THE FUTURE OF RETAIL:

## Omnichannel

PFS

Introduction

What is "omnichannel" and what does it mean?

From March 2020, the meaning of omnichannel shifted from having a passive on and offline channel stance to putting customer convenience at the forefront of the eCommerce agenda. 2021 was the dawn of the new age of a true 'digital-first' approach in retail – it served as the full-year pilot, the make-or-break determiner for retailer and brand preparedness. If retailers or brands did not **make the necessary investments** in both money and time to futureproof their omnichannel approach, grabbing customer attention and converting to loyalty from the outset, 100 other retailers and brands were waiting in the wings to swoop down and take your place.

Omnichannel, being the diversification of fulfillment and inventory points, aims to capture and cater for as many consumers as possible – ensuring if one method or part of the supply chain falls down, another can pick up the slack. Without it, these days, retailers and brands will very much be left behind.
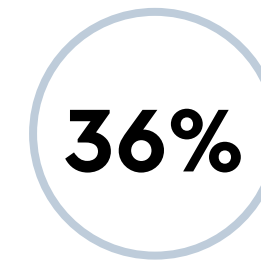
48% of retailers surveyed about the 2020 season post-peak had not felt fully prepared for the demand.
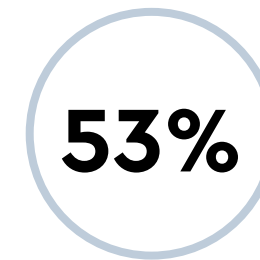
53% had difficulty in locating available inventory
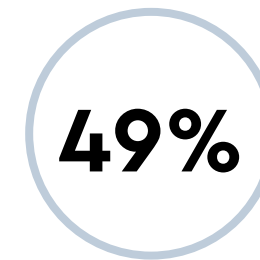
49% agree in needing to invest in appointing a BPO/3PL

36% anticipate investing in more fulfillment capacity

33% invested in extra online customer service

2022 investments will be key given that nearly half of retailers (48%) surveyed about the 2020 season (post-peak) had not felt fully prepared for the demand.

In the past, retailers and brands adopted a centralized order management and fulfillment strategy.

Multi-node fulfillment (and other alternative fulfillment strategies) has been a gamechanger. It's all very well having the right systems in order but if the paperwork isn't complied with or completed properly, the shipments will start piling up in the warehouse. Appointing a third-party logistics (3PL) partner, or business process outsourcing (BPO) to simplify this process further to tie payments, fraud and tax services together, can provide that smooth transition.

Having a defined "omnichannel strategy" still means many different things to retailers and brands

For many, being "omnichannel-ready" suggests the implementation of a **Distributed Order Management system (DOM)** to route orders across multiple geographies between diverse fulfillment points. Assisting with delivery preferences (including sustainable options and delivery partner networks), labor availability and being in touch with real-time inventory management, a DOM can support **multi-node fulfillment** operations including curbside pick-up, **buy online, pick up in-store (BOPIS)**, ship-from-store to **micro-fulfillment centers** or temporary, low-cost investment pop-up distribution centers (DCs) – all of which reported increased sales as a **direct result of such investments in 2021**.

Regional omnichannel options will continue to evolve in 2022 as smaller pockets of product prove competitive with continued changing pandemic guidelines, or the removal of them entirely in some geographies, and as new retailers spring up as social commerce booms. Having a finger on the pulse by being both preventative to potential issues, and reactive to immediate trends, will be the clincher.

Distribution Center

Micro-Fulfillment Center / Pop-Up DC

Curbside Pick-Up

BOPIS

Ship-From-Store
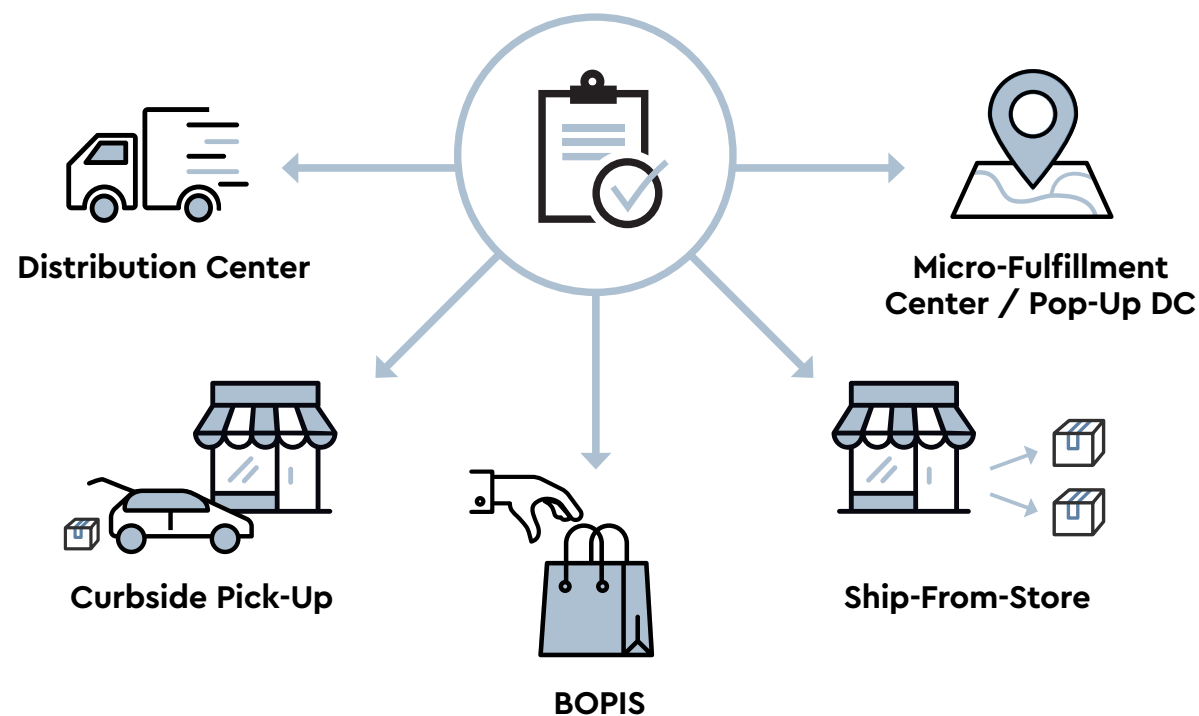
Research Methodology

In December 2021, PFS commissioned Arlington Research who conducted 4,000 online interviews with a nationally representative sample of adults aged 18+ (2,000 in the US and 2,000 in the UK) into consumer purchase decision-making, taking a "pulse check" of the landscape as it stands and how omnichannel can mean the difference between a retailer or brand's success – or a flop.

Age groups referred to throughout the report are broken down as follows:

Generation Z
Respondents born between 1994 – 2001

Millennials
Respondents born between 1980 – 1993

Generation X
Respondents born between 1965 – 1979

Baby Boomers
Respondents born between 1946 – 1964

Silent Generation
Respondents born before 1946

Omnichannel

Omnichannel – The Key To Navigating The Retail Storm

The recent peak season, though one of the toughest yet, highlighted some of the key strategies needed to weather the pandemic storm. And now, as we continue to navigate the rough seas of retail, and the landscape becomes more difficult to predict, it is becoming increasingly clear that when it comes to investments, omnichannel will be crucial in a "digital first" era.

Within a brief and turbulent window of time, brick-and-mortar retailers have faced challenges of epic proportions. But it has not been a smooth ride for the online retailer either. Brexit brought about **momentous logistical issues** for businesses relying on shipping in and out of the EU throughout 2021. With customers on both sides of the channel suddenly faced with unexpected charges, many **returned products to avoid paying extra fees**.

Throughout this chaos, one thing became clear – retailers are operating within rough seas and those that put all their eggs in one basket risk being capsized. The time when brands could rely on a sole method of fulfillment is no longer viable within an increasingly volatile landscape. For future growth and to weather this storm, **omnichannel fulfillment**, combining the on and offline channels, will be essential.

Looking back to drive retail forward

There is a lot to be learned from the 2020 and 2021 peak seasons* when looking to an omnichannel future. PFS research found that this resulted in only **50% of retail businesses feeling that they were adequately prepared for the recent peak season**, leading to over one-in-six (17%) missing out on critical sales. On the other hand, retailers that invested in omnichannel capabilities fared much better. BOPIS initiatives, for example, proved to be a gamechanger, with two-thirds of retailers (67%) who invested in this capability seeing an increased sales volume. Cementing this trend was curbside pick-up, which led to the next strongest performance with 55% of retailers reporting increased sales.

2/3 of retailers who invested in omnichannel experienced increased sales volume

*from Black Friday until the week before Christmas

4

45%

of retailers felt their technology stack was unprepared for the increase in peak online transactions

For the brands that struggled to adapt ahead of peak seasons 2020 and 2021, this must be urgently rectified in 2022 and beyond. Alarmingly, despite the clear shift towards eCommerce, **45% of retailers felt their technology stack was unprepared for the increase in peak online transactions**. A lack of visibility and supply issues also remained a key concern, with 53% of retailers admitting difficulty locating available inventory. All of this suggests an undeniable need for brands to invest and put emphasis on future delivery-times, stock replenishment and, ultimately, customer experience as they move forward into the forthcoming "digital-first" era.

Adapting to a hybrid future

It is fair to say, peak season always serves as a much-needed wake-up call. Following this peak season and from our research, **over a third (36%) of retailers are now planning to increase their investment in fulfillment capabilities**.

While BOPIS and ship-from-store capabilities are proving crucial, they do not form the full picture alone. Consumers demand access to products online, in-store, and most importantly, now. To keep up in a digital age, brands must look to implement a cohesive fulfillment strategy, factoring in inventory management and distributed order management capabilities.

As we continue navigating the rough seas of retail, and the landscape becomes more difficult to anticipate, it is clear omnichannel is crucial in a digital-first era, together with operational infrastructure. This, however, requires a joined-up approach between both digital and in-store retail. This **hybrid fulfillment model** will ensure not only survival, but future growth for the sector by driving value back into brick-and-mortar retail while keeping up with the demands of a digital-first era.

24%

of retailers look to invest in BOPIS

28%

of retailers look to invest in ship-from-store capabilities

30%

of retailers look to invest in curbside pick-up competencies

52%

of retailers say outsourcing all or portions of their eCommerce has been a key

Pulse Check

The Shift To Omnichannel Retail

Retail over the last two years has changed beyond recognition. For customers who frequented malls and strip centers before, the change from brick-and-mortar to online has represented a considerable shift in behaviors.
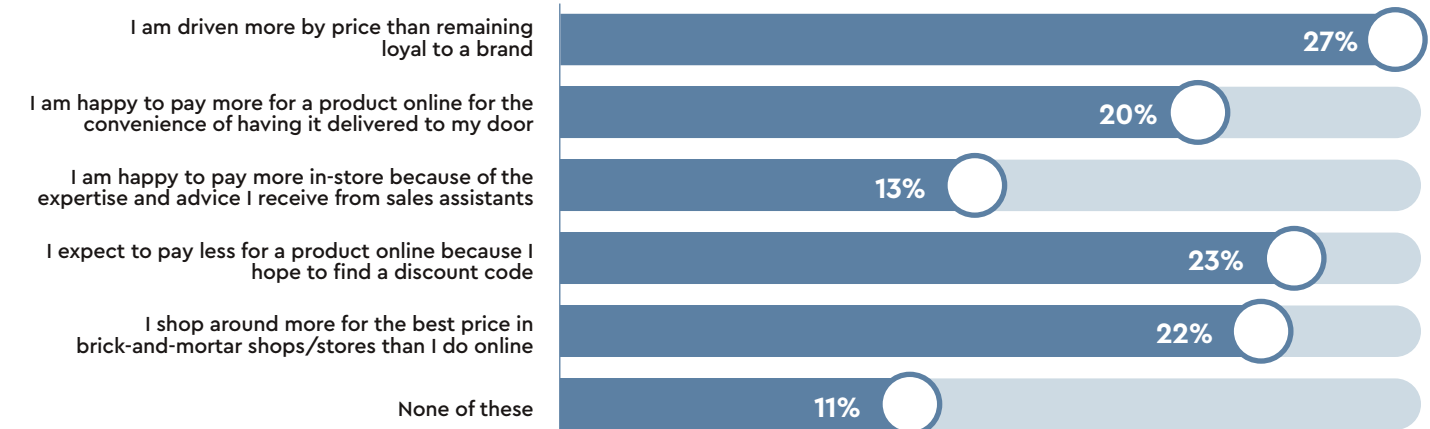
The key omnichannel takeaways:

- Consumers want to shop responsibly, but the cost of shopping sustainably, coupled with an inability to always identify which brands/retailers have such initiatives in place, can make this hard

- Being clear and concise on the sustainable delivery and product options available to customers will be key to remain competitive and relevant for today's ethically driven consumer

- For many shoppers, the desire to get the best price is as important (if not more so) than shopping sustainably – 27% of consumers are 'more driven by price than remaining loyal to a brand' (31% in the UK) and 23% 'expect to pay less for a product online because they hope to find a discount code' (UK 25%, 27% of Generation X)
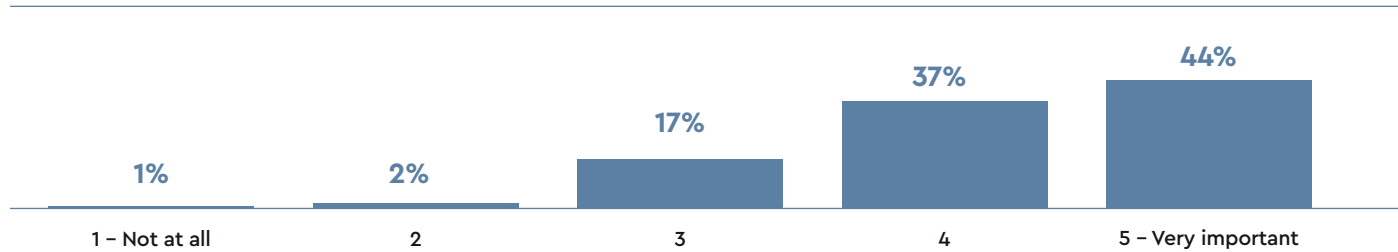
80% of consumers say 'convenience' is important when shopping for leisure or non-essential items

Which statements apply when considering how you perceive the price of the same product both online and in-store?

Statement	%
I am driven more by price than remaining loyal to a brand	27%
I am happy to pay more for a product online for the convenience of having it delivered to my door	20%
I am happy to pay more in-store because of the expertise and advice I receive from sales assistants	13%
I expect to pay less for a product online because I hope to find a discount code	23%
I shop around more for the best price in brick-and-mortar shops/stores than I do online	22%
None of these	11%

How important is convenience when shopping for leisure or non-essential items?

|				
1%	2%	17%	37%	44%
1 – Not at all	2	3	4	5 – Very important

The need for convenience is paramount, making investments in omnichannel offerings key for retailers and brands to get right. Customers expect choice and a seamless experience, no matter where they shop and how goods are delivered or returned – 'convenience' is important for 80% of consumers when shopping for leisure or non-essential items (rising to 82% in the US and 84% of Generation X, 83% of online shoppers over the last 12 months).

Convenience and choice are on a par with cost as a key factor in deciding where to shop and which brands to dedicate loyalty and trust to – 51% of consumers expect 'free returns' rising to 56% in the UK and 67% of consumers agree 'if a retailer or brand has a difficult returns process, it puts me off the retailer or brand entirely' (UK 68%, 68% of women, 70% of Millennials and Baby Boomers, 74% of the Silent Generation, 70% of online shoppers over the last 12 months).

Millennials
I'm more likely to purchase a leisure item online in 2022.
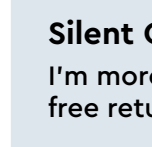
Silent Generation
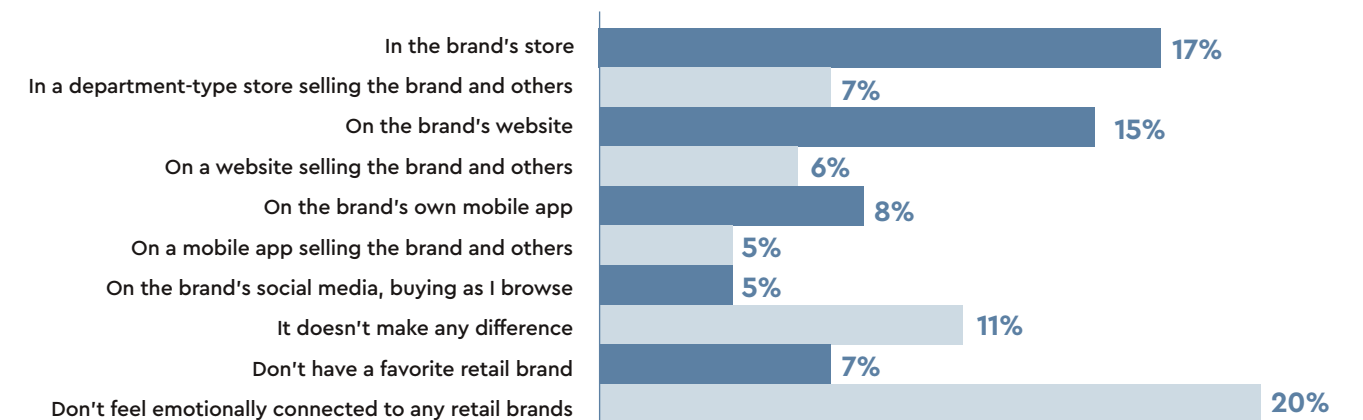I'm more likely to expect free returns for my items.

Generation X
I'm more likely to shop online retail giants due to their competitive pricing and fast delivery.

Are you put off a retailer or brand if they have a difficult returns process?

Strongly Disagree – 1	3%
2	5%
3	16%
4	28%
Very Important – 5	39%
Don't Know	5%
N/A	3%
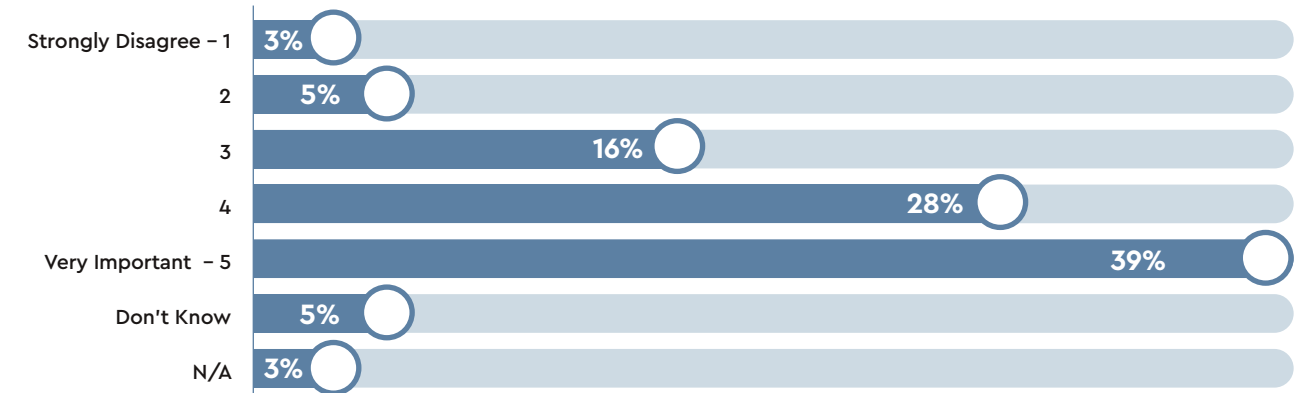
Customer service and emotional connections with retailers and brands need to go beyond the physical shop floor. Customers need more consistency of service and offerings across all channels and touchpoints where loyalty can be made or broken – only 38% of consumers feel most emotionally connected to their favorite retail brand online – when netting together the different online channels (US, 41%, 39% of women, 42% of Generation X, 51% of Millennials, 54% of Generation Z).

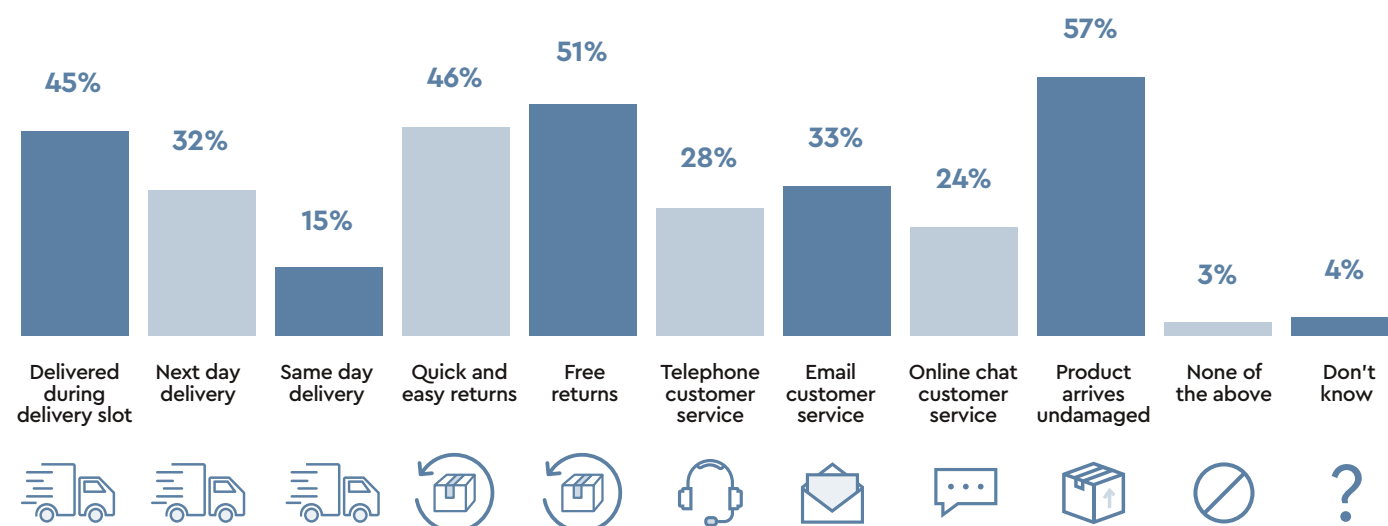## When do you feel most emotionally connected to your favorite retail brand?

In the brand's store	17%
In a department-type store selling the brand and others	7%
On the brand's website	15%
On a website selling the brand and others	6%
On the brand's own mobile app	8%
On a mobile app selling the brand and others	5%
On the brand's social media, buying as I browse	5%
It doesn't make any difference	11%
Don't have a favorite retail brand	7%
Don't feel emotionally connected to any retail brands	20%

Differences in expectations and actions within age groups also require a multi-layered approach to serve all customers effectively
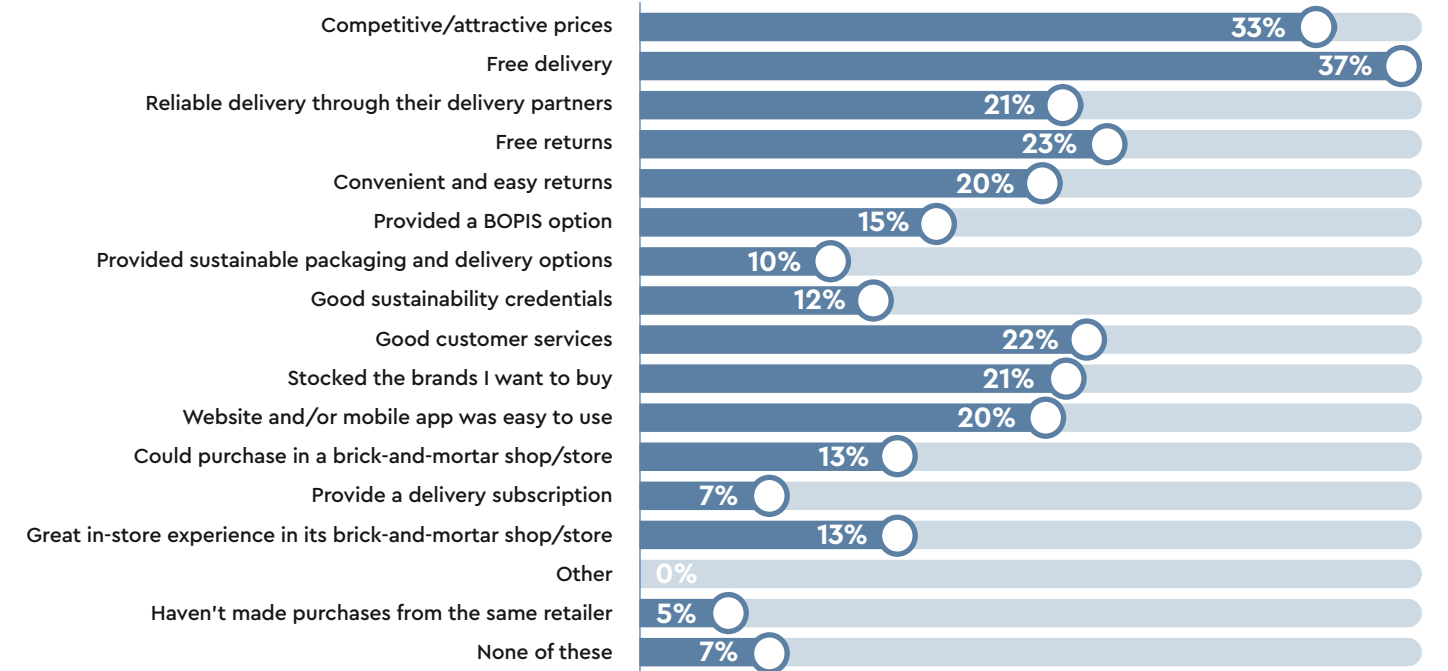
For example:

- Baby Boomers and the Silent Generation are most likely to attach importance to competitive or attractive prices and expect free returns

- Generation Z, at the other end of the age spectrum, are most likely to feel most emotionally connected to their favorite brand online out of all the age groups

- Millennials are the group most likely to purchase a leisure item online in 2022 and most likely to be loyal to specific brands but not mind where they buy from – 'Free delivery' was the most important factor in consumers' decisions to make multiple purchases over the last 12 months from the same retailer or brand for leisure or non-essential items, cited by 37% of consumers (45% of Baby Boomers vs. just 25% of Generation Z)

What expectations do you have when shopping online?

Delivered during delivery slot	45%
Next day delivery	32%
Same day delivery	15%
Quick and easy returns	46%
Free returns	51%
Telephone customer service	28%
Email customer service	33%
Online chat customer service	24%
Product arrives undamaged	57%
None of the above	3%
Don't know	4%

Which of the following were the most important in your decision to make multiple purchases from the same retailer or brand for leisure or non-essential items over the last 12 months?*

Competitive/attractive prices	33%
Free delivery	37%
Reliable delivery through their delivery partners	21%
Free returns	23%
Convenient and easy returns	20%
Provided a BOPIS option	15%
Provided sustainable packaging and delivery options	10%
Good sustainability credentials	12%
Good customer services	22%
Stocked the brands I want to buy	21%
Website and/or mobile app was easy to use	20%
Could purchase in a brick-and-mortar shop/store	13%
Provide a delivery subscription	7%
Great in-store experience in its brick-and-mortar shop/store	13%
Other	0%
Haven't made purchases from the same retailer	5%
None of these	7%

* Net totals

Remaining agile and able to adapt and respond to changing customer needs through robust processes and offerings is crucial. Developing and enhancing a seamless omnichannel approach is key to maintaining loyalty and keeping customers happy – 46% expect to be able to 'quickly and easily return product(s), increasing to 47% in the UK, an expectation which again increases with age from 34% of Generation Z to 55% of the Silent Generation.

Baby Boomers
I'm more likely to look for the most competitive pricing.

Generation Z
I'm more likely to connect emotionally to my favorite online brand.

Physical Disconnect

Missing The In-Store Experience

While online shopping has very much become the norm over the last few years, it is safe to say consumers missed some of the more tangible in-store experiences as the pandemic hit, with 80% of consumers revealing as part of our research that they had missed at least one aspect of the shopping experience while browsing the "stores" online.

Amongst those missed aspects of shopping in stores during lockdown, almost half (49%) of consumers missed the social aspect of shopping, deeming it a leisure activity.

It is clear that as part of their omnichannel development, brands should be striking a balance between the physical and online stores, focusing on an experience-based approach or "experientialism." As brick-and-mortar stores continue to reopen **more than one-third (37%)** of the Gen Z cohort expect retailers to offer more of an in-store "experience" than they did before COVID restrictions, e.g. hosted events, catwalks, product launches, or personalized makeovers.

THE WHITE COMPANY
LONDON

One example of a brand successfully bridging the gap between online and offline channels is The White Company. By allowing customers to "shop live" online by connecting to a one-way video call with in-store experts, customers can explore products as if they were visiting a store. For John Lewis, experiences such as virtual sewing and cooking classes have been an effective way of supporting consumers' changing lifestyles.

By converting physical stores into browsing locations to try, test, and experience, while positioning eCommerce as a transactional platform, retailers are more likely to meet future shopping requirements for experientialism.

35%
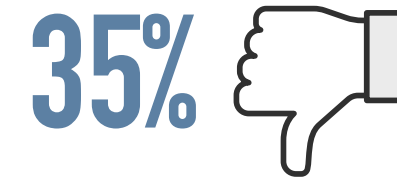
35% of respondents overall admitted that they had such an unsatisfactory shopping experience with a previously trusted brand in 2021, that they have gone on to look elsewhere
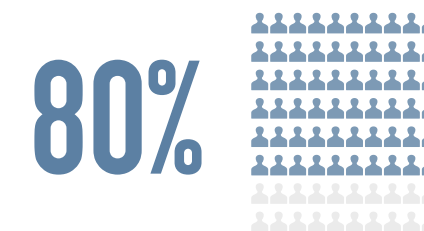
23%
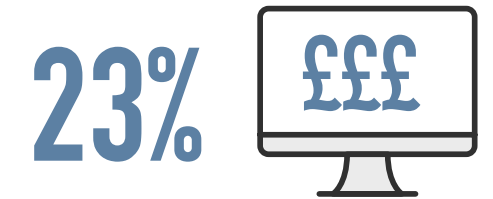
Almost a quarter (23%) report that online stores either don't do enough to engage with them, or that they only want their money and don't care about their satisfaction

41%
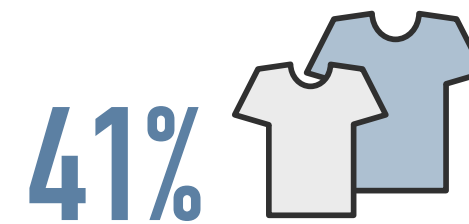
41% miss testing products for size, colour, etc as they would do in-store

43%

43% have missed being able to touch products when shopping online

80%

80% revealed they miss at least one aspect of the shopping experience while shopping online

21%

21% reported that online customer service is not as good as in-store assistance

34% expect to return to online shopping after the initial in-store buzz has died down

57% still purchase products based on cost as the primary differentiator

**51%** More than half (**51%**) of Gen Z expect shops to become more of a browsing space before purchasing online
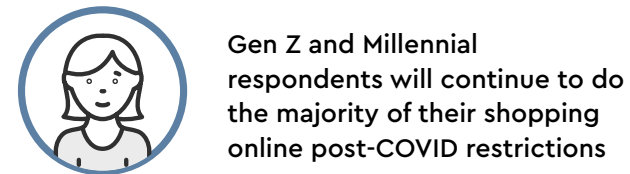
49% Gen Z and Millennial respondents will continue to do the majority of their shopping online post-COVID restrictions

Fulfilment differentiators concerning brand loyalty

To remain competitive and thrive in this new "digital-first" retail era, retailers need to be equipped with the tools to respond to a new "view-in-store and ship to home" model, as consumers favour cost, convenience and experientialism.

49% almost half of consumers overall missed the social aspect of shopping

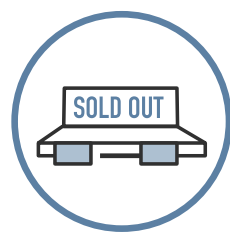**53%** Gen Zs missed the social aspect of shopping

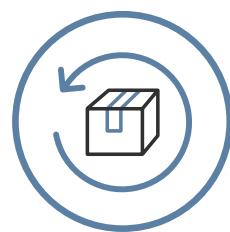**50%** Millennials missed the social aspect of shopping
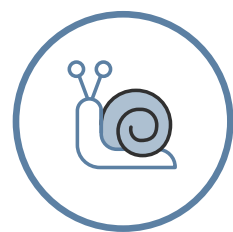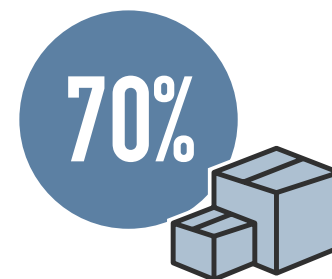
18% slow delivery

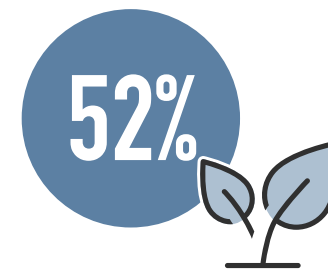**17%** lack of available stock

14% difficult returns processes

Slow delivery (**18%**), lack of available stock (**17%**) and difficult returns processes (**14%**) were all listed as potential factors behind reduced interest in using a previously preferred brand
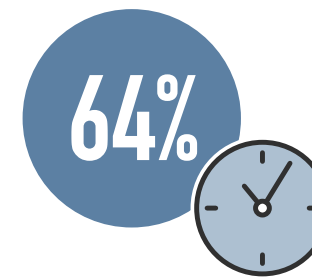
70% minimizing packaging

37% packaging choices

52% carbon footprint reduction

64% delivery timeframe choice

And the survey says...

By accommodating these changing demands, brands and retailers can generate greater customer loyalty than ever before. There is hope for the high street yet, but it will be dependent on retailers' ability to offer experience and choice.

Cross-Border Retail

The Time is Now: Are You Ready To Take Advantage of Cross-Border Retail?

Today, **2.1 billion consumers around the world are turning to eCommerce to access the latest brands**, presenting retailers and brands with the exciting opportunity to access new customer bases and geographies across the globe. During 2020, **26% of European eCommerce sales were cross-border**, up from 24% in 2019 (23% in 2018) – with 7 in 10 European online shoppers having made a purchase abroad. In 2021, over **£490bn of sales that were usually made in-store moved online**, as cross-border took off. While "shop local" trends and a demand for carbon footprint reduction continue to grow, a **net total of 57% consumers still purchase products based on cost** – prompting many to search further afield for the best value for money.

To be able to take advantage of the lucrative markets on offer, retailers and brands need to get it right. And that means a frictionless and fast delivery experience, no matter where the package is coming from. Getting a product to a customer when you have a single distribution center fulfilling all orders is no easy task. That's without the ongoing supply chain friction and added VAT rules that have **been estimated will cost SMEs in the UK £180m a year in extra red tape**.

In the middle of so much uncertainty and disruption, how can retailers seize the opportunity and take advantage of the cross-border opportunities on offer?

VAT – Another hurdle to jump

The path to cross-border growth has become slightly, and inevitably, more complex since the end of the Brexit transition period. As of July 1, 2021, all goods that moved across EU borders became subject to new VAT rules known as the "one-stop-shop" (OSS) registration; aimed at simplifying a seller's VAT responsibilities. This saw all EU-based businesses subject to a "one-size-fits-all" threshold of €10,000. As soon as the €10,000 limit is now crossed in a year, VAT is charged at the destination country within the EU where your customers are located. This is rather than the location of the goods at the point of purchase. As a seller, it's crucial to determine where your customers are based from the point of sale and what VAT rate will be applicable if turnover exceeds the €10,000 limit.

26%
of European eCommerce sales were cross-border in 2020

Brands must note that the VAT obligation will be with the seller and not the marketplace. The new OSS registration for all EU-based businesses will need to be organized by you, for your marketplace. For non-EU sellers that keep items and stock in an EU country, the OSS registration will be needed in one of the member states where stock is contained.

The solutions for success

Despite the added complexities ahead, with the right tools and infrastructures, retailers and brands can lay the foundations for effective cross-border commerce. Here are a few solutions brands should consider:

- **Multi-node fulfillment:** By dispersing inventory across the UK and mainland Europe through multiple distribution points, retailers can speed up deliveries, build capacity and spread risk. During periods of peak season volume, these additional fulfillment and distribution points, when underpinned by an effective DOM system, can effectively route orders to alleviate pressure and spread resources. Where inventory is placed has a significant impact on your ability to keep orders moving to meet consumer demand. After all, it's not just about capacity, the key is business continuity

- **Pop-up distribution centers:** These temporary infrastructures can be utilized to test new markets. Often much cheaper to set up and operate, they provide relief to your primary distribution center. For one **major alcohol brand** with customers in both the UK and Europe, the construction and implementation of a UK pop-up DC meant the business was able to become fully operational in just two weeks – just in time for Black Friday and the Christmas peak season

- **Micro-fulfillment centers:** To keep up with growing eCommerce demand, many are turning to existing store spaces into mini distribution centers , or fully **converting less successful stores into dark stores**. This allows more "bang for your buck" from each square foot of space. When teamed with automated fulfillment technologies such as **RetailConnect**, retaile**r**s and brands can quickly transform their in-store operations to pick/pack/ship orders direct from the stock room

In addition to fulfillment, local and regional preferences, when preparing for cross-border expansion, must be considered. Seeking local knowledge and **ensuring investments are made** around translatable websites, local payment offerings and native-speaking customer service will set them apart. Enabling a seamless experience beyond delivery is essential for maintaining loyalty. Engaging with a flexible partner with first-hand local knowledge can be the most effective way of achieving this. **The opportunity for brands online and cross-border has never been greater.**

Through implementing a pop-up DC strategy, brands can be fully operational in new territories within a few weeks

RetailConnect

Multi-Node Fulfillment

## Mastering Multi-Node Fulfillment In The Digital Age

As retailers and brands embrace digital-first retail, a siloed approach to digital and physical shopping is going to make things very difficult. Brands who are approaching Direct-to-Consumer (DTC) operations as a whole rather than separating out physical and digital operations are on the path to digital maturity. But how does DOM technology and multi-node fulfillment enable truly seamless customer experiences across channels?

Eliminating channel conflict

Eradicating the walls of channel conflict is more critical today than ever before, and brands are taking major steps to join up efforts across channels. They are combining top leadership around DTC efforts, changing store commission structures so store associates benefit from online sales the same as in-store, and – perhaps the most obvious transition since the pandemic – they are blurring the lines between online and in-store purchases.

In the last year, it has become second-nature to consumers to order everything from milk, to toilet paper, to lipstick and yoga pants using their devices. Whether they plan to pick-up curbside or in-store, opt for same day delivery or have the order shipped to their home varies customer to customer, but the expectation that they should be able to choose their delivery method has become critical to the overall satisfaction of their experience.
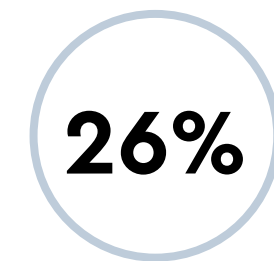
Of the retailers who saw an increase in their sales in 2020:
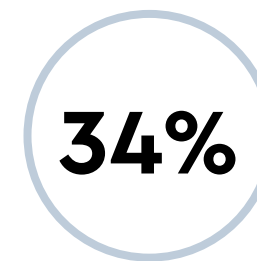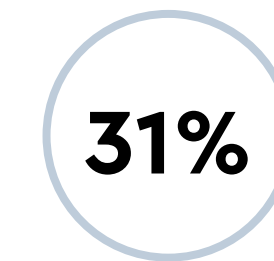
34%	31%	26%
invested in BOPIS	invested in curbside pick-up	invested in extra fulfillment capacity

Retailers are leveraging their stores as well as traditional and non-traditional fulfillment spaces to support multi-node fulfillment operations. To do this, they need complete visibility of all inventory across omnichannel operations – stores, distribution centers, etc.
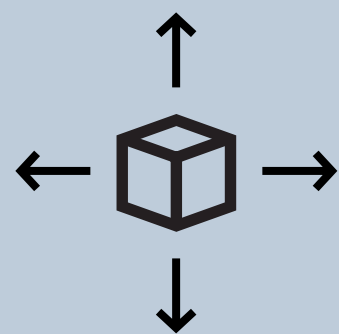
This is where a powerful DOM system is critical.

DOM technology – A critical piece in the puzzle

DOM technology empowers retailers to route orders across multiple fulfillment points depending on a number of factors, including delivery preferences, shipping time and costs, inventory optimization at stores, and even opting for more sustainable delivery methods. Using a DOM, retailers can support multiple distribution centers across geos (for example, operating West and East Coast distribution centers in the US for faster in-region fulfillment), as well as alternative delivery methods ranging from store fulfillment offerings (curbside pick-up and BOPIS, ship-from-store, etc.) to micro-fulfillment centers or temporary pop-up DCs.

A recent **Multichannel Merchant report reinforces the value of DOM technology** in supporting complete inventory visibility for multi-node fulfillment operations, stating that "companies of all sizes that don't implement a sophisticated order management system (OMS) risk damaging the customer experience to the point of negatively impacting loyalty, conversion rates, AOV, market share and business growth."

By de-centralizing operations through multi-node order fulfillment, retailers and brands are able to spread inventory across regions to offer more delivery options while optimizing inventory across channels and shortening the distance for last-mile delivery. The result is an improved operation all around and, more importantly, a higher quality customer experience.

74% of US Millennials said they were more likely to purchase from brands who support the social issues they care about

Is your business struggling to master multi-node fulfillment?

Issues with inventory visibility across channels can snowball into serious growth inhibitors. 3PLs supported many enterprise retailers and brands through the pandemic utilising our proprietary DOM technology. Throughout the chaos, we kept orders flowing across stores and distribution centers. Today, PFS continues to expand DOM capabilities and improve operations in an effort to empower consumers with options in the digital-first era.

DOM technology allows retailers to support multiple locations across geos as well as provide alternative delivery methods

Benefits of a multi-node fulfillment operation

Enabling multi-node fulfillment has many key benefits in today's digital-first market. Retailers and brands who invest in this area stand to gain in significant ways:

- **Compete with 2-day/same day delivery:** It's no secret that delivery expectations have been getting faster and faster in recent years. By decentralizing fulfillment operations and leveraging alternative fulfillment solutions, brands can shorten the supply chain, reduce transportation distances and lower shipping costs. With DOM technology, you are able to have sight of inventory across stores, DCs, micro-fulfillment centers, etc., and empower customers to choose the option that gets product to them how and when they need it
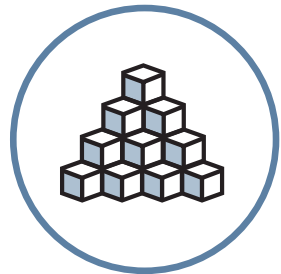
- **Optimize inventory:** When the pandemic hit and many stores were required to temporarily close, a lack of inventory visibility meant a significant amount of sitting inventory. Even as online sales skyrocketed and inventory at the DC began to sell out, retailers were unable to take advantage of, in some cases, significant amounts of inventory at brick-and-mortar locations. On the other hand, stores whose inventory was integrated across operations were able to operate as **dark stores**, even when closed to the public during lockdown. While we all hope another lockdown scenario is not in our future, being able to optimize inventory across locations, whether you're leveraging store fulfillment or shifting orders from one DC to another when out of stock at one location, means being able to provide a more positive customer experience

- **Ensure business continuity:** Throughout 2020, fulfillment centers in some regions were forced to close, while they were deemed essential businesses in others and remained open the entire year. In 2021, many reopened and were forced to close shortly after – or more measures had to be put in place to deal with a reduced workforce at different times of the year. Weather events and other unforeseen challenges also resulted in temporary closures or delays for certain regions. By diversifying your fulfillment points through a multi-node distribution model, you are able to keep orders moving despite unforeseen circumstances

- **Sustainable fulfillment practices:** Today's consumers are looking to retailers and brands to help them make a difference through more sustainable shopping methods. Even before the pandemic, **74% of US Millennials said they were more likely to purchase from brands who support the social issues they care about**. In getting product closer to the consumer, multi-node fulfillment is one-way brands are reducing carbon footprint by shortening last-mile delivery. In the past, if a customer ordered new shoes online, it's likely the shoes were fulfilled from a distribution center on the other side of the country. Now, the shoes can be shipped from a local store, picked up curbside the same day, or held until a designated delivery day – all more sustainable practices than shipping from a single DC

Dark Stores

The Changing Face Of Dark Stores

The face of retail has undoubtedly taken a turn in the last 24 months. As consumers skipped the checkout lines in lieu of sofa shopping, retailers found themselves dealing with little to no foot traffic in the early days and idle employees. In the meantime, as online orders skyrocketed, and some retailers were caught off guard as they hustled to manage this shift in the channel mix and organize their inventory.

Many retailers moved to make use of their suddenly empty brick-and-mortar locations by converting them to dark stores – that is, retail locations converted to micro-fulfillment centers in support of online orders. Utilizing dark stores has proven a powerful omnichannel strategy to keep the workforce employed, avoid sitting inventory, leverage existing physical space, and handle the massive influx of digital transactions ongoing.

Large retailers have set the groundwork for dark stores

An emerging trend pre-COVID thanks to the growing eCommerce market, the global pandemic drove many larger retailers to further embrace the dark store approach, and with great success. Take, for example, the hybrid model Target has adopted. The majority of their online transactions are coming out of local stores because they have managed to combine their retail presence with mini warehouses all over the country. And, of course, Amazon – ever the trendsetter – opened its first dark store in September 2020 with its **Whole Foods brand**.

These brands successfully accomplished the dark store transition because they had the capability, inventory planning rigor, and a mature digital intelligence well in place before COVID. Placing more emphasis on the online channel and getting stock in the right place at the right time may appear challenging at first, but with the right tools and a solid strategy, it's not just the big guys who are capable of achieving success with dark stores.

Smaller retailers can also benefit from dark stores

With the ever-increasing customer demands in today's digital world, eCommerce scalability is more important now than ever before, no matter a retailer's size. While having multiple of distribution centers is undoubtedly not something that everyone can do, the same concept can work for those who are trying to find a balance between online and in-person sales.

The good news is that this approach works for most brands with a digital and physical presence and can be a significant lifeline for underperforming stores. Instead of closing a location completely, stores can be repurposed into fulfillment centers and still deliver a vast improvement to the customer experience by shortening delivery times while keeping inventory moving.

Clear inventory objectives, plus the right retail technology

When building or converting infrastructure into something more functional for distribution purposes, retailers need to define their objectives. Is the purpose to augment sudden, yet temporary spikes in demand during peak periods? Is it to get orders to consumers faster – within one day, the same day, or hours? Or maybe it is to mitigate carrier capacity issues?

Clear objectives will be the defining element for your dark store strategy. This could include permanently closing a location to foot traffic, so you can convert it into a micro-fulfillment center that serves customers in a particular region. On the other hand, if you're simply looking for quick scalability during peak periods for your digital channel, this could mean simply leveraging a store stock room or closing down a section of the store to pack orders pulled from the shop floor. Both of these options have been embraced with great success in support of effective omnichannel strategies.

In order to make a dark store work, regardless of the setup, retailers need to be savvy about allocating inventory across facilities and strategic about setting up an efficient picking solution within the facility. This is where having the right technology in place is critical – and **DOM technology will help retailers allocate inventory** and route orders appropriately across locations. Likewise, store fulfillment technology such as **RetailConnect** can automate the pick/pack/ship operation within a store environment for highly efficient and accurate order processing.

Dark stores are a stepping stone towards a new strategy that fully embraces a digital-first retail environment

The future of retail is omnichannel

While we don't envision brick-and-mortar stores going away completely any time soon – some retailers and brands will always benefit from a physical storefront, take luxury brands for example – dark stores are a stepping stone towards a new strategy that fully embraces a digital-first retail environment. With the right infrastructure and technology in place, dark stores are a powerful omnichannel strategy that is here to stay, offering increased capacity, the ability to scale and enabling faster delivery.

Clear objectives will be the defining element for your dark store strategy
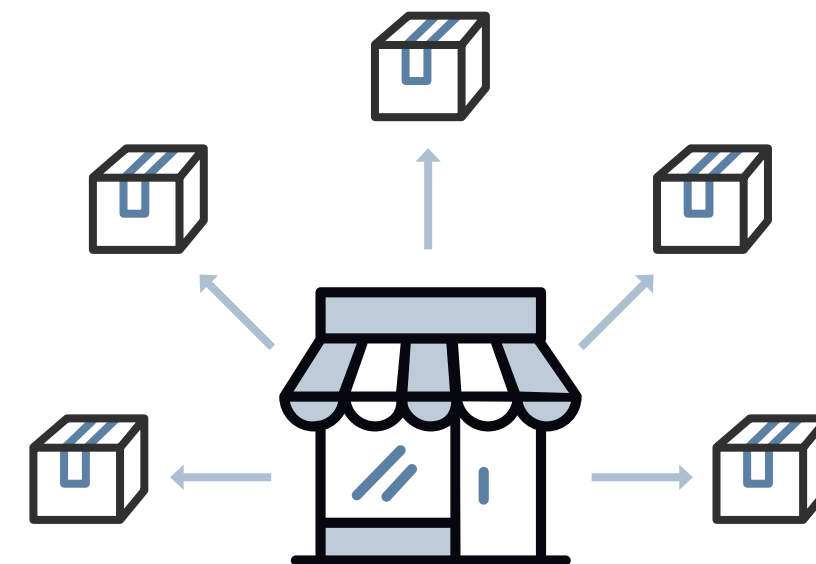
Brand Strategies

Smart Brand Strategies For Supply Chain Crises

The supply chain slowdown and back-up came about because of a confluence of factors that all came together in a "perfect storm". COVID-19 stopped or slowed much of the manufacturing production in Asia, where a tremendous number of goods are made and sent around the world. Companies didn't have back-up supplies on hand because they had kept very lean inventory in order to limit their costs. Demand soared during the pandemic when people began to spend their money on goods, rather than experiences, and all of this happened at a time when people's expectations for quick delivery are as high as they've ever been.
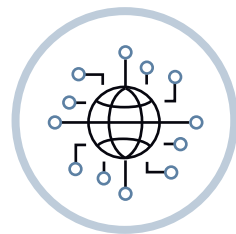
Today's supply chain wasn't built to have the sort of resiliency to deal with this kind of situation; it was designed to ship truckloads of goods to stores or warehouses, not manage smaller groups of individual packages being delivered to stores and homes, all on varying schedules.

| Start promotions early | Offer incentives | Focus on digital presence | Regional delivery partners | Conversations with customers |

Focus on what you can control in the supply chain

All things considered, there are still things retailers and brands can do to keep operations on the right track going forward – if you can't make things run entirely smoothly you can make them run a bit less disastrously than anticipated into the new year. Here are a few tips:

- **Start promotions early:** Stretch the demand curve out if the supply is there and as shortages hopefully improve over the coming years. Amazon achieved this by offering **"Black Friday-worthy" deals as early as the beginning of October in 2020**. By spreading out the peak volume and modifying your promotional schedule you can increase your chances of avoiding a disastrous lack of supply during the seasonal crush, or running into delivery partner capacity limitations

- **Offer incentives:** Incentives are a great way for retailers and brands to spread out delivery commitments. Retailers took some of the pressure off the crush of Black Friday and Cyber Week by saying to customers who've loaded up their carts online: "Hello, we'll give you 10% off if we can ship this next week instead of tomorrow." Empower customers to select the urgency associated with their purchases, and actively be part of the solution rather than being wary or disgruntled at possible delays

- **Focus on digital presence:** By leveraging multiple channels and embracing an omnichannel strategy, retailers and brands can offer customers more ways to shop, think curbside pick-up or varying shipping speeds. Ultimately, a digital focus enables retailers to optimize inventory across locations, making stock available for sale regardless of where it is in the supply chain and avoiding sitting inventory

- **Shop around for regional delivery partners:** Insulate against national delivery partner risk by thinking aggressively about shipping alternatives beyond FedEx, UPS, DHL, Hermes and Yodel, etc. Amazon is capitalizing on its own delivery partner fleet through the current crisis. But even the smallest retailer has options. Shop around for local and regional transportation options and you will likely find competitive pricing.

- **Have conversations with customers:** Many brands have a tendency to act like a vendor rather than a partner. They focus on key performance indicators (KPIs) and contractual commitments and that works fine during normal times, but these aren't normal times. If you approach customers early and tell them, "this is what's going on this year, here's how we're trying to deal with it, and here's what you can expect," you decrease the likelihood that they'll feel blindsided and surprised. It also prepares customers to actively make choices about the sort of incentives that brands can offer.

Labor: The elephant in the room

One of the biggest challenges to deal with is a scarcity of labor. That's the wild card. Every single retailer and supply chain leader must have the labor conversation daily. Across industries there has been a significant worker shortage over the last year, as part of the fallout from the pandemic. Figuring out how to manage that, either by spreading things out geographically with distributed order fulfillment, or simply spending more on labor, will be a key factor in how successful retailersin the future.

If there's a winning strategy amidst this year's challenges, its biggest component may be letting customers know what's going on in advance and working with them to figure out alternative delivery and pricing options. Trust and reliability are critical to maintaining customer loyalty. Talking to customers early year-round, and often, could make all the difference.
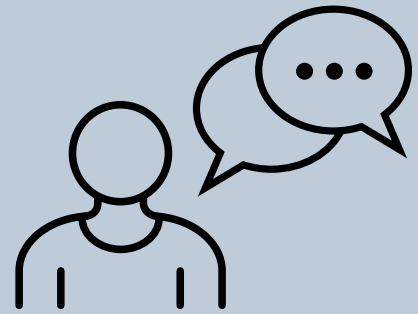
Let customers know what's going on in advance and work with them on alternate delivery and pricing options

Conclusion

The Consumer Pulse Check: What's The Reading?

Taking a pulse check once in a while in the eCommerce setting is essential – situations and trends change so quickly, as we have seen since the onset of the pandemic, in particular. Omnichannel strategies can be formed preventatively, as well as reactively, by narrowing in on the changing tides, pinpointing how operations could be improved – whether that be through forecasting, the technology invested in, or the diversification of distribution points.

In 2021, the world continued to face unprecedented shortages – be they labor, delivery partner or packaging – just about every single area needed to successfully run a fulfillment business and supply chain. One kink in the chain has repercussions on another. During 2021, PFS did not have to activate any emergency or Plan B's as we refined our omnichannel offering, developed our workforce relationships and ensured that the delivery partners we use continue to be reliable – across the multi-node system – with steps put in place to minimize knock-on effects on fulfilling orders.

As part of the ongoing evolution of omnichannel, __real-time inventory management__ is now a key area of focus for established retailers and brands, as well as BPOs or 3PLs. We have shown how many are now __investing heavily in supply chain processes__, tailoring promotions based on the quantity of products available. It's important not to overstock items, as warehouse space continues to be golden.

In 2022, we need to presume that for the first half of the year, shortages will remain throughout – and this will be the case for many other industries. PFS has taken steps to plan, order packing materials, and estimate amount of inventory needed around two to three months in advance; in the past, you only needed a couple of weeks to source and place material orders. Being mindful about the number of orders you may need to prepare in the next couple of months will mean you can take those steps to have sufficient stock and continue to align with omnichannel practices.

Our 20+ years of experience in the retail and ecommerce space continues to show how PFS can be relied upon for all post-click activity.

PFS

If you want to learn how to deliver on brand ethos with each order, __get in touch with PFS today__.