

LESSON #1

Consumers have forever changed how they shop

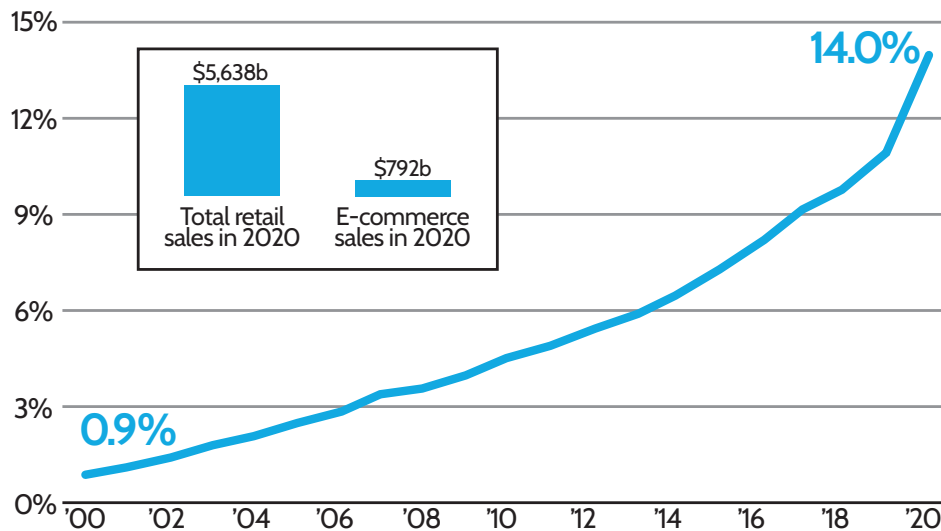
It's no secret that consumers flocked to e-commerce channels during the pandemic, a trend that is poised to continue.

According to the U.S. Census Bureau, total year-over-year e-commerce sales surged by 32 percent in 2020. E-commerce sales now represent 14 percent of total retail sales.¹ In the near future, e-commerce is expected to comprise 25 to 40 percent of total sales in certain categories, such as sporting goods and leisure, home improvement, apparel and mass merchandise.²

With the growing shift to online purchasing, e-commerce has become the “front door” to the retail store. Using online platforms to start the shopping experience is now the norm, even if it ends in a brick-and-mortar location. Retailers also continue to experiment with multiple store formats and varying assortments, social channels, mobile apps, catalogs, vending machines, marketplaces, pop-ups/kiosks or store-in-a-store, and other selling channels. All of these shopping channels have become a blur in the eyes of the consumer, with online shopping driving in-store purchases, and vice versa.

Pandemic Accelerates Shift to Online Retail

E-commerce sales as a percentage of total retail sales in the United States*



* Not seasonally adjusted; excluding food services sales. Source: US Census Bureau.

1. U.S. Department of Commerce, Quarterly E-Commerce Sales, Feb. 2021.

2. Retail Industry Leaders Association with McKinsey & Company, Retail speaks: Seven imperatives for the industry.



LESSON #2

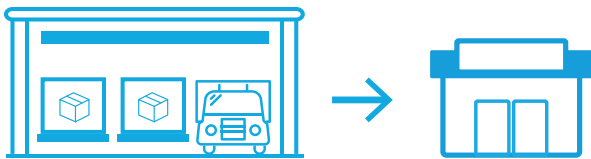
Order fulfillment has become exponentially more complex

In addition to optimizing their selling channels, retail executives are increasingly focused on optimizing the ways they manage order fulfillment to address consumer needs.

Today there are a multitude of ways an order can be fulfilled—from a distribution center (DC), from a store or directly from a vendor to the consumer. Not surprisingly, 96 percent of retailers now report fulfilling orders using more than one order fulfillment model.³

Omnichannel fulfillment models continue to grow in popularity. Nearly 65% of retailers offered “buy online > pick up in store” (BOPIS), “reserve online > pick up in store” or curbside pickup—an increase from 52% last year. Industry experts expect this trend to continue as consumers continue to prioritize speed and convenience. However, omnichannel fulfillment capabilities are still a work in progress for many retailers.

Ship from distribution center to stores



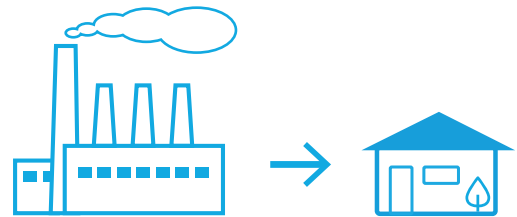
Ship from distribution center to consumers



In-store pickup
(buy online, pickup in store)



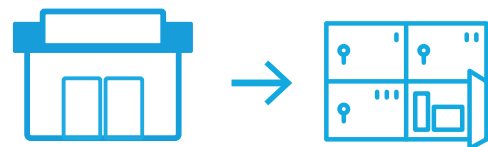
Drop shipping
(ship from suppliers to consumers)



Ship from stores to consumers



Ship to parcel locker
(or other pick-up location)







3. SPS Commerce with Gatepoint Research, Vendor Enablement Strategies.

LESSON #3

More fulfillment options lead to inventory challenges

Inventory Management

	 STORE	 MOBILE	 WEBSITE	 CATALOG	OTHER
LOCATION	✓	✓	✓	✓	✓
BANNER	✓	✓	✓	✓	✓
PRODUCT	✓	✓	✓	✓	✓
CATEGORY	✓	✓	✓	✓	✓
SEASON	✓	✓	✓	✓	✓
REGION	✓	✓	✓	✓	✓

The increasing complexity in order fulfillment leads to more difficult inventory decisions.

For example, if a customer places an order online to be picked up in the store, should this order be shipped from the DC? Or shipped directly from the vendor to the customer? How much more inventory of this item should be ordered?

If this item is returned, similar questions arise. Should the returned item be kept in store? Or shipped back to the warehouse? Or shipped back to the supplier? Where should the customer's replacement item be sent from? How much inventory of the replacement item should be ordered?

The challenge for retailers is accessing a complete view of their inventory at all times. This requires getting rid of the boundaries across channels to give the consumer the item they want regardless of where the inventory happens to reside. The retailer is much more likely to secure the purchase if the consumer can receive their item quickly rather than within seven to 10 days.

To do so, retailers must continue to manage the same aspects of inventory as they always have, including inventory by location, banner, product, category, season, region and supplier. However, instead of approaching inventory one channel at a time as they have in the past, they must understand and optimize their inventory position, delivery, shipping, logistics, allocation and replenishment across all of their inventory locations and channels at once. Despite the complexity happening behind the scenes, retailers must make the experience across channels look seamless and integrated to the consumer.

The operational challenges of order fulfillment, using a variety of fulfillment methods across inventory locations, also creates greater risk that something will go wrong. Retailers need to identify as soon as possible if there may be a problem with executing a "perfect order" based on their customers' expectations. This includes gaining visibility into potential issues in advance, such as delays in receiving an order, incomplete orders and running out of inventory before an item can be replenished.

LESSON #4

Fulfilling orders profitably is increasingly difficult

The industry's traditional cost model has also been upended by omnichannel order fulfillment, making it difficult to create the experience consumers expect profitably. Today's consumers want the fastest delivery possible, at the lowest price. Fast, free delivery is now required and expected.

At the same time, logistics costs continue to increase. Cost increases are being driven by a variety of factors, including rising warehouse rents, higher wages, higher transportation costs, tariffs and more. In addition, fulfilling digital orders requires shipping smaller amounts, more frequently, which is much more costly than transporting bulk shipments from DCs to stores. For example, the profit on a \$100 sweater is \$36 for a product fulfilled from a DC versus only \$23 for a BOPIS order.

Because order fulfillment costs have increased across the board, retailers have been forced to take a close look at the most efficient and cost-effective ways to handle fulfillment across channels. Regardless of where the order originated, they must constantly weigh the costs of holding inventory in store, versus fulfilling the order from a DC, or directly from the vendor, and the related shipping costs. Many retailers are rethinking how to best utilize their physical stores, which typically means allocating more space for backroom operations such as picking, packing and shipping so orders can be fulfilled from the location closest to the consumer.

The only way to keep fulfillment costs in check is to have precise inventory management methods that align inventory levels with orders across all channels.

Profit margin on a \$100 sweater

Operating margin by fulfillment channel



Source: AlixPartners

LESSON #5

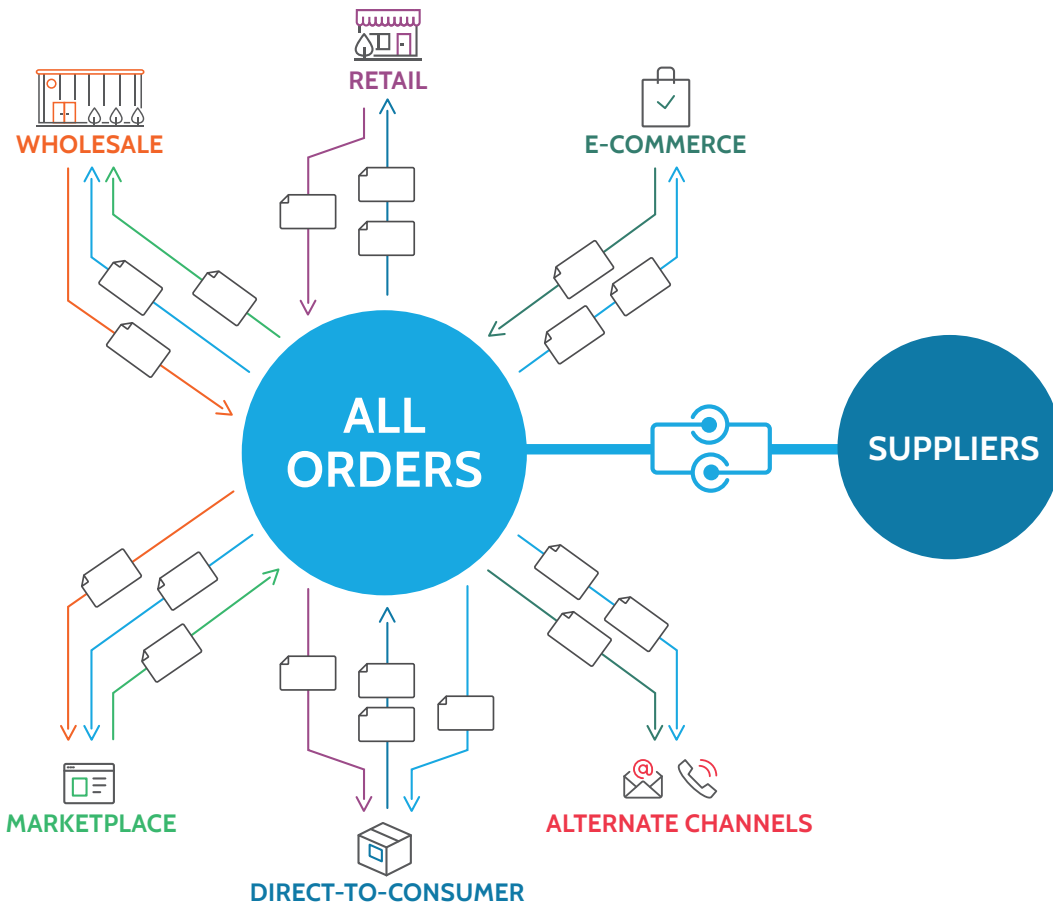
Suppliers also need to reinvent how they fulfill orders

Forward-thinking suppliers that had already automated omnichannel order fulfillment with their trading partners thrived during the pandemic. In contrast, those relying on multiple, disparate systems often struggled to keep up with short delivery windows.

Many suppliers manage a separate process for wholesale orders, online orders and marketplace orders. And there may be yet another system for phone or email orders. Often they

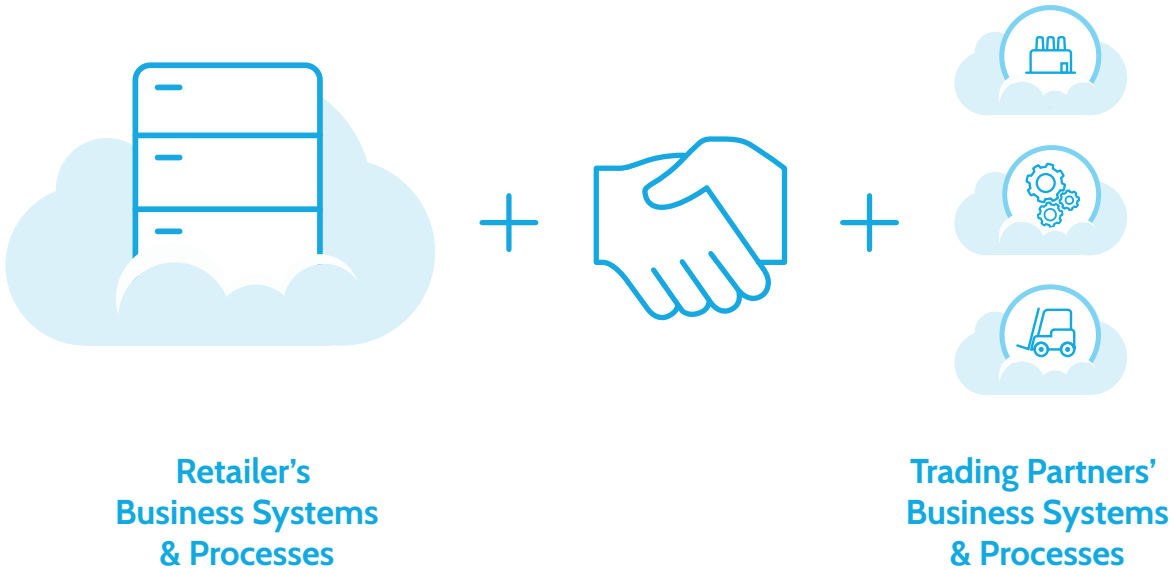
track orders using manual methods like spreadsheets. This not only takes up valuable resources, but also causes delays and errors in processing orders.

Suppliers need a single system to manage all of their orders from all of their sales channels. Not only do they need to view all orders, they also need to be able to find cost-effective shipping rates, print labels and book shipments through a single, automated system. Suppliers also need to be able to share inventory data with their retail and logistics partners.



LESSON #6

Trading partners must exchange data to meet consumer needs



The new retail environment requires heightened order and inventory precision as retailers deliver more shipments with smaller units across more channels. As a result, many retailers are modernizing their technology infrastructure and business processes to meet consumer expectations and their own operational goals.

These initiatives often include investing in new order management systems, e-commerce systems, inventory management systems, and planning and allocation systems. But updating internal business systems and processes is not enough. In addition to updating systems, retailers also need to get hundreds—or even thousands—of vendors, carriers, sourcing companies and other trading partners to execute against the heightened fulfillment expectations.

This is a critical step that is often forgotten or treated as an afterthought.

Omnichannel execution requires not only an overhaul of the retailer's internal processes and systems, but also integration between the retailer and the business processes and systems of all of their trading partners. To successfully execute an omnichannel strategy, retailers and each of their trading partners must work in lockstep to provide the product customers expect, in the channel of the consumer's choice and in their desired timeframe.

A seamless exchange of data is the key to enabling the close collaboration required in the post-pandemic era. Retailers need data from their suppliers about the items they buy, the orders they place, the inventory they move, and how suppliers perform. Likewise, suppliers need insight into sales and inventory trends that only the retailer can provide.

About SPS Commerce

SPS Commerce is the world's leading retail network, connecting trading partners around the globe to optimize supply chain operations for all retail partners. We support data-driven partnerships with innovative cloud technology, customer-obsessed service and accessible experts so our customers can focus on what they do best. To date, more than 95,000 companies in retail, distribution, grocery and e-commerce have chosen SPS as their retail network.

For additional information, contact SPS at 866-245-8100 or visit www.spscommerce.com.



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