

Not Your Regular Mall-Based Stores: Part One—Ship from Store Presents a Profitable Online Order-Fulfillment Opportunity



This report is the first in a three-part series in which Coresight Research and Fillogic explore new strategies for retailers to fulfill online orders using their mall-based stores. We discuss the need for retailers to expand their fulfillment capabilities in the current environment and key considerations in the adoption of alternative fulfillment methods.

- After some respite from the adverse impact of the Covid-19 pandemic, US retailers are now fearing the outbreak Covid-19 Delta variant. A June 2021 Coresight Research survey of executives at US mall-based retailers found that the sudden surge in e-commerce last year remains the top pandemic-related challenge, followed by rising consumer demand for a multichannel shopping experience and a decline in footfall at physical outlets. We believe that retailers will continue to experience the negative impacts of the Covid-19 crisis until the end of 2022/early 2023.
- The pandemic has seen multichannel fulfillment options rise in popularity as consumers demand convenience while being reluctant to visit stores. Our survey found that 77.3% of US mall-based retailers offer multichannel fulfillment options to customers. Ship from store (SFS)—which is among the top three multichannel fulfillment options offered by US mall-based retailers—offers three primary benefits to retailers: flexible order fulfillment, high customer satisfaction and optimized inventory. These benefits lead to repeat business and so help businesses improve their top and bottom line.
- However, the SFS model requires mall-based stores to have a single accurate view of inventory, which 73.3% of our survey respondents cited as “challenging” or “very challenging.” Other challenges faced by mall-based retailers include store-associate training, inefficient resource planning and management, inadequate technology infrastructure and difficulty managing the supply chain across multiple sales channels.

Coresight Research x Fillogic: Not Your Regular Mall-Based Stores—Part One

During the Covid-19 pandemic, retail stores in malls witnessed steep brick-and-mortar sales declines that led to a build-up of excess inventory. Many retailers have been seeking out new

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ways to improve their top line by offering multichannel fulfillment options to customers—including BOPIS (buy online, pick up in store), curbside pickup, ship to store and ship from store (SFS). Leveraging their mall-based stores to fulfill online orders presents huge opportunity for retailers to reduce store-based inventories, manage reverse logistics, meet consumer demand more efficiently and thus improve their top and bottom line.

We explore this opportunity in our three-part series entitled “*Not Your Regular Mall-Based Stores.*” In this report—the first in the series—we discuss the need for retailers to expand their fulfillment capabilities in the current environment and key considerations in the adoption of alternative fulfillment methods, with a focus on SFS. We leverage findings from a June 2021 Coresight Research survey of 150 executives at US mall-based retailers.

This report is sponsored by Fillogic, a logistics-as-a-service platform provider that converts underutilized space at retail centers into tech-enabled, micro distribution hubs.

Ship from Store Presents a Profitable Online Order-Fulfillment Opportunity: In Detail

The Sudden Surge in E-Commerce Remains a Pain Point for Retailers

The US retail industry is slowly recovering from the heavy impacts of the Covid-19 pandemic. Our June 2021 survey found that the sudden surge in e-commerce last year remains the top pandemic-related challenge for mall-based retailers, cited by more than half of all respondents (51.3%).

According to Coresight Research analysis of Census Bureau data, US online retail sales increased by 33.2% year over year in 2020, to \$713 billion. This growth was against a backdrop of declining overall sales in many retail markets. For example, we estimate that the US clothing and footwear market experienced 27.2% e-commerce growth in 2020 compared to 2019, but the total apparel market declined by 12.2% during the same period.

Many retailers were unable to adapt to the consumer shift to e-commerce. The pandemic-led dramatic footfall and sales declines in the brick-and-mortar channel have been particularly damaging for retailers that previously relied on physical stores, with numerous major retailers having filed for bankruptcy since the outbreak of Covid-19 in March 2020—including Ascena Retail Group, Brooks Brothers, GNC, JCPenney, Lord & Taylor and Neiman Marcus. In our recent survey, 42.0% of respondents cited the footfall declines at physical stores as a key challenge.

The sudden surge in online shopping has also added strain on last-mile logistics, with capacity constraints presenting challenges alongside rising consumer demand for free and fast delivery. Furthermore, consumers are increasingly seeking integrated and seamless journeys when shopping across channels with the same retailer—covering both online and offline channels, mail order, social commerce and more. Among our survey respondents, 45.3% cited rising consumer demand for a multichannel shopping experience as a key pandemic-induced challenge.

Pent-up demand and inflationary pricing are fueling e-commerce growth this year: We estimate that US online retail sales will increase by 11.0% in 2021, to \$791 billion. Retailers therefore need to continue to overcome challenges in balancing e-commerce and brick-and-mortar operations.

Figure 1. Top Three Pandemic-Induced Challenges Faced by US Mall-Based Retailers (% of Respondents)



Base: 150 executives at US mall-based retailers

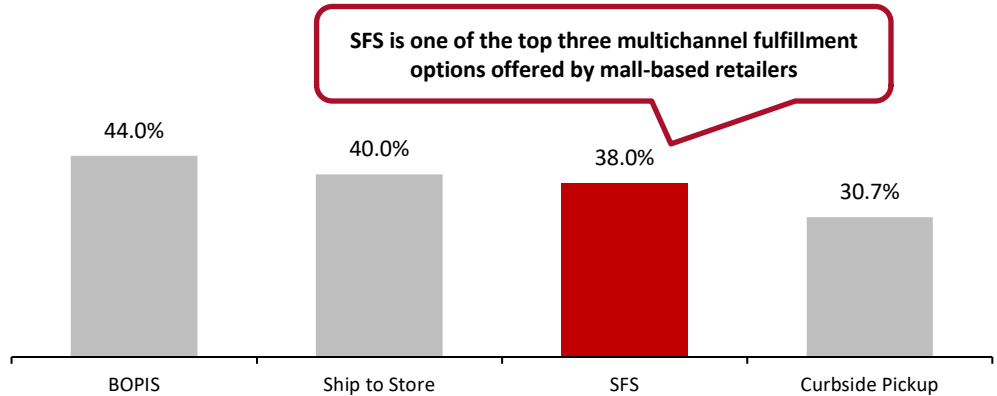
Source: Coresight Research

Multichannel Fulfillment Options: The Rise of Ship from Store

Multichannel fulfillment is the method through which retailers and brands sell their items through various channels. Options include BOPIS, ship to store, curbside pickup and SFS. The Covid-19 outbreak prompted a surge in popularity of these services in 2020, as consumers demanded convenience while being reluctant to visit stores. Our survey found that 77.3% of US mall-based retailers offer multichannel fulfillment options to customers.

We focus here on SFS, which is among the top three multichannel fulfillment options offered by US mall-based retailers, according to our survey (see Figure 2).

Figure 2. Multichannel Fulfillment Options Offered by US Mall-Based Retailers (% of Respondents)

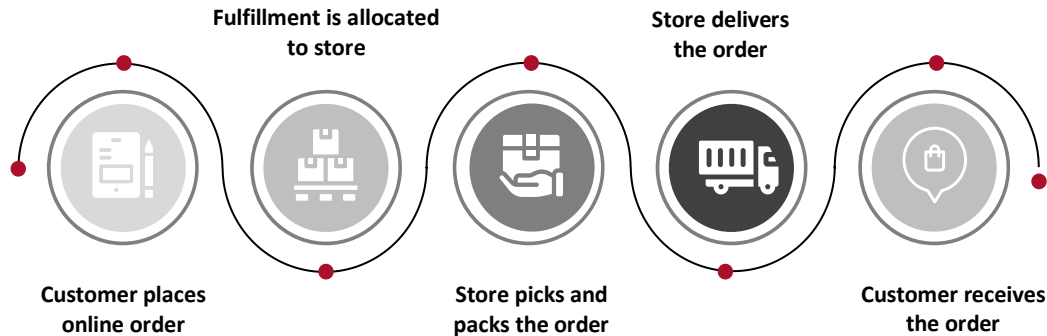


Base: 150 executives at US mall-based retailers

Source: Coresight Research

The SFS model allows retailers to ship products to customers from their brick-and-mortar stores (including those in malls), reducing their dependence on distribution centers (DCs) and warehouses. We outline the SFS process in Figure 3.

Figure 3. The SFS Fulfillment Model



Source: Coresight Research

SFS is gaining traction among retailers: Apple, Bed, Bath & Beyond, Best Buy, Target and Walmart have implemented the SFS fulfillment model, for example.

- According to Bed Bath & Beyond, it shipped nearly 40% of its e-commerce orders from stores across the US and Canada in the second quarter of 2020.
- Best Buy piloted the SFS model in September 2020 and started shipping online orders from its 250 stores in the US. Later, the company decided to add 90 more stores to the program. According to Corie Barry, CEO of Best Buy, “All [of the retailer’s] stores will continue to ship online orders, but these locations are positioned to ship out significantly more volume and utilize dedicated labor aimed at fulfilling orders originating online. These locations required minimal capital investment, as we had the technology in place, and were chosen due to their available warehouse space and proximity to carrier partners.”
- Target fulfilled 95% of its online orders from stores in 2020, according to the company. Michael Fiddelke, Chief Financial Officer at Target, said, “Target would prefer to seize on nearby real estate opportunities and open an additional store rather than turn to an alternative fulfillment option. Everything is cheaper when it comes to store.”

Benefits of SFS

There are three primary benefits of the SFS fulfillment model, which we discuss below. However, it is also worth noting that mall-based stores are typically located in closer proximity to the consumer than distribution centers or warehouse, thus reducing the carbon footprint of deliveries and enhancing a retailer’s overall environmental sustainability.

1. Flexible Order Fulfillment

Retailers can take some pressure off distribution centers by shipping from stores. With customers expecting fast delivery of their orders—by the next day or even on the same day—using multiple fulfillment centers and storage locations allows retailers to reduce delivery times. While fulfilling online orders from stores, 27.3% of surveyed mall-based retailers said that customers most often select a same-day delivery option, followed by next-day delivery (23.3%) and delivery in one to three days (17.3%).

SFS also increases product availability for customers. When products are fulfilled from DCs only, product options may be limited, but when there are multiple fulfillment options available, customers can select products from inventories in DCs as well as in stores.

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2. High Customer Satisfaction

Faster delivery options, lower shipping costs and multiple delivery options improve customer satisfaction, which leads to repeat business and so helps businesses improve their top and bottom line.

3. Optimized Inventory

Most often, retailers that offer an SFS option have an efficient inventory management platform to manage inventories at multiple locations. With real-time inventory visibility, retailers can determine the best way to fill the order and draw upon different inventory locations for fulfillment and replenishment, enabling them to reduce overall inventory-carrying costs.

Challenges in SFS

Although the adoption of the SFS model has accelerated due to the pandemic, our survey found that only 8.0% of respondents currently leverage their mall-based stores to fulfill online orders—with many other mall-based retailers instead operating the model from only their standalone stores. However, results were skewed toward retailers with a small fleet of mall-based stores (5%–10% of total store portfolio), with a much higher proportion of this group (13.8%) reporting that they leverage mall-based retail stores to fulfill online orders. This compares to retailers with more than 30% of their stores located in malls that use their none of their mall-based stores for online fulfillment.

For retailers with a small mall-based fleet, SFS helps to manage store inventory under the current circumstances without having to invest in establishing and maintaining DCs. Retailers with a high number of stores in malls are missing out on the opportunity to efficiently manage customer demand for faster and cheaper deliveries.

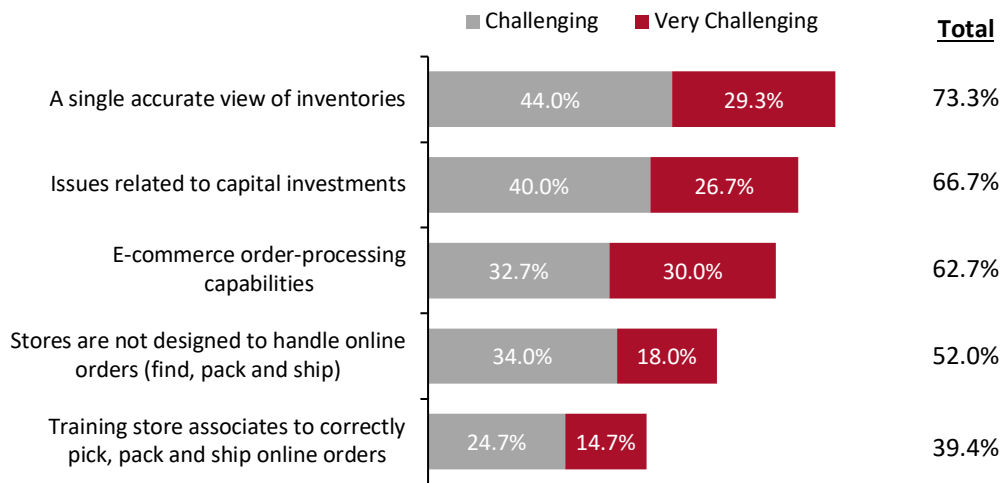
However, despite its many benefits, the SFS fulfillment model does present challenges to retailers. Mall-based retail stores are not built to function as DCs; they are built for shopping, displaying merchandise and customer engagement—they generally have little, if any, storage and packing facilities. Using mall-based stores to fulfill online orders can therefore be disruptive to in-store shoppers and can result in broken assortments.

SFS requires mall-based stores to have a single accurate view of inventory, which 73.3% of our surveyed retailers cited as “challenging” or “very challenging”—making it the topmost issue with operating the SFS fulfillment model.

In addition, many retailers feel that training store associates to correctly pick, pack and ship products is challenging. It may also be difficult for store associates to balance in-store selling and clienteling with online order fulfillment, which could compromise their levels of customer service—but hiring additional store staff to fulfill online orders at mall-based stores would incur extra costs for retailers.

In Figure 4, we present the top five challenges for mall-based retailers in operating an SFS fulfillment model, by proportion of respondents that cited each as “challenging” or “very challenging.”

Figure 4. Perceived Challenges Faced by Mall-Based Retailers in Operating SFS Fulfillment (% of Respondents)



Base: 150 executives at US mall-based retailers
Source: Coresight Research

The mall-based retail ecosystem simply was not designed to fulfill online orders. Mall-based retailers find it challenging to implement this fulfillment option, and more often, they need the assistance of logistics and solutions service providers. Retail real estate owners and logistics providers are also faced with challenges in this space. We present the major challenges across the mall-based retail ecosystem in the figure below.

Figure 5. Challenges Faced by the Mall-Based Retail Ecosystem



Source: Coresight Research

What We Think

Multichannel fulfillment options provide retailers with opportunity to meet increasing customer expectations while reducing excess inventory and balancing surging e-commerce with the brick-and-mortar retail channel, which has been particularly heavily impacted by the Covid-19 pandemic.

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Although 38.0% of US mall-based retailers operate an SFS model, only 8.0% are actually utilizing their mall-based stores for online order fulfillment. Despite challenges in operating such a model from malls—not least in having an accurate, single view of inventories—retailers should consider the significant benefits that SFS provides in the last mile: cost savings, improved environmental sustainability, flexible order fulfillment, high customer satisfaction and optimized inventory.

In our upcoming reports in this series, Coresight Research and Fillogic will provide further insights into multichannel fulfillment for mall-based retailers and how retailers can partner with third-party logistics service providers to convert their stores into fulfillment centers.

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