## Store of the Future: The Store as a Fulfilment Hub

*In 'The Store as a Fulfilment Hub', the final part of a three-part whitepaper series from Red Ant and NBK Retail, we look at the final part of the puzzle – fulfilment. We explore why retailers need to repurpose stores to meet customer demands, and why it's not possible to offer great customer experience without great operations to back it up.*

## About the author

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# The Store as a Fulfilment Hub

A decade ago, retailers were preparing for a future world centred around digital commerce. This meant prioritising investment in online and fulfilment capabilities, while rightsizing store portfolios to reflect shifting consumer demand. However, what most retailers failed to recognise at the time was the critical role that their very own stores would play in the sector's digital transformation.

Fast forward to 2019 and the most successful retailers today are those that view their stores as assets, and not liabilities. The most successful retailers today recognise that the key to growing e-commerce sales, as contradictory as it may sound, is by leveraging their physical infrastructure. They understand that traditional metrics for success are no longer valid in today's omnichannel world. They get that the future of retail isn't purely online or in-store—it's blended.

But stores are no longer fit for purpose and if retailers are genuinely going to cater to today's supercharged customer expectations, they need agility, innovation and the ability to fail fast. At the same time, retailers need to recognise that however much time and resource they dedicate to in-store transformation, it simply won't deliver unless they pay the same amount of attention to getting their operations right.

Our own survey showed that nearly 40% of shoppers use both online and store channels equally. We've already talked extensively of the need for stores to become frictionless to level the playing field with e-commerce, and more experiential to distance themselves from the transactional nature of buying online. The final piece to the puzzle is to reposition stores as mini fulfilment hubs, to bridge the gap between online and offline and allow customers to genuinely shop on their own terms.

## So what does this mean in terms of reconfiguring the shop floor?

It means dedicating more space to in-store collections, returns and same-day delivery fulfilment. In our last whitepaper, Store of the Future: The Experiential Store, we made the case for carving out more floor space for experiences over products:

- Less physical shelf space is required in today's digital era, given that 20% of UK retail sales now take place online.
- Retailers must differentiate from the utilitarian nature of online shopping.
- It reflects the shift in consumer spending patterns (prioritising spend on experiences over 'more stuff').

The first point relating to underutilised space rings true when we talk about fulfilment as well. If retailers genuinely want to follow their customers, then they must accept that the days of piling it high in everything-under-one-roof emporiums are over.

Instead, retailers need to dedicate more square footage to fulfilment services, allowing shoppers to marry the best of online and offline worlds while addressing perennial challenges and friction points such as product returns. Fulfilment has become a key battleground in retail, but it's clear more needs to be done.

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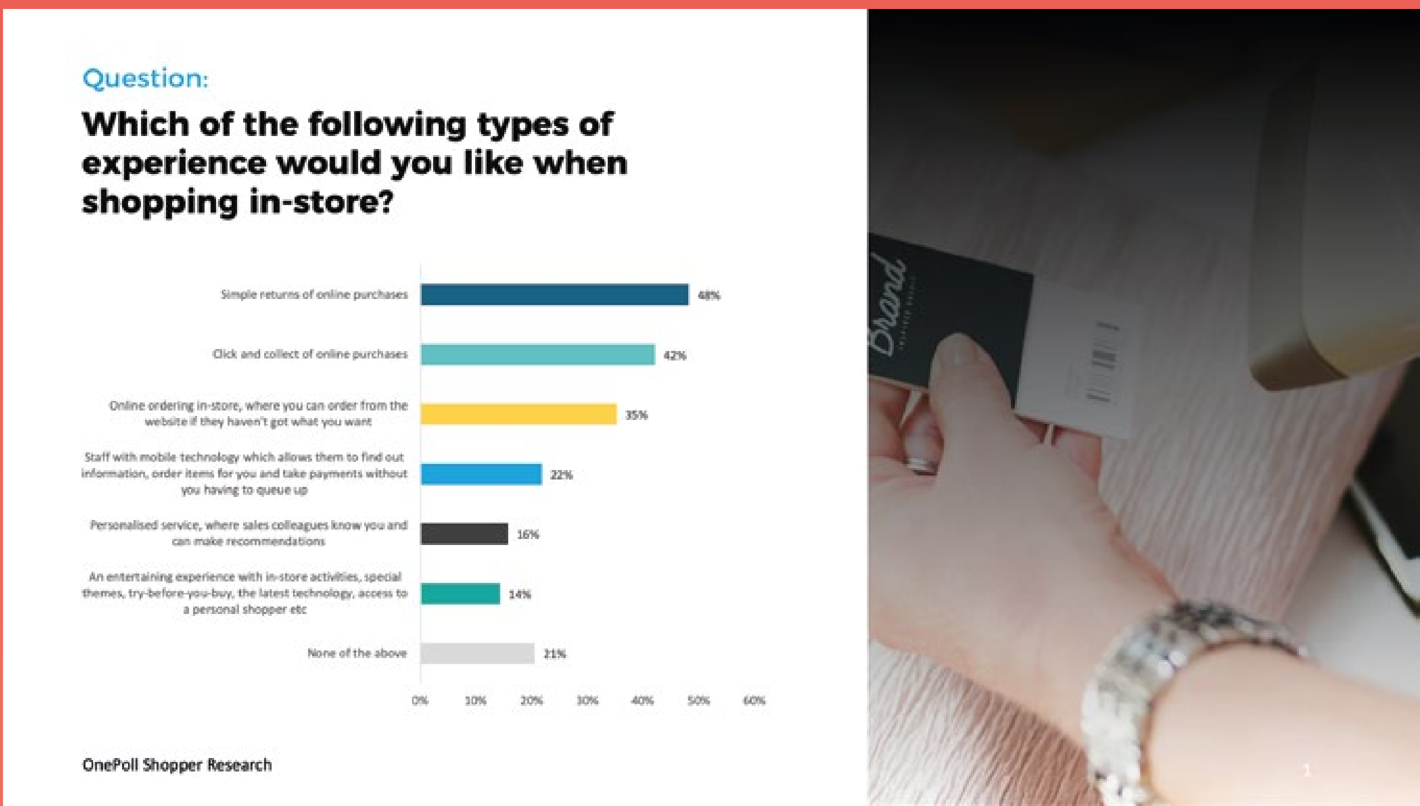
In fact, when we asked shoppers what types of experiences they'd like to see more of when in store, the top three answers were related to fulfilment:

**48%** want simple returns of online purchases

**42%** want the ability to click & collect

**35%** want to be able to order online while in store when items were out of stock



# Click, collect, return and more

There's no denying that the rise in online shopping has come at the expense of physical retail sales, but we can't overlook the many opportunities it has also created for those retailers willing to evolve.

Customer expectations around delivery times continue to rise and in the not-too-distant future, one-hour delivery will become the norm in urban areas. As the time wars heat up, we can expect more bricks & mortar retailers to reconfigure their stores as mini-warehouses to cater to the growing demand for speed. This is particularly an opportunity for food and drink retailers, and as a result we can expect the lines between grocery and foodservice to continue to blur in the future.

It may be difficult for bricks & mortar retailers to match online when it comes to ease and accessibility, but fulfilment has always been the Achilles heel for e-commerce retailers. Post-transaction, bricks & mortar retailers still have the upper hand when it comes to immediacy (although this is being eroded by the rise of same-day delivery) and, to some shoppers, convenience (which is after all defined by the individual).

Over half (51%) of the shoppers we surveyed cited 'not having to wait for deliveries' as a reason to shop in store versus online. Customers coming home to the dreaded 'sorry we missed you' note adds a whole lot of friction to an experience that is intended to be anything but.

Click & collect was therefore a no brainer for bricks & mortar retailers at the advent of e-commerce. Over the past decade, we've witnessed it go from quirky business model traditionally associated with Argos (perhaps unknowingly ahead of its time) to become a staple on the high street, allowing shoppers to marry the ease of buying online with the convenience of collecting on their terms.

*"Post-transaction, bricks & mortar retailers still have the upper hand when it comes to immediacy."*

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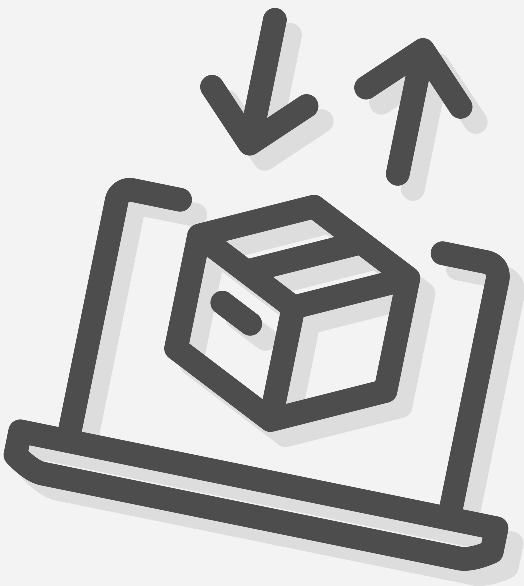

# Don't just hand over the goods- use fulfilment to drive sales and loyalty

Today, an overwhelming majority of online sales are collected in store at high street retailers like Boots, Argos and Marks & Spencer. Retailers have been quick to recognise that in-store collection and returns can improve footfall and consequently incremental spend—countless studies have shown that click & collect shoppers often purchase something else once in store. And herein lies the opportunity—retailers must be doing more to engage with shoppers at the point of collection in a bid to cross-sell or upsell based on the items that they have reserved.

Of course, making the most of this opportunity very much depends on equipping sales associates with the right technology and access to data to become a trusted shopping companion rather than simply someone who gives the customer their order and ticks it off on a list. Imagine a customer is collecting eye shadow from a beauty retailer. Instead of handing over the item and watching the customer walk away, the store associate could offer to show the customer complementary makeup ranges or even a demonstration in applying the eye shadow. The data is there, but very few retailers today are connecting the dots to offer that holistic customer experience.

Clearly more can be done to enhance the in-store experience post-collection, particularly in categories with higher return rates such as clothing. Some retailers like Debenhams have trialled 'click, try and buy' which allows click & collect shoppers to book a fitting toom to try on their online purchases. Shoppers also have the option to book time with a personal shopper who can recommend complementary items as well as instantly refunding the shopper for items they wish to return.

# Meanwhile, as same-day home delivery becomes the norm, we can expect more bricks & mortar retailers to turn to same-day collection.

One of the main draws of click & collect is the ability for customers to ensure product availability, as encountering out-of-stocks can be one of the biggest friction points when shopping in store. In fact, 40% of shoppers we surveyed said that the ability to 'know what you want to buy is in stock' would be a factor in choosing one retailer over another. Click & collect alleviates this, but typically requires a lead time of 1-3 days.

Clothing retailer Next, however, recently began allowing shoppers to view and reserve store-level inventory which would be ready for collection in under one hour.

Now, you could make the argument that not every order is time-sensitive, and this will naturally cater to specific consumer groups or niche shopping missions; however, we believe that this is how retailers should be thinking if they are to leverage stores in a digital era.

The challenge of course is ensuring data accuracy before launching it as a service to shoppers, which is why very few retailers have traditionally offered same-day click & collect.

# Collaboration, 'co-opetition' and customer satisfaction

Economically, in-store collection is naturally favourable to home delivery, although in recent years many retailers have raised the minimum order threshold for ‘free’ click & collect. The phenomenal growth of click & collect has also added complexity to business models while exposing those retailers who have not traditionally been the most service-orientated. Even when we think about the fundamentals of store layout, click & collect counters were initially hard to find and varied by store (dedicated counter versus main tills).

The more innovative retailers have recognised that not all click & collect shoppers are created equal. Although many shoppers will collect then browse, those that want to quickly collect and go today are catered for through front-of-store collection points, kerbside pickup and in some cases dedicated parking spots. In fact, 47% of shoppers we surveyed said that ‘items being ready to buy or pick up on arrival’ would make going to a shop worth their while.

47%

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## Looking ahead...

We can expect to see more collaboration, even ‘co-opetition’, if it helps to enhance the customer experience. This is especially an opportunity for digitally native brands whose lack of a physical presence was traditionally an advantage, but today has become a thorn in their side.

As explained in our previous whitepaper Store of the Future: The Digital Store, pure-play e-commerce chains are recognising the value in having bricks & mortar space in part because the structural economic advantages of being an online-only retailer have disappeared. Having a physical presence helps to offset rising shipping and customer acquisition costs, while often resulting in a ‘halo effect’ on online sales.

We would argue that a retailer like Amazon, for example, needs stores to effectively compete in today’s retail market. But the question is does Amazon need its own stores?

# Earlier this year...

Amazon teamed up with Next in the UK, Rite Aid in the US and select stores in Italy to launch Counter, a new service that allows shoppers to collect their Amazon parcels at staffed pick-up points in partner stores.

This is an extension of what Amazon has been doing for years—placing its famous yellow collection lockers in partner retail stores, shopping centres, libraries and even music festivals around the world.

It's also not dissimilar to Amazon's partnership with US department store retailer Kohls, where shoppers can collect and return unwanted Amazon goods. So, what's in it for the host retailer? Traffic, traffic, traffic.

## Lord Simon Wolfson, CEO of Next, described the partnership as one of the ways they can stay ‘relevant’ to shoppers.

The more progressive, digital-first retailers like Next and Joules, for example, have recognised that the role of the store is no longer purely about selling. And therefore, the metrics for defining success must evolve. Joules historically predicted 5-10% sales growth each year for its stores. Today it factors in a 5-10% decline. ‘Rather than just financials, we look at how many new customers we think we can acquire and capture data on for the first time in that location, what level of click & collect we’ll be able to do in that location, and also e-commerce returns,’ CFO Marc Dench said earlier this year.
The rule book has officially been torn up.

And rightfully so. One quarter of all transactions in a Joules shop are related to a digital sales journey (i.e. click & collect, buy online/return in-store, in-store ordering when product is out of stock).

*" Retailers must stop obsessing over like-for-like sales growth and redefine the metrics of success. "*

# In summary

Throughout our whitepaper series, we've explored the need for stores to reduce friction, become more experiential and cater to the 'on-my-terms' shopper by offering additional choices in fulfilment. Although retailers are making good progress on the first two components, we believe more needs to be done to change the perception of fulfilment. There are still far too many retailers that view fulfilment purely as a cost, when in fact it should be seen as a way to drive loyalty or incentivise certain behaviours. For example, to address the ticking time bomb that is e-commerce returns, retailers could offer loyalty points or money-off vouchers for speedy returns.

Retailers don't need to be all things to all customers. However, a successful 'blended' retailer does need to have all the key foundations in place—digital, experiential and fulfilment – backed by intelligent, tech-enabled store associates for superior customer experience and increased sales, slick operations to meet customer needs and a robust digital store platform to bring it all together in one seamless, integrated process.

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This is the final part of a three-part series of whitepapers. To download

Store of the Future: The Digital Store
Store of the Future: The Experiential Store

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