WHITE PAPER

CFOs Take Control

Don't Let Your Ship from Store Strategy Break the Bank



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CFOS TAKE CONTROL: DON'T LET YOUR SHIP FROM STORE STRATEGY BREAK THE BANK

Shop from store is a significant opportunity to improve customer service, which can lead to additional revenue. In some instances, costs can be reduced, but costs can unintentionally increase as well. There comes a trade-off at some point on which lever is more important, service/revenue or cost? Each overall strategy does not need to only look at one option as the driver. Instead, each strategy should be uniquely tailored based upon a company's target customers, brand, supply chain network, and the company's stores themselves.

With less than 25 percent of retailers having well-defined, automated processes for ship from store, many CFOs are just beginning to take a look at ship from store strategies.[1] Included in this article are factors to be considered and options to be examined during the strategy portion of ship from store planning. This is critical in making sure a company realizes its desired benefits from its ship from store strategy.

As a CFO, you are charged with making sure your company implements a successful ship from store strategy without breaking the bank. In this white paper, learn about the costs associated with implementing a ship from store strategy and the potential revenue that can result from a successful strategy and implementation

[1] "Omnichannel Poll Results Report," Omnichannel Fulfillment & Logistics 2016 Forum. June 2016.

INCREASE YOUR REVENUE AND MARGIN:

Save the Sale

At the end of a shopping season, and also in an "outage" situation, store inventory can be utilized to fulfill online orders and orders from other stores and thus increase revenue. Aspects to consider around "save the sale" and implementing a ship from store strategy are customer loyalty and substitution of other products. For example:

- Customer Loyalty – If I am out of stock in my online channel or in a particular store, will my customer wait until I am back in stock or will they buy from someone else?

- Substitution – If I am out, will the customer just substitute for something else already on my website? In some instances, it has been seen that customers will substitute as much as 45 percent if a store is out of the customer's first initial selection.

Margin Expansion

In addition, the end of the shopping season also brings a markdown cadence. By utilizing store-level inventory to fulfill orders from other channels, it is possible to slow down that cadence by offering that product at a lower markdown than what is traditional in a store.

Consider how much discounting is done at the "end of a season" in terms of the potential impact here. Possibilities could be in the range of .5 to 7 basis points improvement in some cases based on specific categories of retailers.

Customer Loyalty

There is an advantage to being the first place a customer looks when shopping online. Part of that loyalty then creates additional revenue. When deciding whether to implement a ship from store strategy, think about how loyal your customer is to a brand versus the price. By having the product in stock more often, it increases the chances of the customer looking there first.

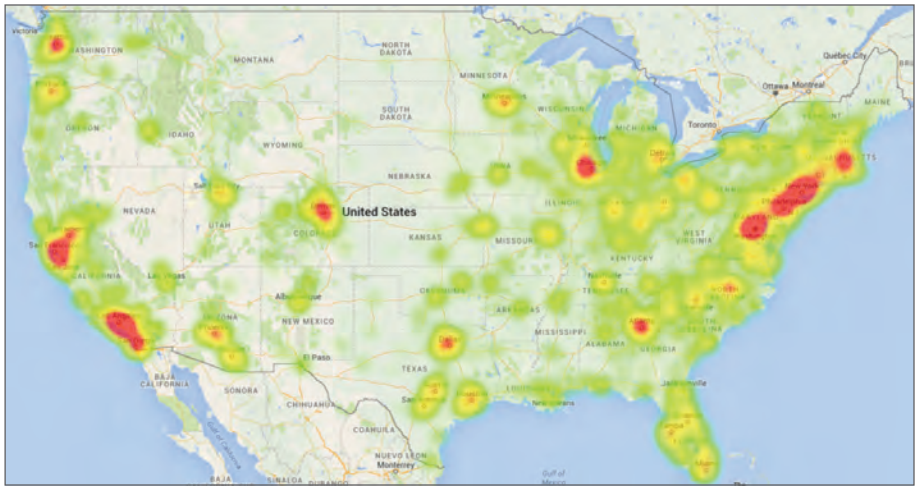
A key driver of customer loyalty is speed in delivering to the customer. By enabling stores to act as fulfillment centers, delivery times can usually be reduced. If a retailer can reduce delivery on average, for example by 1.6 days, using ship from store, it may have a significant impact on brand loyalty. Consider how many shipments are being created and the accuracy of the in-store inventory. Additional factors to consider are:

- Number of Shipments - most customers prefer one shipment, and the cost of split shipments can be very high.

- Inventory Accuracy - Once ship from store is implemented, it will be even more important to have accuracy at the SKU level or build in some type of watermarking at the store or network level. It is not uncommon to see SKU level accuracy in the 60 percent levels in a store. This varies wildly based upon the controls at the store, and the type of merchandise being handled. It is a factor that has to be looked at during the business case process to ensure customer orders can be met. If inventory is not accurate in the store, this can lead to a lot of rejected orders. Rejected orders at a store because of inaccurate counts can drive costs up and customer satisfaction down. It is important to have a detailed understanding of overall inventory accuracy at the SKU level. Stores will utilize dollar value to track inventory accuracy in the store.

- Other items to consider in store operations is how cycle counting/inventory is conducted, the number of times a year, and how store inventory is received into the store.

Heat Map of Direct to Consumer Orders



COST CONSIDERATIONS IN THE SHIP FROM STORE STRATEGY DEVELOPMENT

When looking at the cost side of a ship from store strategy, some of the main items to consider to ensure that unintended costs are not incurred include:

- Transportation Costs (Including Service Level/Weight/ Dimensions of Product)
- Store Labor Costs
- Supply Costs
- Order Splits
- Order and Inventory Demographics

Transportation Costs

There are many factors to keep in mind around transportation costs with ship from store operations. In some ways, a ship from store process can save transportation costs but can also increase costs in some areas. The main cost factors will be around the service level required, the weight of the overall product, and the fulfillment locations within your supply chain.

One example is an apparel retailer that ships through the post office - using a ship from store operation will not reduce the transportation cost by much. Conversely, guaranteed service levels can generate a lot of additional costs. For preferred customers, it is very common that two-day delivery is expected. Based upon your supply chain network, that can generate a lot of air delivery costs. Ship from store locations that are closer to the customer and avoiding that cost, a retailer, in most cases, is still able to increase the margin it makes on the sale even when the replenishment cost back to the store is calculated. On larger products that are more expensive to ship, you can also save money on shipping costs.

According to a Forrester report, "Why Every Online Retailer Should Ship-From-Store," 59 percent of consumers identified shipping costs as their number one consideration when buying online. By offering ship from store, companies can save transportation dollars and shorten delivery time by shipping locally from a store near the customer. This can be a significant source of savings for retailers with few or only one distribution center who want to offer free or low-cost shipping options to their customers.

In-Store Costs

One of the biggest cost considerations in a ship from store strategy is labor. In every store, there are usually "free" labor hours available during a week. One of the allures with ship from store is utilizing those "free" hours for which store employees are already being paid. In the ship from store strategy analysis, it is possible to determine the labor hours required to perform a ship from store process and also to quantify the actual free hours. Both of these are necessary in order to ensure a good repeatable process is in place for the store associate and also that the store associate's time is not allocated to such an extent that the associate's primary role of servicing retail customers is impacted. It is also crucial to balance order fulfillment with customer service – it may make sense to limit ship from store operations to times when the store has less foot traffic and avoid ship from store fulfillment all together during weekends, holidays and other peak times.

Some general rules of thumb for in-store labor that can be applied to a ship from store strategy are around the order acceptance time. Give the store some time to accept the order and ensure the product is available in the store is recommended. Based upon store staffing size and the demographics of the

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SIX SHIP FROM STORE BEST PRACTICES FOR IN THE STORE



ONE: Measure and set store performance goals – for example, the time from store receipt to acknowledging the order or the number of skipped orders.



TWO: Drive faster acknowledgment responses by giving the store the sales credit.



THREE: Make sure the system automatically rolls to the next available store if there is no response from the first store. If the store is busy, let the next store fulfill the order.



FOUR: Make sure that the online order screen or pick slip has all of the information needed to find the item, such as: UPC, SKU, picture of item, POG location if available, etc.



FIVE: Allow pick and packing on the floor at a register area; this will provide better customer service and floor coverage instead of requiring all packages to be packed in the back room.



SIX: Simplify your packaging requirements – less is more.

store, that is usually anywhere between 20 minutes to two hours. It's important to make the commitment and get the product off the floor, but it does not mean that the actual packaging is required at that same time. Separating these two functions will allow the stores to still normally meet a two-hour acceptance window, as an example, and not jeopardize service in the store. In a worst case scenario, when it can't be met, an order can always be pulled back and allocated to another store.

There is no doubt that store labor costs on a per hour basis will be higher than warehouse labor based normally on hourly rate alone, but definitely when efficiency is taken into account. According to Forrester, the operational cost of picking and packing an order from the store can be 30 percent higher than fulfilling the order in a distribution center.[2] This is all part of the equation that needs to be examined when determining what categories, what price point, and what customer orders should be shifted to be filled from stores.

One other added cost to ship from store operations is the space required to fulfill orders. It is necessary to consider whether your store(s) has the space required to fulfill orders or whether a portion of the store will need to be converted to a fulfillment area.

Supply Costs

Supply costs for packaging should also be taken into account when developing a ship from store strategy. Additional supply costs are incurred with the amount of packaging material that is required at all stores. The type of material being shipped also has an impact on cost. When bags and envelopes are used, it will generally lower the cost of supplies. When boxes are required, the supply costs need to be taken into account in the overall financial equation.

[2] "Why Every Online Retailer Should 'Ship-From-Store," Forrester. May 1, 2014.

Order Splits

In general, order splits will drive cost up and should be avoided at all costs if you are looking at the ship from store process from an expense standpoint. The fewer lines that your customer orders at one time will reduce your encounters with splits. A typical fashion retailer might see between 1.7 to 2.2 lines per order. In most cases, it will even be less expensive to ship an order complete from a store versus splitting between a store and a distribution center. When a "save the sale" is being considered, look holistically at the whole order as one group versus just looking at the individual item that is needed to "save the sale."

Picking Accuracy

When developing a ship from store strategy, consider how you will ensure picking accuracy. Distribution centers have many checks to ensure that orders are picked and packed accurately, but often times, these same checks do not exist at the store level. Orders fulfilled in store with the wrong items will be costly in terms of shipping and customer service.

THE KEY TO SUCCESS

After creating a well thought-out ship from store strategy, retailers can be very successful in their implementation of that strategy. The key to success is building out the business case by formulating a comprehensive financial model. Normally, what a retailer will find by doing so, is that some orders, customers, locations, categories, and general instances that makes sense to offer ship from store. The key is determining which instances make the most sense for your company.

A ship from store policy should not be thought of as a light switch. It is not always on or off. Make sure that all aspects of the ship from store policy, from the people, the processes, and technologies are all laid out to ensure your success. No two retailers are exactly the same when you look at product mixes, customer mixes, and supply chain networks. Develop a strategy that makes sense for your unique company needs.

WE'RE HERE TO HELP

Your company succeeds because you provide a unique set of capabilities or products to the market. Because of the diversity of capabilities and environments in the market today, enVista knows that no two companies and supply chain networks are exactly the same. Therefore, using a standard cookie- cutter approach to ship from store or replicating another company's approach will not be effective. enVista's expert team of supply chain consultants can offer a quick analysis of your supply chain network, including your stores, to determine the opportunities and challenges based upon the facts of your unique situation.

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