Ship-from-Store Distribution:
Reducing the Impact of an Imperfect Forecast
To compete in today’s complex, multi-channel retail environment, retailers must provide access to merchandise when, how, and where shoppers want it. To execute on that goal, many companies are integrating a ship-from-store model as part of the fulfillment supply chain. Before you jump in, you need to consider the three distinct components. It’s more than just shipping products directly from your stores—and it’s not as easy as you might think.

Retailers such as Macy’s, Nordstrom and Toys“R”Us are blazing new paths as they attempt to leverage store inventory to fulfill eCommerce orders delivered to the customer’s home. They are racking up benefits like faster delivery times and better margins on products “languishing” in stores. They are blurring the lines between channels and creating flexible fulfillment models that allow merchandise to seamlessly flow between stores, distribution centers, and customers’ homes. The approach—known as ship-from-store—is generating a lot of buzz, but what’s it really about?

Why Do Ship-from-Store?

At the macro level, ship-from-store is about connecting demand with inventory in the most flexible and cost-effective way. Without a crystal ball, it is virtually impossible for retailers to craft a perfect forecast, so inventory ends up in the wrong place. The result? Companies have a product, and a customer who wants that product, but they cannot connect the two. Ship-from-store helps companies sell that inventory wherever it lies.

The benefits are real. Apparel retailer, Ann Taylor, has made over 300 of their stores into distribution nodes. Their customers can order products no matter where they are — in their distribution center or in any of their retail stores. As a result, they’ve increased sales and gross margins by not having to mark down slow-selling items in one store that might sell at full price in another.

Retailers are also realizing “icing on the cake” benefits such as offloading volume from the DC to stores during peak times, and mitigating risk in the event that a DC is taken offline by a natural disaster. Ship-from-store can also yield shorter delivery times since local stores are often closer to customers than regional DCs.

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What Is Ship-from-Store?

The ship-from-store movement actually consists of three distinct components, each with its own benefits, challenges and ROI. Together, these three components form an inventory strategy that helps ensure that shoppers—both in-store and online—never walk away empty-handed.

1. **Complete Inventory Visibility** is the backbone on which the entire ship-from-store movement rests. Having visibility to inventory across the entire enterprise—every item, everywhere—gives retailers the flexibility to fill orders wherever that product lies, including items that are lingering on the sales floor. Companies benefit from higher profit margins by preventing the merchandise from being marked down at the end of the season. And customers benefit from access to “endless aisles” – the ability to buy any item that lies anywhere in the company’s network of stores and fulfillment centers.

### Ship-from-Store Benefits

- **Increased Sales**: Higher sell through rates as a result of fewer out-of-stocks
- **Higher Gross Margins**: Average retail price increases when retailers do a better job of leveraging their entire inventory (markdown avoidance)
- **Endless Aisles**: Ability to offer and give retailers the opportunity to be more flexible with their inventory
- **Fewer Network Constraints**: Elimination of distribution center constraints as stores absorb excess volume at peak times
- **Capital Expense Reduction**: Postponement of capital expenditures for new DCs when stores serve as distribution nodes and lower inventory requirements when the full inventory is accessible
- **Risk Mitigation**: Lower risk of distribution center operations
- **Customer Service Improvements**: Lower transportation costs and faster delivery times when shipping originates closer to the customer
2. **Order-from-Store** capabilities allow retailers to “save the sale” when inventory is out of stock in a store location. If an item is out of stock at a New York store, for instance, a sales clerk uses an in-store kiosk or mobile device to place an order for that customer before they leave the store and go to a competitor.

Order-from-store also broadens the very definition of a store, helping retailers capitalize on new opportunities to engage with customers through non-traditional alternatives like kiosks and vending machines. Retailers like Best Buy are now offering hot-selling consumer electronics items via kiosks in places like airports and hotels. And Red Box has achieved fast-growing success by renting movies and video games through retail vending machines.

3. **Stores as a Distribution Node.** This is what most people think of when they hear the term “ship-from-store” - setting up distribution operations in the backroom of retail stores in order to fulfill eCommerce orders. Retailers like Toys”R”Us, Macy’s and Nordstrom are doing this to capture more of the demand in the market, improve delivery times for internet orders and minimize or avoid markdowns as much as possible. This strategy promises higher margins and increased sales by better leveraging store inventory. Because ship-from-store can often get an item to the customer quicker, it also helps retailers compete with pure-play e-tailers like Amazon, who have built incredibly efficient distribution networks in every state. Also, Big Box retailers locked into extended leases can take advantage of available backroom space and store personnel to absorb additional volume during peaks in the DC. And growing retailers hitting capacity limits in their DCs benefit from using stores as distribution nodes where the DC is constrained.

Many retailers began the leap into this brave new world with buy-online, pick-up-in-store (BOPIS) as a precursor to store fulfillment. This gave customers their first taste of an omni-channel experience that has since expanded to include new ways of delivering products to customers when and how they want it. BOPIS has advantages in that it provides retailers a chance to sell shoppers additional in-store merchandise when they arrive to pick up their order. But even this initial step requires new levels of inventory visibility.
The Impact of Stores as a Distribution Node

Implementing a ship-from-store approach is not as easy—or as foolproof—as it might seem. Undertaking any of these initiatives, individually or as a group, requires changes to IT systems, business processes, and culture; as well as developing integrated strategies across merchandising, store, and distribution operations.

From an IT perspective, a system that provides holistic inventory visibility across the entire supply chain (including merchandise that is in-transit between the DC and stores, as well as goods being shipped from suppliers) is a critical first step.

But achieving complete inventory visibility can be challenging for store locations. While keeping tabs on inventory in the back room is fairly straightforward, accounting for items displayed on the showroom floor or left behind in a dressing room is more difficult. In addition, store items—which may have been handled or tried on multiple times—might not be of the same quality as inventory sitting safely on DC shelves.
Companies wishing to enable ship-from-store will also need a sophisticated order management system capable of optimizing inventory and demand in real-time. To execute effectively on ship-from-store strategies, companies don’t have the luxury of a 24-hour inventory demand cycle. Instead, they need the ability to leverage inventory against demand at a precise moment in time—and to tweak or change how they allocate that inventory at any point based on fluctuations in inventory or demand occurring across all channels.

**Packaging differences** are also a consideration, especially for apparel retailers—eCommerce goods coming from a DC are usually poly-bagged, while store items are usually on hangers without the polybag. Invoices, return labels, cartons, and boxes on ship-from-store items should match those coming from the warehouse in order to provide a seamless, omni-channel experience. Retailers seeking to fill online orders with store inventory have to overcome these inconsistencies.

Truly **understanding total landed cost** for each item is another important factor in this decision—it is the only way to determine whether the ship-from-store approach will bring the desired ROI. Retailers choosing between shipping from stores or from the DC must weigh the pros and cons of transportation costs and markdown avoidance against one another.

Finally, the **procedural and cultural shifts** of using stores as mini warehouses should not be underestimated. Stores need time, space and equipment to handle outbound orders, and associates must be trained on how to accurately pick, pack and ship inventory—which can take away from their primary job of selling merchandise and servicing customers. There is greater potential for mis-picks at a store versus a DC, where picking errors are estimated to cost an average of $22 per order, according to a recent survey.

**Is Ship-from-Store Right For You?**

Retailers deciding whether or not to embark on a ship-from-store fulfillment approach must carefully weigh the benefits and challenges and understand how these strategies fit in with their current distribution operations, IT capabilities, and the culture and philosophy of their brand.

Every case is unique, and each retailer must decide whether ship-from-store makes sense based on:

1. **Culture of customer engagement**: What type of customer experience do you want to deliver? Do you want store associates interacting with customers or working on order fulfillment?
2. **Benefits**: What do you expect in terms of increased revenues, increased margins, markdown avoidance, improved working capital through inventory optimization, and the improved service that comes from a seamless omni-channel experience?
3. **Costs**: What are the impacts of increased shipping and labor costs, and greater IT investment?
4. **Legacy position**: Where do you stand in your ability to enact ship-from-store? Do you already offer buy-online and pick-up-in-store? Do you have the necessary IT systems? Do you have the space in your stores to set up shipping areas?
Getting beyond the buzz surrounding ship-from-store and determining whether this strategy is right for your business requires you to examine all three components—complete inventory visibility, order from store and stores as distribution nodes. You need to look to a broader set of stakeholders to get involved as you consider the impacts to your fulfillment model. And you need to weigh the costs and benefits against your business’ culture and legacy position. As more retailers foray into ship-from-store initiatives, the benefits are proving a way to reduce the impact of an imperfect forecast, but it’s not as simple as you might think.

How can we help?
Are you trying to decide whether ship-from-store is right for you? Do you understand all of the potential impacts to your business that the ship-from-store model creates? Fortna helps companies assess the impacts that paradigm-shifting initiatives like ship-from-store have on both distribution operations and the business overall. To learn more, ask to speak with one of our associates:

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Don’t miss these other articles on our website:

- *Is Ship-from-Store Distribution Right for You?*
- *Aligning Fulfillment Operations with Your Changing Channel Mix*
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