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Making stores work harder

BY KAT FAY AND ALLISON ENRIGHT

How retail chains are shipping from local stores to be more competitive.

Major e-retailers are delivering orders nearly 40% faster than they did just two years ago, according to data from e-commerce analytics company Slice Intelligence. And that Slice analysis excludes Amazon.com Inc., which promises delivery in two days to its growing roster of Prime members.

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There are a few forces at play here, retailers and experts say. Amazon and other retailers are building more distribution centers, so they can store merchandise close to densely populated areas. And a growing number of store-based retailers, though still a minority, are using their physical store locations to fulfill orders and ship them over shorter distances, which reduces their delivery time.

Shipping from stores is especially effective, analysts say, in heavily populated areas where major retailers often have several stores to choose from, as well as access to local delivery services. Such big store-based merchants as Target Corp., Macy's Inc. and The Home Depot Inc. have begun fulfilling some web orders from stores. Still, many of the largest retail chains do not: 31 of the 156 retail chains—or 19.8%—ranked in the Internet Retailer 2016 Top 500 Guide ship online orders from stores. That is up from 23, or 14.8% of retail chains a year ago.

“We all feel like stores are a really important part of our future and we just have to make them work harder for us with customers,” Kohl’s chairman and [CEO Kevin Mansell said during the mass merchant’s last earnings call](#), a sentiment similarly echoed by top executives at Macy’s, J.C. Penney Co. Inc., Target and others in recent public comments. Radial, the services and technology vendor formerly known as eBay Enterprise, says about 20,000 stores use its Ship-from Store software to ship online orders from store locations, including GameStop Inc. and DSW Inc., the latter of which said earlier this year that it fulfilled 30% of online orders during 2015’s fourth quarter from stores.

Best Buy Co. Inc. began fulfilling web orders with store inventory in 2013. Initially, Best Buy fulfilled from a handful of stores only when a product was not available in a fulfillment center, but by January 2014 the retailer had all its stores participating. As the ship-from-store program at Best Buy grew, it evolved from a way to save an online sale that would otherwise be lost for a lack of available inventory at a warehouse to one where Best Buy could demonstrate to consumers how quickly it could fulfill orders. The company estimates it used to lose 2-4% of online

orders because of out-of-stocks at the warehouse level, but 80% of the time the wanted product was available in a Best Buy store.

“We continue to believe that, strategically, ship from store will go down in our history at Best Buy as one of the most important and strategic decisions that we made because it is allowing us to utilize both our online and our retail inventories to serve the online customer,” said Sharon L. McCollam, Best Buy chief financial officer, during the retailer’s most recent fourth quarter earnings call. “What ship from store is allowing us to do is be able to on a consistent basis make marketing promises to customers about speed of delivery.”

In April 2014, the average time that elapsed from an order being placed on BestBuy.com to delivery was 6.8 days, according to Slice Intelligence, based on data collected from a panel of 4.2 million U.S. online shoppers. In April 2016, Best Buy had cut that average by more than half, to 3.3 days. In that same month, Best Buy expanded same-day delivery, which it initiated last November in San Francisco and New York, to consumers in 11 more metropolitan markets. Best Buy is working with last-mile delivery service Deliv to enable same-day delivery, with Deliv workers picking up orders from 165 Best Buy stores. Best Buy says these 13 markets cover 70% of the U.S. population, and consumers in these areas are within 15 minutes of a Best Buy store. Customers within a participating market can select same-day during the checkout process, typically for a delivery fee of \$10-\$20, depending on the product.

It was Best Buy’s arrangement with Deliv that earned Best Buy the gold medal when Internet Retailer recently put 30 e-retailers to the test. Best Buy, via Deliv, delivered our order of an ink jet replacement cartridge to our office in downtown Chicago four hours after we placed the order. Best Buy did not charge for the extra-fast delivery service.

Amazon, the e-retailer that is raising consumers’ expectations for fast delivery and the driving force behind retail chains’ morphing delivery strategies, came in second in Internet Retailer’s test, the full results of which appear in the [Internet Retailer research report “Click, Ship & Return.”](#) Amazon delivered our Brita water filters in 20 hours for an order placed using a Prime membership on a Saturday afternoon and selecting one-day delivery. They arrived before noon on Sunday. Amazon does not fulfill from stores; instead it has a network of 185 warehouses in the United States, including 41 Prime Now delivery hubs, most located in urban locations to enable expedited delivery, according to supply chain consultancy MWPVL International Inc.

Amazon has announced plans for 35 more U.S. warehouses, and each warehouse draws Amazon closer to consumers, enabling faster delivery. As of early July, Internet Retailer estimates Amazon can offer 126.6 million U.S. consumers, or 39.4% of the U.S. population, same-day delivery. Members of Amazon Prime can get this speed at no charge for orders of \$35 or more. Consumers pay \$99 annually for membership in Amazon Prime, a program that gets them fast free shipping, streaming video and music, online photo storage, early access to select shopping deals and a growing array of other perks. Amazon does not say how many consumers are Prime members, but securities research firm Consumer Intelligence Research Partners LLC estimates Amazon had 63 million U.S. Prime members at the end of June, up 43% from 44 million a year earlier.

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