

AS FEATURED IN

DIGITAL RETAIL
COMMERCE 360

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FULFILLMENT TRENDS FOR RETAILERS

Large retail chains and small brands weigh in on the following shipping trends:

- Sustainable packaging
- Alternate pickup points
- Ship from store
- Curbside pickup

Plus, tips to cut shipping costs.

COMPLIMENTS OF:



NEVER STOP IMPROVING YOUR FULFILLMENT GAME

There's always room for improvement when it comes to fulfillment, says John Michael Fabrizi, president and chief operating officer for apparel brand Coalatree.

The consumer brand manufacturer of ecofriendly garments has routinely iterated on its packaging to provide quality materials with minimal waste.

And at times, that means having to quickly change course. After Coalatree switched to a compostable mailer, customers complained of receiving ripped or wet products leading to product damage. Even though the package was a better fit for its brand values, if it wasn't functional, it was useless, Fabrizi says.

And so, the merchant had to return to its previous packaging materials until it could find a better alternative. Luckily, it did, and now Coalatree's packaging ticks both boxes of quality and ecofriendly. For now, Fabrizi knows there will likely be a new, better option to test and evaluate.

Most retailers Digital Commerce 360 editors interviewed for this fulfillment-focused Strategy Insights said the same: They are always looking for ways to improve their fulfillment operations.

There are always new fulfillment trends to dig into, and sustainability is certainly one that we spotlight in, "**Retailers share ways to make shipping more sustainable.**" But there are many other facets to fulfillment to improve on, as shipping is such a key part of ecommerce.

HAVING THE CHECKOUT PAGE THAT GETS IT DONE

FULLFILLMENT TRENDS FOR RETAILERS

Another fulfillment woe that many retailers grapple with is inventory management between stores and warehouses. Many retail chains started using their stores to fulfill online orders, as stores are often closer to shoppers than a warehouse and could cut down on last-mile fulfillment costs. But some merchants are cooling on this trend, finding that their stores are often more successful when their employees are focused on selling and helping in-store shoppers, not fulfilling orders. Senior Editor Gretchen Salois details the complexity of inventory management from top retail chains in her article, **“Why some retailers use — and avoid over-using — stores for fulfillment.”**

If shoppers don't want their package delivered to their doorstep, there are now several options retailers can offer to make it more convenient for shoppers, such as shipping packages to third-party locations like Walgreens or FedEx, a trend we look at in, **“Will alternate package pickup points take off?”** And, of course, the service that blossomed during the pandemic, curbside pickup. But some retailers have started to discontinue using curbside, not sure if enough shoppers want the service to warrant the resources allocated to it. We look into this trend in, **“Committing to curbside — or breaking up with it.”**

And not a trend, but an ongoing goal for retailers is to cut costs within the shipping process. In, **“How can merchants cut shipping costs?”** director of editorial for research and retail news Paul Conley shares examples of how retailers can lower their shipping costs.

Fulfillment is when the digital shopping experience becomes physical for the customer. The June Strategy Insights, Fulfillment Trends For Retailers, will be your guide to evaluating some of the newer fulfillment trends or reevaluating the effectiveness of previous trends in action.



— April Berthene, Editor, Strategy Insights

STRIKING THE BALANCE BETWEEN PROFITABILITY AND GREAT EXPERIENCES IS POSSIBLE

An executive conversation with **Omar Akilah**, corporate vice president of product management, Blue Yonder



Online shoppers today expect convenience, speed and sustainable fulfillment options. Retailers are leveraging search, social channels, marketplaces, drop-shipped vendors or omnichannel fulfillment to meet customers where they are. But to truly deliver the experience customers expect, they need to rethink their supply chain strategies to align with their customers' locations. To discuss how retailers can manage the costs associated with these new strategies by maximizing the profitability of their inventory, employees and physical locations, Digital Commerce 360 spoke with Omar Akilah, corporate vice president of product management at Blue Yonder.

What are some of the latest trends around fulfillment?

Customers expect flexibility in how, when and where they get their orders. Many have shifted to a hyper-localized buying model — looking for products they can confirm are carried at their local store, pick up conveniently, or get delivered efficiently and sustainably at no cost.

With choice now tantamount to the customer experience — speed, convenience and proximity must be at the heart of a retailer's initiatives. Retailers need to innovate within the supply chain to reduce and contain the cost of getting goods close to the customer, ensuring that cost doesn't erode margin or fall back on the customer.

What are retailers' best practices around managing inventory across their store networks?

Retailers are shifting their network to position inventory close to the customer — considering distribution centers, stores and third-party logistics providers as fulfillment hubs. Successful retailers are making early predictions of the likelihood a customer in the market will purchase an item, predicting customer fulfillment preferences in that category, then finding the most cost-optimal path to fulfill. This results in the ideal, lowest cost placement in their hyper-complex fulfillment network and leads to improved inventory utilization and reduced overhead costs due to the number of stops an item makes before it arrives to the customer.

What are retailers' biggest challenges around fulfillment?

Retailers are constantly dealing with disruptions. The cost of goods is inflated. Transportation costs are up and down. Employees costs are high. Environmentally friendly fulfillment is gaining traction with customers. Consumer confidence goes up and down month to month. This means margins continue to be squeezed and operational cost-cutting is a must to stay profitable and relevant.

A big opportunity for retailers is to stop looking at only proximity of individual items when fulfilling customer orders. Retailers need to look at costs across the order — such as shipping, labor, stockout for future demand, and markdowns — to ensure they're making the most profitable and sustainable decisions.

Companies must lean on technology to help them identify how to overcome inefficiencies, especially because fulfillment can account for a large portion of the operational margin. Technology that runs multiple simulations and provides the cost analysis against various simulations is becoming key to resiliency in today's environment.

How are they dealing with these challenges and what role does technology play?

To offer a truly unified commerce experience, retailers need to refresh internal processes. That includes empowering employees, digitizing data to make real-time decisions, and adopting technology with artificial intelligence and machine learning to optimize and automate these new processes within their ecosystem.

To do this, companies are adopting agile technologies that offer a fast time to value. These technologies are built using a composable architecture with microservice solutions, which allow retailers to only invest in their desired capabilities and provide faster integration with out-of-the-box adaptors for their ecosystem. This allows retailers to prioritize pieces of their digital transformation that have the best return on investment, which in return funds new experiences and projects.





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RETAILERS SHARE WAYS TO MAKE SHIPPING MORE SUSTAINABLE

Brands positioning themselves as environmentally friendly invest in making their online shipments more sustainable by eliminating plastic or using recycled or compostable materials. These packaging materials are often more expensive, but new options are emerging that can reduce the additional cost of backing up a brand's commitment to protecting the planet.

BY APRIL BERTHENE

Sustainability is part of Coalatree's mission.

The performance apparel brand works to make its clothing in a sustainable way, such as designing products with sustainable materials like recycled water bottles and manufacturing its garments in factories that adhere to its standards, such as using a waterless dye method.

So when it comes to getting that product in a shopper's hand, Coalatree prioritizes shipping it in a sustainable way, says John Michael Fabrizi, president and chief operating officer for the apparel brand.

"It doesn't make sense for us to make products out of sustainable





“It doesn’t make sense for us to make products out of sustainable inputs and then on the flip side, ship things out in the least sustainable way possible.”

— J.M. Fabrizi, president and chief operating officer, Coalatree

inputs and then on the flip side, ship things out in the least sustainable way possible,” Fabrizi says.

Coalatree ships its products in a compostable mailer, and the plastic polybags that encase each item are made from recycled plastic.

Fabrizi estimates that this packaging costs the brand about 25% more than what it would cost to use traditional shipping materials.

“We’re a pretty mission-driven brand, and that’s key to what we are doing, which is why these costs need to be factored into the business from the get-go. That’s why people buy our products,” Fabrizi says.

And therein lies the burden for all brands when it comes to sustainability — the cost. For brands with an eco-mission, including Coalatree, cleaning products brand Cleancult, household products brand Grove Collaborative and apparel brand Toad & Co., the extra cost of environmentally friendly shipping is worth it to them and, they believe, to their customers. And they’re constantly testing new

2.1 BILLION

Pounds of plastic packaging the global ecommerce industry created in 2019.

Source: Oceana Inc.

packaging options coming to market as they seek to improve their offerings and minimize the cost of backing up their commitments to environmental responsibility.

SHOPPERS CARE ABOUT SUSTAINABLE MATERIALS, BUT IT COSTS RETAILERS

The push to find eco-friendly ways to deliver online orders is a response to the concerns of many shoppers. 56.8% of consumers say sustainable packaging and shipping is important (33.8%) or very important (23%) when purchasing online, according to a March 2023 survey of 500 consumers by logistics software vendor Sifted.

What's more, 69% of consumers say sustainable shipping has influenced their past purchases, and 76% of shoppers say they would pay an extra 5% for more shipping options that minimize environmental damage, according to the survey.

This large share of shoppers taking into account sustainable shipping does not surprise Caleb Nelson, chief growth officer at Sifted.

“Consumers are demanding sustainability improvements across the board, so we didn't find it surprising that there's such a demand for it when it comes to shipping,” Nelson says. “Ecommerce saw unprecedented growth during the pandemic, and that shift made a lot more consumers think about the impacts of having products shipped to their doorsteps.”

But that shift in thinking doesn't mean it's an easy decision for online retailers to discard traditional packaging materials and practices. Sustainable packaging is more expensive, and there is no guarantee that consumers' desire to minimize environmental damage will actually change the shopping habits of many.

50%-70%

How much more expensive recycled paper is for retailers to use in a package than non-recycled paper.

Source: EcoPackables

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For now, online retailers using eco-friendly packaging are the exceptions.

Globally, the ecommerce industry used nearly 2.1 billion pounds of plastic packaging in 2019, according to an analysis published in a 2020 report by Oceana Inc., a nonprofit organization dedicated to protecting oceans. Plastic packaging includes mailers, bubble-lined paper and plastic mailers, air pillows, shrink films and more. Amazon.com Inc. alone produced 465 million pounds of plastic packaging waste in 2019, according to the report.

“We are in the new part of the curve, where everyone thinks it’s a good idea and there’s some authentic application that is economical,” says Bernardine Wu, executive managing director of digital strategy at digital consultancy OSF Digital, referring to sustainable packaging. “But we’re not there yet in our industry with reusable packaging or materials that are better, or degradable. It’s not competitively cheaper.”

Meaning, there is not enough demand from retailers and shoppers for sustainable packaging for there to be enough vendors to make prices competitive. Wu draws an analogy to the food industry offering more plant-based foods. It took years to scale, but now consumers have multiple plant-based alternatives for foods that are comparable in price to meat products at the grocery store, she says.

Shervin Dehmoubed, founder and CEO of sustainable packaging vendor ecoPackables, says recycled plastic is just as durable as virgin plastic and costs about the same. At ecoPackables, compostable packages cost about 30%-50% more than non-compostable alternatives, and recycled paper costs about 50%-70% more, he says. Compostable packages include plant-based plastics. These materials, however, can be complicated for consumers to recycle as they require delivery to a special facility.



Apparel brand Coalatree alerts shoppers that its packaging is eco-friendly by putting it on the mailer itself.

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If recycled improperly, they can contaminate good recycling, and if thrown out, they can emit even more methane than traditional trash.

EcoPackables has been in business for four years and has more than 100 enterprise clients using its products, such as apparel retailers Ted Baker and Revolve, and more than 2,000 small businesses, many of them Etsy sellers.

LimeLoop is another vendor that offers reusable packaging to retailers. The vendor rents out reusable bags for \$1 per bag per month that retailers can use to ship products to customers. Shoppers are asked to mail the bags back to the retailer. LimeLoop launched in 2018 and has 45 online retail clients, mostly small businesses with annual revenue less than \$5 million. It does have some enterprise clients, with a handful more in the pipeline, a spokesperson says without revealing more.

NO PLASTIC IN PACKAGING

Like Coalatree, both Grove Collaborative and Cleancult believe their stated brand missions require offering sustainable shipping to shoppers. And that means minimal to no plastic.

“We can’t use plastic. It can’t ruin our value proposition,” says Ryan Lupberger, co-founder and CEO of Cleancult.

Cleancult uses corrugated paper to pad its products, which is typically two to three times more expensive than plastic polybag filler, Lupberger says. It also pads its glass bottles with cardboard beds to ensure products don’t bump into each other.

The brand uses Forest Stewardship Council-certified paper for its product cartons and shipping boxes. FSC is a nonprofit organization



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that ensures the paper is from a forest that is responsibly managed for environmental, economic and social benefits.

Grove is plastic-neutral, meaning for every pound of plastic sold, it collects and recycles that same amount in nature through rePurpose Global, a plastic action platform that aims to reduce waste. Grove's goal is to be plastic-free by 2025. To achieve its goals, Grove Collaborative continually seeks ways to improve its packaging.

When it comes to minimizing the carbon footprint of a fulfillment box, it's all about lower weight, smaller size and less package, says CEO and co-founder Stuart Landesberg.

Grove focuses on only selling products that are smaller in size — or changing them to make them smaller, and thus easier to ship. For example, instead of selling a full-size mop, which is bulky to ship, it made its stick collapsible to fit into a much smaller box. Similarly, it sells concentrated laundry detergent that shoppers can add water to at home, instead of full-size bottles that are large and heavy to ship.



Grove Collaborative strives to fit a customer's entire order, which on average has eight to 10 products, into one box.

That brings Landesberg to a tip for merchants striving to be more sustainable: Invest in multiple box sizes to minimize the number of packages that are larger than necessary.

“The best solution is well-trained labor and enough box sizes that you can match products to appropriately,” he says.

At one point, Grove experimented with 30 box sizes. Now, it has settled on its four boxes and two mailers, which can appropriately fit all its orders.

FITTING ALL PRODUCTS INTO ONE BOX

Box size is important at Grove, as it prides itself on fitting all the products for an order — the average order size on Grove.co is eight to 10 products — into one box. This requires investment in its talent. Grove’s warehouse workers need to “Tetris” or puzzle together the fulfillment box so all the products fit inside, Landesberg says.

Packers receive a week of hands-on training, then a month of guided supervision as they learn how to pack the boxes and their expected goals. The position represents a promotion over an entry-level position and comes with more money. Landesberg declined to share its warehouse employee wages.

“The training process at Grove is longer than most ecommerce packer training programs because the nature of our product and packaging expectations requires a level of detail that isn’t always necessary in a traditional packing role,” Landesberg says. “Our team members understand the importance of optimizing products and packaging materials in such a way that does not contribute to a higher carbon footprint.”



“The best solution is well-trained labor and enough box sizes that you can match products to appropriately.”

— **Stuart Landesberg**,
CEO and co-founder,
Grove Collaborative

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Landesberg describes the role as a “pressure seat.” The employee receives the touts with the products picked for the order and the appropriately sized box. Then, they have to quickly fit it all in, as employees have a units-per-hour goal, and that goal increases according to their experience level and job function.

Other warehouses might use a robot to perform this task. But Grove is willing to pay a bit more to have this step of the fulfillment process done correctly.

“I haven’t seen anything robots can do as good as a human,” Landesberg says about this box-packing step. Grove tracks customer satisfaction and feedback weekly as the primary success metrics for Grove packers. Grove, a publicly traded company, is operating at a loss.

Shipping multiple items in a single box reduces the amount of packaging required, and the environmental impact of producing and disposing of packaging materials. Even though this requires more time and training — which equates to more cost — the carbon footprint is much larger for multiple boxes instead of a slightly larger box that can hold a few more objects, Landesberg says.

Some larger orders must be shipped in more than one box, but Landesberg says such split shipments represent less than 5% of its orders. This is below the industry standard, as 21% of orders on average from retailers arrived in more than one shipment, according to data from fulfillment vendor Narvar Inc. collected October-December 2021.

Cleancult has four box sizes, and 99% of its orders arrive in one box.



Cleancult uses Forest Stewardship Council-certified paper for its product cartons and shipping boxes. Additionally, Cleancult uses corrugated paper to pad its products, which is typically two to three times more expensive than plastic polybag filler.

Lupberger admits that shipping its heavy and bulky products in sustainable packaging is expensive and eats into the retailer's margin. With its ecommerce site "break[ing] even at best," it has shifted its focus to selling wholesale to retailers instead of direct-to-consumer online.

ARDUOUS EFFORT FOR A THANKLESS TASK

Even though Coalatree, Grove and Cleancult have made considerable efforts to make their packaging more sustainable, they often don't get feedback from shoppers about this.

"[Shoppers] don't notice it when it arrives," Lupberger says.

Coalatree's polybags are printed with messages like, "Don't worry, I'm compostable," or "Don't worry, I'm made of recycled materials," which educates shoppers about the company's environmental commitment, Fabrizi says. But Coalatree's customers mostly say something about the packaging when they're not happy about it.



Cleancult knows firsthand the large expense of shipping heavy and bulky products directly to consumers in sustainable packaging.

OPTIMIZED AND ALTERNATIVE POLYBAGS

The company heard plenty of complaints after it switched from the traditional packaging materials it had used since focusing on online sales in 2015, when sustainable options weren't available, to compostable mailers in 2019. It ordered 10,000 packages with its branding on them but quickly received a glut of customer service complaints about packages not arriving, arriving damaged or with a product that was wet.

While the compostable package is better for the earth, if it doesn't do its job, it's worthless, Fabrizi says.

"If the package doesn't stay together, we can't use it" Fabrizi says.

Luckily, Coalatree's packages were compostable, and the brand stopped using that vendor. In 2020, it started working with sustainable packaging manufacturer ecoPackables, which it still uses today. It has had no quality issues with this supplier, Fabrizi says.

Coalatree wraps each of its apparel products in a polybag made of recycled plastic. While that adds packaging to each order, the plastic is essential to delivering a quality product.

"It needs to be in its own bag," Fabrizi says. "If it gets wet in shipping, if the product gets damaged and it's not wrapped in a polybag, you're (out of luck) essentially."

Steve McCann, marketing director at Toad and Co. agrees with Fabrizi that polybags are wasteful plastic but needed to protect the garment.

"Polybags are the worst thing in the world. Everyone hates them, but they are a necessary evil," McCann says.



"Polybags are the worst thing in the world. Everyone hates them but they are a necessary evil."

— Steve McCann,
marketing director,
Toad and Co.

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Since Toad and Co. started selling online in 2014, the brand went from using one traditional polybag, to optimizing the design to be more sustainable by having five sizes. It aims to eliminate polybags completely by 2024.

Like Grove with its box sizes, Toad and Co. shrunk the standard width of each polybag to better fit its garments. Instead of using one larger polybag that would hold any of its products, it invested in polybags of different sizes so each bag fits the garment, reducing the plastic required. It also thinned out the plastic to further minimize the amount used.

What's more, it changed the location of the airholes on its polybags, moving them from the bottom of the bag to the top and alerting shoppers these polybags could be reused to pick up dog waste, McCann says.

And even after all these efforts, the retailer is working to eliminate all these polybags.

In 2020, Toad & Co. started working with packaging vendor Vela to pilot paper polybags, which are made of FSC-certified paper and can be recycled with normal mixed paper. McCann says that makes



Toad and Co. gives customers the option to have their orders ship in a reusable LimeLoop bag. The weather bags have a sleeve for the shipping label, have a zipper enclosure and are padded with recycled cotton.

it more likely consumers will actually recycle these bags than they would a compostable polybag, which requires the shopper bringing the polybag to a specific collection point that takes the material.

After piloting the paper polybags with a few products, the retailer confirmed they were sturdy enough to protect its garments and of the same quality as a traditional polybag, and it began rolling out the bags across all its products. Once the brand hits a certain minimum order volume of products at each of its factories, it makes the switch to using this paper polybag. As of Q2 2023, about 82% of its products use the alternative polybag and by spring 2024, 100% of them will, McCann says.

A MORE DRAMATIC ALTERNATIVE: REUSABLE PACKAGING

To further lower its carbon footprint, Toad and Co. also gives shoppers the option to have orders shipped in a reusable package. Toad and Co. rents reusable packages from vendor LimeLoop. The packages are weatherproof bags made of recycled billboards and other recycled polyester. The bags zip close, instead of using tape, and are lined with recycled cotton on the inside.

QUICK TIPS

Ways merchants make their ecommerce packaging more sustainable

- Replace plastic with paper or cardboard.
- Ship items in a box or mailer big enough to hold the order and no bigger. This may require investing in multiple box or mailer sizes.
- Reduce split shipment by fitting all order items into one package.
- Use a box or mailer that is made from recycled materials, FSC-certified paper or is compostable.
- If a polybag is needed, use a paper polybag, or recycled or compostable plastic instead of virgin plastic.

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Each bag has a sleeve on the outside, so the shipping information can be inserted instead of using a sticky label that would make it harder to reuse the bag. The bags can be used at least 200 times, LimeLoop says.

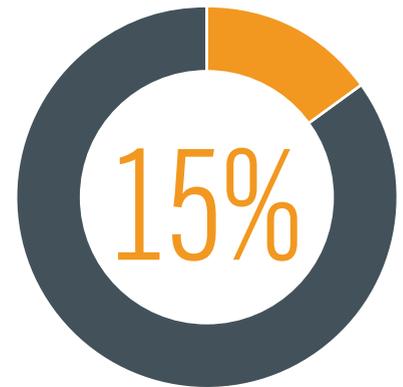
After a Toad and Co. shopper receives an order, she has to print a return label and then return the package in the mail. It takes about two weeks from when Toad and Co. ships an order to when it receives the bag back. Via LimeLoop, Toad and Co. can send shoppers automatic reminders to return the bags.

If Toad and Co. can use a LimeLoop package twice in one month, that's when using the package becomes "break even" in cost compared with traditional packaging, McCann says. Otherwise, this shipping method is more expensive, he says without revealing more. So far in 2023, it has hit the twice-in-a-month frequency for each bag.

Most LimeLoop clients include a return shipping label in the order, but Toad and Co. is still ironing out the logistics of how to remove the barrier of shoppers having to print the return label.

About 12%-15% of Toad and Co.'s online shoppers select the LimeLoop package option, and 20% of those who chose LimeLoop as their fulfillment method choose it again, McCann says. These are healthy numbers, McCann says, especially when considering how many new customers Toad and Co. has, he says without revealing more.

Unlike thinning its polybags and increasing the number of polybag sizes it uses, this type of sustainable packaging is highly visible to the customer and something Toad and Co. receives a lot of positive feedback on, McCann says.



Percent of Toad and Co.'s online shoppers who chose to receive their order in a reusable bag.



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“It’s something that people when they look out their window, they get it. They get how many boxes they get from Amazon that you can’t even fit it all in your recycling bin anymore,” McCann says. “[Shoppers] understand it’s an issue, but they don’t see anyone doing anything about it. But they also love the convenience of [online shopping] and are not willing to change the convenience aspects. I think when brands have an option and it’s different and it’s addressing the issue, [shoppers] love it and grab on to it.”

Overall, retailers, analysts and vendors agree that a key to making packaging and ecommerce shipping more sustainable is less packaging, whether that’s with a smaller box or less plastic. Plus, a number of merchants have committed to eliminating plastic in their packaging or are only using recycled plastic or materials that can be composted.

For now, these packaging options add to an online retailer’s costs. But those extra costs can be viewed as a marketing expense that helps brands reach and retain consumers who are concerned about the environment.

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WHY SOME RETAILERS USE — AND AVOID OVER-USING — STORES FOR FULFILLMENT

Today's shopper is a hybrid in-store and online shopper. Retailers face logistical and fulfillment challenges to ensure inventory is there. Three retailers strategize how to divide orders between warehouses and stores to efficiently meet shopper demand.

BY GRETCHEN SALOIS

How long a shopper is willing to wait to receive a HomeDepot.com order may be the reason a shopper makes a purchase or not.

“You may not have wanted to wait three days for something. But, if we can get it to you tomorrow, you might be willing to wait one day,” says JC Jammal, vice president, online and marketing technology at Home Depot.

“What is driving that?” Jammal asks. Consumers are more willing to wait for something to ship to home if the wait isn't too long, he says.

“More customers are opting into that option if they don't have another need to go into the store,” Jammal says about ship from store. Jammal declined to share how many HomeDepot.com orders are shipped to home versus picked up in store.



WHY SOME AVOID OVER-USING STORES FOR FULFILLMENT

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These changes in omnichannel shopper behavior are why Home Depot continues to invest in its supply chain network of 150 delivery centers and fulfilling online orders from its 2,300 stores.

Investments — such as raises for in-store employees, improved hardware for picking orders in store and dedicated facilities for appliances — have driven down the time it takes to ship orders to customers' homes, Jammal says, without revealing by how much.

Retailers are learning how to adapt to changing consumer shopping behavior. Retailers must know what inventory to have in store, what to offer online and how to get it to customers. Shoppers expect to pick up online orders in store or have them shipped to their homes. Home Depot is using homegrown software to lessen its reliance on stores doubling as fulfillment centers. Big and tall men's apparel retailer Destination Group XL reduced the number of brands it sells to make inventory more manageable. Meanwhile, Tractor Supply Co. limits which stores can fulfill orders — but the 95 stores that do fulfill can ship orders to customers within a day. Retailers need to invest in fast and reliable delivery or risk losing the sale.

RETAILERS ADAPT TO CHANGING CONSUMER BEHAVIOR

Real-time inventory availability is important. It ensures retailers have a current view of what is available when and where, says Emily Pfeiffer, principal analyst at consulting company Forrester.

About a third of U.S. consumers said if they can't find availability in the store near them by checking the retailer's website, they're less likely to go to the store, according to Forrester's Consumer Energy Index and Retail Pulse Survey of 483 U.S. adults who shopped online during the winter holidays, conducted Dec. 26-30, 2022.



"You may not have wanted to wait three days for something, but if we can get it to you tomorrow, you might be willing to wait one day."

— JC Jammal,
vice president,
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The Home Depot Inc.

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Consumers browsing an ecommerce site are not always shopping, Pfeiffer says.

“They just want to look and make sure the thing they want is available in the store near them,” she says. “Inventory [visibility] is terribly important. Retailers don’t always know what they have and where it is.”

68% of consumers want to check online for product availability at a nearby store, according to a Digital Commerce 360 and Bizrate Insights survey of 1,069 shoppers in February 2023. Half (50%) ordered online and picked up a product in store. And if something wasn’t available at one store location, 23% checked online for inventory at another location, and 11% placed an order for delivery while shopping in store.

The majority of top retail chains offer in-store stock status. The percentage of Top 500 retail chains that offer in-store stock status is 66.9%, and 65.4% for the Top 1000. Digital Commerce 360’s Top 500 and Top 1000 databases rank the largest North American online retailers by web sales.

HOME DEPOT DEDICATES SEPARATE FACILITIES FOR SMALL AND LARGE ORDERS

CEO Ted Decker told investors during its fourth-quarter earnings call on Feb. 23 that its most recent supply chain change is ensuring all appliance deliveries go through dedicated warehouses devoted to receiving appliances from vendors and delivering them to customers.

Other delivery centers are capable of handling large, heavy building materials that Home Depot’s Pro customers — professional contractors — purchase, says Angie Brown, senior vice president of technology.



Angie Brown, senior vice president of technology, Home Depot

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“These buildings typically have rail access and are large enough that a flatbed truck can drive through them, making it easier to receive and load large items,” Brown says.

Other delivery centers are equipped to handle smaller-sized orders. Brown says the home improvement merchant continues to improve cross-dock capabilities — the logistics behind unloading goods from inbound delivery vehicles and loading them directly onto outbound vehicles — between its different fulfillment and delivery centers. The retailer thereby reduces the number of deliveries and packages required for one given order, she says.

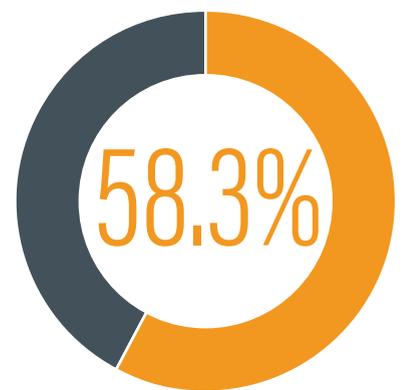
DXL SHIPS FROM STORES AS A ‘LAST RESORT’

Destination XL Group Inc., a men’s big and tall apparel retailer, prides itself on its in-store customer shopping experience, says Peter Stratton Jr., executive vice president and chief financial officer. But the retailer recognizes that shoppers want the option to shop online as well, and it does its best to provide omnichannel services, he says.

More than 30% of DXL’s sales are online. Its 281 stores across the U.S. also serve as fulfillment locations when needed. This allows the retailer to reach shoppers across the U.S. both online and in stores, Stratton says.

“The problem with a store is that you’re constrained by how many customers are within a reasonable drive time to that store,” Stratton says. “Whereas online, you’re not constrained by any geographic restrictions.”

Whether buying in a store or online, the average order value for DXL customers falls around \$140, Stratton says.



Destination XL Group’s digital commerce sales growth from fiscal 2019-2022.

WHY SOME AVOID OVER-USING STORES FOR FULFILLMENT

FULFILLMENT TRENDS FOR RETAILERS

DXL increased online sales 9.9% in its fiscal year 2022, which ended Jan. 28, 2023, compared with the prior fiscal year. And from its fiscal 2019-2022, digital commerce sales increased 58.3%. Digital commerce sales are those that originate online through DXL.com, at the store level through its Universe software from retail management software vendor Aptos, or through a third-party marketplace. DXL also sells its private-label products on Amazon.com Inc., Walmart Inc. and Target Corp. marketplaces. These sales are included in its digital sales figures.

The stores all have the capability to fulfill direct orders. But DXL chooses to use stores as a last resort to the distribution center, he says. That's because distribution centers remain the most cost-effective way to ship merchandise, Stratton says. Stores are useful in offloading clearance inventory that might otherwise sit unsold, he says. But the strategy behind in-store is to promote the experience for the customer, he says. "Not process inventory."

DXL sells a large variety of brands and assortments. But, over the last two years, the retailer has cut its assortment of brands it sells to make inventory more manageable for both the retailer and the customer, he says.

"There were a number of smaller brands that just did not make up a more meaningful position in the assortment," he says. "We've had to eliminate some noise."

Instead, Stratton says the retailer is focusing on its exclusivity agreements, such as owning the Nautica apparel brand to sell in big and tall sizes both in stores and online. Other brands include Polo Ralph Lauren, Vineyard Vines and Robert Graham. About 50% of DXL's inventory is its private-label brands, and designer collections comprise the other half.



Peter Stratton Jr., executive vice president and chief financial officer, Destination XL Group Inc.

BOPIS INVENTORY MANAGEMENT AT DXL

DXL customers can buy online and pick up in store (BOPIS) via the retailer's website or app. Once shoppers place an order, DXL's in-house inventory management software triggers a query to the store the shopper has chosen. Associates physically check the inventory to ensure the item is available in the store.

The associate confirms the order with the customer online before the customer drives to the store for pickup, Stratton says. The time between the initial order and pickup usually falls within four hours, he says. If the item is not in stock, DXL has to cancel the online order.

DXL does not use a safety stock buffer, which triggers once a SKU count gets below a certain quantity and no longer offers it online for purchase. Safety stock buffers are extra product kept aside for expected delays from suppliers.

"We don't use this because of the low units per SKU, which would significantly limit the number of items in the assortment that we could offer online," Stratton says.

Over the last five years, DXL has equipped its sales associates with iPads using its in-house Universe software in case in-store shoppers want to purchase a specific color or size it doesn't have in stock at the store.

The technology pulls together the desire to try on products in person combined with the endless aisle of shopping online, he says.

"We can hold a lot more merchandise in our warehouse distribution center than we can in store," he says.

HOME DEPOT INVESTS IN SOFTWARE, SUPPLY CHAIN, EMPLOYEE WAGES

Home Depot manages its supply chain network with its homegrown predictive modeling software.

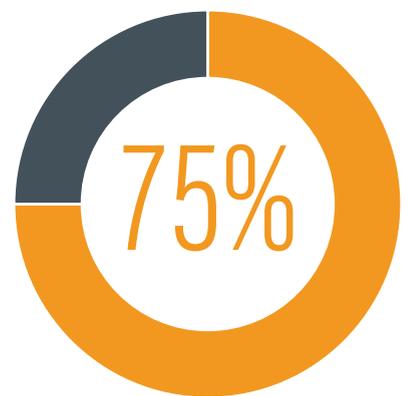
“This allows our replenishment teams to direct the product to the areas with the most demand,” says Angie Brown, senior vice president of technology. As the artificial intelligence machine learning software learns, its predictive capabilities improve, directing inventory to stores and fulfillment centers.

Stocking products closer to customers costs the merchant less for last-mile delivery, Jammal adds. Over time, the retail chain is less reliant on its stores as fulfillment centers. Home Depot fulfilled 45% of its online orders in stores during its fiscal fourth quarter 2022. That’s down from 50% the prior quarter. Home Depot welcomes this development, as fulfilling fewer orders in stores frees up sales associates to help customers, Jammal says.

“As we continue to make those investments, we’re driving down the time that it takes for us to get product to your door,” Jammal says.

Home Depot also has invested resources in keeping hourly employees happy. In February 2023, the home improvement merchant invested \$1 billion toward wage increases. Plus, it created new management positions for in-store employees to help improve the customer and associate experience, executive vice president of U.S. stores and international relations Ann-Marie Campbell told investors during the retailer’s fiscal Q4 2022 earnings call.

For example, in June 2022, Home Depot began equipping its store associates with 129,000 hdPhones. These are mobile devices that



Percent of ecommerce orders Tractor Supply Co. fulfills through its stores.

WHY SOME AVOID OVER-USING STORES FOR FULFILLMENT

FULFILLMENT TRENDS FOR RETAILERS

allow employees to locate and pick products faster as well as assist customers with inventory and availability questions in stores, Brown says.

“Associates can see inventory in surrounding stores or whether the item is something we only sell online,” Brown says.

In that case, Home Depot associates use the hdPhone to give the customer the price and what the options are to receive the order.

TRACTOR SUPPLY FULFILLS 75% OF ECOMMERCE TRANSACTIONS THROUGH STORES

Leveraging stores effectively is a driving force behind Tractor Supply’s inventory management strategy, says Letitia Webster, senior vice president of ecommerce, omnichannel and master data management at Tractor Supply Co.

With nearly 2,100 store locations, Tractor Supply’s customer is increasingly a hybrid shopper who shops in stores and orders online, Webster says.

The retailer fulfills 75% of ecommerce transactions through its stores.

“That’s significant based on our store base,” Webster says.

The retailer also has a network of nine distribution centers with the capability to ship directly to customers across the U.S. Three warehouses have dedicated small package shipment capabilities and are strategically located to serve the majority of Tractor Supply’s online orders, but all of them have the capability to fulfill an ecommerce order, Webster says.

WHY SOME AVOID OVER-USING STORES FOR FULFILLMENT

FULFILLMENT TRENDS FOR RETAILERS

Tractor Supply is currently constructing its 10th distribution center, which will open in early 2024 in Maumell, Arkansas. This distribution center will have 50,000 square feet dedicated to ecommerce orders.

What Tractor Supply is not doing on the omnichannel front is reallocating additional store space to process ecommerce orders, Webster says. Like DXL, the retailer does not view stores as default fulfillment centers. Webster says Tractor Supply stores are “community experiences,” not fulfillment centers focused on packing orders for shipment.

“We just learned to leverage stores differently,” she says.

Instead, for the past three years, Tractor Supply has designated 95 stores, which is less than 5% of its stores, to ship smaller online orders using store inventory, Webster says.

“And out of that 95, we have the ability to reach the country within a day,” she says. “That’s why we don’t [ship] out of every store. We have 95 stores that can strategically do this.”

CONVERSION FOR BOPIS AND CURBSIDE 60% HIGHER THAN HOME DELIVERY

Over half of Tractor Supply’s ecommerce orders are picked up either in the store or curbside, Webster says.

“[BOPIS and curbside] are the most popular fulfillment methods with our customers even today and continue to be a primary avenue,” Webster says.

Conversion in 2022 for BOPIS and curbside pickup was 60% greater compared with home delivery, Webster says.



“We just learned to leverage stores differently.”

— Letitia Webster,
senior vice president
of ecommerce,
omnichannel and
master data
management at
Tractor Supply Co.

WHY SOME AVOID OVER-USING STORES FOR FULFILLMENT

FULFILLMENT TRENDS FOR RETAILERS

This boost is due in part to the convenience of the retailer's mobile app, she says.

"Mobile no doubt contributes to conversion," Webster says, without revealing by how much.

She says "power users" of the app tend to be members of its loyalty program Neighbors Club.

Once the app alerts the customer her order is ready, she can notify the store she is on her way. Store employees have in-ear devices from software vendor Theatro that alert them to have the items ready for in-store or curbside pickup.

Webster says 235 stores also offer team-member delivery services. Tractor Supply employees adorned in their red store vests deliver orders using store trucks and trailers. The stores are located in markets with high demand for livestock feed and pet food, Webster says.

"That's whether the order originates in a store or originates online," Webster says. "This has given us the ability to have a nice, branded delivery program."

Tractor Supply's branded delivery is in addition to the other shipping carriers the retailer uses, including XPO Inc., FedEx Corp. and Roadie.

Retailers need to prioritize inventory visibility. A disconnect can be a costly missed opportunity. Technology helps remove the guesswork that can result in inventory showing as out of stock online when in reality, it's available on a store shelf.

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WILL ALTERNATE PACKAGE PICKUP POINTS TAKE OFF?

Some retailers allow online shoppers to ship products to locations other than their stores or shoppers' homes. The alternative fulfillment option can reduce package theft and offer convenience, but it leaves the customer experience at pickup outside of the merchant's control.

BY APRIL BERTHENE

Less than six months after implementing buy online, pick up anywhere, more than 16% of PerryEllis.com's orders are fulfilled with this option, says Jay Nigrelli, senior vice president of ecommerce at fashion brand Perry Ellis International.

This is a win for the brand, Nigrelli says, as shoppers can choose a fulfillment option that's convenient to them, and Perry Ellis saves money on some of its fulfillment costs.

The omnichannel service allows Perry Ellis ecommerce shoppers to select a physical location near to them — such as a Walgreens store or FedEx location, among others — to retrieve their online orders.

Shoppers get the benefit of picking up the item when and



WILL ALTERNATE PACKAGE PICKUP POINTS TAKE OFF?

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where they want, instead of waiting at home for an order or risking a criminal stealing the package from their doorstep. Plus, Perry Ellis offers shipping to an alternate pickup point at a dollar less, at \$9.99, compared with shipping direct to a shopper's home, which costs \$10.99.

For Perry Ellis, adding the service did not increase its conversion rate or skyrocket its Net Promoter Score, a widely used measure of online shopper satisfaction. But shopper adoption and feedback has been positive and fewer customers complain of stolen packages, Nigrelli says. And even better — shipping an item to a retail location such as a drugstore is \$2 to \$3 cheaper than shipping to a shopper's home, as it avoids last-mile carrier fees, he says.

“The greatest KPI is the cost savings,” Nigrelli says.

The service also appears popular among at least a segment of online shoppers. 11% of shoppers say they've ordered online for store pickup at a location other than the store of purchase, according to a Digital Commerce 360 and Bizrate Insights consumer survey of 1,132 online shoppers in February 2023.

While package pickup at lockers was among the first flavors of this, more online retailers are allowing their ecommerce shoppers to pick up packages at other merchants, like Walgreens, Dollar General and CVS; at shipping carrier locations, including FedEx and UPS; and at other locations such as restaurants and small businesses.

And this service isn't just for online-only brands that want to offer a physical location for package pickup. Sizable retail chains including Best Buy Co. Inc., Abercrombie and Fitch Co., and Urban Outfitters Inc. offer alternate pickup points for online orders, to possibly give shoppers a closer and more convenient option. In addition to



“The greatest KPI is the cost savings.”

— Jay Nigrelli,
senior vice president
of ecommerce,
Perry Ellis International

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offering customer convenience, the service is helping some retailers curb package theft, as the packages are shipped to a secure location.

Despite its benefits and the fact that online retailers have had this option for several years, only a small percentage of retailers are using or testing this feature. Neither FedEx nor UPS would reveal how many of its retailer clients allow shoppers to ship their packages to alternate locations. A key question for each retailer to consider with this program is whether the cost of the service generates a sufficient return on investment in the form of lower shipping costs, fewer complaints about package theft or increased customer satisfaction.

SUPPLEMENT WAREHOUSE WORKS TO DECREASE RESHIPMENTS

For online supplement store Supplement Warehouse, the motivation to test alternative delivery locations is to address the growing and expensive problem of “reshipments,” says marketing director Jeff Moriarty. This is when the online retailer needs to reship a package to a customer because he called to complain that the package never arrived, was stolen or the product was damaged during shipment.

When analyzing ways it could reduce its costs in the past year, Supplement Warehouse determined reducing reshipments could save the retailer considerable money. Moriarty declined to reveal its reshipment rate and the percentage of packages that customers report as stolen.

When looking into options to reduce shipments and mitigate package theft with its shipping carrier UPS Inc., alternate pickup locations seemed like the best option, Moriarty says. The service costs Supplement Warehouse \$499 per month and was cheaper

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than requiring a signature upon delivery, which would be a minimum of \$10 per order, Moriarty says.

“We could offer that as an option, but most people don’t want to do that. They want the cheapest method,” Moriarty says.

Here’s how it works: On the checkout page, shoppers can choose “Home Delivery” or click the “Local Pickup,” button, which opens a map popup. A shopper inputs her ZIP code and can see numerous locations with an affiliation to UPS where she could pick up her order. These include CVS, Michaels and Dollar Value stores as well as local businesses, restaurants and laundromats. Supplement Warehouse charges shoppers who choose this option \$0.99-\$5.00, depending on the size of the package.

Since launching the service in January 2023, 5% of shoppers who have shipping addresses in large cities select the alternate pickup location option. Perry Ellis’ Nigrelli also said the service was more popular in urban areas and among shoppers with a shared housing address, such as an apartment number.

THE COST OF OFFERING ALTERNATE PICKUP POINTS

Supplement Warehouse, however, did not share if it has reduced its package theft issue yet. The merchant selected a six-month test with UPS, and at the end, it will evaluate the cost of the program versus if it’s saving money with a decrease in reshipment packages, Moriarty says.

Looking at the total cost of the program is the correct way to evaluate its worth, says Brendan Witcher, vice president, principal analyst at Forrester Research Inc. While giving shoppers more choice is a good idea in theory, Witcher doubts shoppers would choose a brand over another because the merchant offers this service.



Jeff Moriarty, marketing director,
Supplement Warehouse



“Another retailer is responsible for the receiving of your packages and the storing of your packages, for some other customers that aren’t theirs, and it’s not their core competency.”

— **Brendan Witcher**, vice president, principal analyst,
Forrester Research Inc.

Retailers also need to evaluate the operational cost of offering alternate pickup points — which would include the technology, staff resources to manage it, the cost of shipping the product to a third-party location compared with wherever else the shopper would have chosen — against any benefit they may receive, like a reduction in theft. Otherwise, the program may just be a nonprofit service, Witcher says.

“Retailers need to go in with eyes wide open and do their due diligence in determining what does success look like and what do failures look like, and how can I measure both?” Witcher says.

FedEx, which offers pickup at nearly 20,000 locations, including more than 90% of its own offices, Dollar General, Albertson’s and Walgreens, says shoppers will choose third-party pickup for various reasons beyond theft and cost savings, says Ryan Kelly, vice president of ecommerce and retail marketing at FedEx Services. Shoppers may have gifts shipped to alternate locations to surprise a household member, if they want to ensure their package is

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safe from weather, if they are traveling and to achieve a more sustainable shipping option, Kelly says.

Perry Ellis launched its alternate pickup service in October 2022 across its brands:

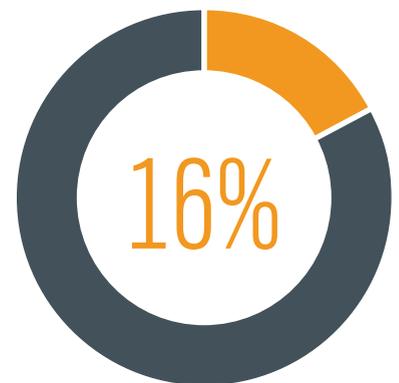
- PerryEllis.com
- OriginalPenguin.com
- RafaellaSportswear.com
- Cubavera.com
- CallawayGolf.com
- GolfApparelShop.com

Across all six businesses, the average adoption rate is 10%, with the highest at PerryEllis.com at 16%, and the lowest, around 5%, at its golf brands, Nigrelli says.

Perry Ellis launched the service with vendor Via.Delivery and did not pay a setup or integration fee, Nigrelli says. The retailer pays for each order it ships in this way.

Perry Ellis doesn't incur the fee carriers charge for shipping to a residential area because the packages are going to a business. This fee varies by location but is at least \$2 per shipment, according to Via.Delivery. This residential fee increases during the holiday season, making the savings greater at that time of year.

FedEx says it does not charge retailers specifically to use this service, which allows shoppers to choose to route an order to a business address instead of a home address. But it may require technology integration to their ecommerce sites. Kelly also notes that retailers save at least \$2 per shipment by avoiding the residential surcharge when shipping to a business.



Percent of PerryEllis.com orders that are picked up at third-party locations.

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Shipping carriers charge various fees for delivery depending on residential or commercial ZIP codes, time of year, package weight and contents, among other factors. Depending on what the retailer sells and where it's going, the savings could vary.

Unlike at Perry Ellis — which reported a considerable saving for these last-mile shipping costs — Moriarty says Supplement Warehouse has not realized significant savings from diverting deliveries to non-residential locations.

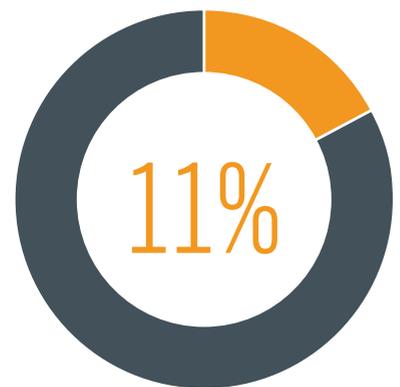
REDUCING PACKAGE THEFT

Supplement Warehouse has yet to determine if the program is decreasing theft. Package theft is a problem for both online retailers and consumers. Reports of package theft vary widely, but one report estimates more than half of online shoppers have ever had a package stolen, and 23% have had a package stolen within the past year. That's according to a March 2022 survey of 18,000 U.S. consumers by research firm Security.org, which focuses on security, digital safety and identity theft.

Shoppers complaining about stolen packages grew in 2022 compared to 2021, Supplement Warehouse says.

“It was almost non-existent during COVID, but over the past year, it has increased to the point we needed to offer this,” Moriarty says about offering shipping to third-party locations. “I am assuming with more and more people coming back to work and no longer working remotely, they are not at home, so it is easier to steal packages.”

Part of the issue for Supplement Warehouse is that shoppers who may live in a location that has a higher likelihood of having a package stolen, such as a multi-unit building with a non-secured



Percent of online shoppers who have ordered online for store pickup at a location other than the store of purchase.

Source: Digital Commerce 360 and Bizrate Insights survey, 1,132 online shoppers, February 2023.

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package area, may not choose this option, Moriarty says. Shoppers may prefer the convenience of doorstep delivery and will pay the money for it.

The merchant has not promoted the alternate pickup point service to sway shoppers to choose it over home delivery, but it may consider doing that in the future.

For Perry Ellis, offering alternate pickup points has helped curb complaints of stolen packages, Nigrelli says. Since launching the service, its customer service team has not received a single call about package theft from any shopper. Previously, calls about stolen orders were only a small fraction of customer service calls, but it's still an added benefit for shoppers.

“It's more of the mentality around the consumer that the potential is there and relieving that anxiety from them would be helpful,” he says.

Both Perry Ellis and Supplement Warehouse are looking into launching buy online, pick up in store but have not yet done so. Alternate pickup points offer some of the BOPIS benefits to shoppers, such as eliminating the risk of theft, though not the benefit of getting a product immediately and avoiding shipping fees.

HOW TO MANAGE THE BRAND EXPERIENCE AT A THIRD-PARTY LOCATION

Neither Perry Ellis nor Supplement Warehouse have received complaints about the customer experience at the pickup point. Moriarty expects that shoppers select a location they already know or trust.

This is a tricky area to manage as a lot can go wrong with an omnichannel pickup, Witcher says. Potential glitches include

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shoppers not finding the right area, encountering a long line or a rude employee, or being given the wrong product, among other issues.

“You simply have no control over the customer experience,” Witcher says.

“Another retailer is responsible for the receiving of your packages and the storing of your packages, for some other customers that aren’t theirs, and it’s not their core competency,” he adds.

For merchants that work with FedEx, they can turn off certain stores if they choose. For example, a retailer that competes with Walgreens can choose to not have Walgreens as a pickup option. But they can’t turn off single locations, Kelly says. Instead, FedEx would work with that location to see what the issue is and how to solve it, he says.

Nigrelli understands the risk of another business handling this fulfillment touchpoint, but when weighed against having the service or not, it’s worth the risk, he says.



Thousands of retailers, including the Walgreens chain, will hold FedEx ecommerce packages for shopper pickup.

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“It’s always a concern when you don’t have full control over the full end-to-end process,” Nigrelli says. “If you want to use the service, you don’t have the control.”

However, many of the locations that offer this service are large retail chains that are gaining experience with this process, such as Walgreens, Nigrelli says, or a shipping carrier, like FedEx or UPS, which specializes in fulfillment. Plus, shoppers are getting used to how this service works at other locations, he adds.

At Walgreens, shoppers pick up packages from other merchants at the same location where they would pick up their Walgreens.com order. Walgreens offers this at 98% of its locations, working with FedEx.

“Our training is similar to other services we offer such as photo and pickup,” says Kristen Vargas, vice president of retail operations at Walgreens. “We create onboarding modules for our team members that support the FedEx program and then ongoing training is created and communicated to support execution and engagement.”

WHY RETAILERS OPEN THEIR STORES UP AS PICKUP POINTS

While Walgreens is now responsible for managing other retailers’ packages, it does benefit from added foot traffic at its stores.

“Ideally, a customer can pick up their prescription, receive their package via FedEx on-site capabilities and shop the Walgreens aisles,” Vargas says.

This additional shopping is the most intuitive reason retail chains would open up their stores to manage other merchants’

“The sustained package volume growth we are seeing month over month is a testament to the value it provides our shoppers.”

— Kristen Vargas, vice president of retail operations, Walgreens



WILL ALTERNATE PACKAGE PICKUP POINTS TAKE OFF?

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ecommerce packages. Walgreens declined to say if this pickup service is boosting store sales.

“The sustained package volume growth we are seeing month over month is a testament to the value it provides our shoppers,” Vargas says.

Witcher, however, notes the sales lift from shoppers purchasing other items while they are in the store picking up an online order may not be a big enough benefit for many retail chains to offer this service.

“[Retailers] have to ask, ‘Do we have time for this?’ Most retailers can’t figure out ship-from-store efficiently,” Witcher says. “We are living in a world where labor is at premium. We don’t have enough employees. Retailers are trying to make their own physical stores more complex with QR codes on the shelf, with self-checkout, with things like ship from store. Do you want to add this to the mix?”

For many merchants, their shoppers are satisfied with ship-to-home or pick up in store as the fulfillment options. But for merchants without a large store footprint, offering another pickup point may provide online shoppers with a cheaper or less risky way to get their orders.

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