only about half.

#### » **Elective in-store cycle counting.**

Counting a small subset of inventory—especially key, high-volume products—can help a retailer gain insight into more accurate product availability without draining too much time.

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There's no silver bullet—each retailer's situation is unique. But having some way to ensure improved inventory visibility and accuracy is rapidly becoming a strategic imperative.

### **Operations and Workforce Management**

Implementing a fulfill-from-store strategy brings to mind several important questions around how store operations will change to accommodate new omnichannel requirements.

First, how should the store process online orders? Should it pick and pack at specific time intervals throughout the day or process all orders at a single dedicated time each day? In either case, there are considerable labor and material costs involved. The answer to this question varies from retailer to retailer based on a variety of factors, including order volume, staffing levels, and their current selling and service model.

Another important consideration is deciding where these new activities will take place. Where are online orders going to be stored before they are shipped? Is the backroom big enough to accommodate packing while still serving its original purpose? If in-store pickup is offered, where will that take place?

For example, Best Buy stores currently feature designated in-store pickup areas to accommodate high demand—40% of the retailer's online orders are picked up in-store. Sears' approach also requires considerable space and labor—the retailer currently offers a drive-through service that enables customers to return or exchange items without leaving their cars.

Lastly, how will stores be notified when they have orders to be filled? Some retailers are considering changing the workflow related to how tasks are communicated and managed in-store. Online orders show up as “tasks” to be completed during the course of the work day, either through inventory management software or a task management solution.

### **Shipping and Network Considerations**

Retailers must also consider omnichannel's implications on supply chain fulfillment networks and service levels offered to customers.

Retailers will have to decide which stores will be allowed to fulfill orders or feature in-store pickup. Further, having a rules engine in place to decide whether multi-line orders or single-line orders are sourced to stores is critical to execution—and accuracy.

Regardless of which stores fulfill orders, many retailers can be caught off-guard by increased shipping costs. Warehouses generally have lower parcel costs than stores due to their much larger scale. Shipping a truckload with 10,000 units of product would cost about \$0.50 per unit to ship from a warehouse, while shipping parcels on a smaller scale from a store could cost \$4 to \$5 per unit. Clearly, these costs can quickly erode margin.

All in all, omnichannel retailing has great promise, in that it enables retailers to engage with consumers at almost any touchpoint and can convert what would have been lost or discounted sales into real revenue. But to ensure the best possible customer experience at the lowest possible cost, retailers must have a plan in place that improves inventory accuracy and guarantees that new processes happen efficiently and within the network's capacity. ❖

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## AUTHORS

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The image shows a handwritten signature in black ink that reads "Kurt Salmon". The signature is written in a cursive, flowing style with a large, prominent 'K' and 'S'.