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Retailers Revamping Distribution Strategies to Deliver Directly to Shoppers, Merchants Say

By Daniel P. Bearth, Senior Features Writer

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The world of retail shipping is being turned inside out, led by a high-tech-driven shift in goods transportation.

Instead of luring shoppers to stores, stores are looking for ways to deliver merchandise directly to consumers, turning storefronts into showrooms and pickup points for goods ordered through Internet-connected computers, smart phones and other electronic devices.

The growth of e-commerce — fortified by double-digit sales gains during the most recent holiday shopping season — is spurring adoption of “omnichannel” or “omnimodal” distribution strategies whereby goods are procured, stored and delivered across multiple transportation platforms.

That growth in online sales is leading to exotic new delivery services, such as Amazon’s experiment with drones to carry small packages, and the use of information technology and social media to create delivery networks in which shipments are matched with transportation resources in real time.

One view of where retail shipping may be headed can be gleaned from the grocery industry, where established supermarket chains such as Safeway Inc. and Giant Food have added home delivery and in-store pickup services. Start-up companies including Relay Foods of Charlottesville, Va., are taking it a step further by sourcing directly from

local farms and food purveyors and arranging for consumers to pick up orders at apartment buildings, schools and other public locations.

Zack Buckner, a software engineer who founded Relay Foods in 2009, said he wants to prove that it is more efficient and less costly to order groceries online than for consumers to buy groceries from traditional supermarkets.

“It’s not just about delivery,” Buckner said. “It’s really about cost. Online grocers don’t need a distributor to take product and break it down into smaller shipments. We get product direct from the manufacturer, we pick it from the pallet and deliver to the customer. It’s a different way of getting stuff.”

Just one or two fulfillment centers located in a relatively low-cost industrial park can provide groceries for an entire city such as Atlanta, Buckner said.

Early experiments in grocery delivery, such as Webvan, failed because those companies underestimated the cost of building infrastructure to handle fulfillment and because the public was slow to adapt.

Buckner said attitudes toward buying online have changed, making it easier for companies to sell products without having a physical store presence.

“The expectation is that you can buy anything online now,” Buckner said. “It doesn’t make sense that you can buy a car online but not Oreos.”

According to eMarketer, online sales reached $262 billion in 2013. Online sales have grown between 16.2% and 16.4% annually since 2010, the researcher found.

For most retailers, the key to providing omnichannel distribution and meeting the needs of online and brick-and-mortar shoppers is having the ability to know where everything is, when and how it can be shipped and having information on the status of shipments available to all parties at all times.

With information playing such a critical role, it's little wonder that some of the nation's most prominent technology companies are involved in the development of new retail delivery services.

Google Inc. started a service in 2013 called Google Shopping Express to provide same-day delivery using couriers in the San Francisco Bay area to pick up items from local stores, including Target and Walgreen's, and deliver them to a customer's home or office.

Google also is actively working on technologies for robotics and self-driving cars, the combination of which conceivably could eliminate the need — and expense — for drivers to deliver goods.

Industrial Perception, one of seven robotics companies acquired by Mountain View, Calif.-based Google in the past two years, already is selling 3D vision-guided robots to automate the loading and unloading of trucks and handling of packages.

Another Google-backed company, Uber Technologies Inc. in San Francisco, is expected to expand its popular car-sharing app to include freight delivery.

At eBay Inc., officials at the pioneering online auction company recently launched a program, called Sell For Me, in which trucks are dispatched to pick up items from homes and take them to a warehouse. From there, the goods are processed and, once sold, delivered to the buyer.

In October, San Francisco-based eBay acquired Shutl Inc., a start-up firm based in the United Kingdom that connects retailers with local couriers to provide same-day delivery of goods purchased online. Shutl founder and CEO Tom Allason said the deal with eBay will speed up plans to expand delivery services in the United States and elsewhere.

"What we see technology players doing is getting into fulfillment as a means to an end," said Karl Meyer, president of 3PD Inc., an Atlanta-based delivery firm that is providing pickup and delivery services for eBay.

"For eBay, the goal is to increase the number of users on its platform."

Google's interest in home delivery and order fulfillment services is driven by its desire to increase advertising revenue from local businesses by encouraging people to buy more online.

"Google wants to create services that local retailers want to use so they can sell advertising," Meyer said.

The company setting the pace in e-commerce is Amazon.com. While totally reliant on package carriers to deliver goods purchased online, the online retailer is rapidly building a network of fulfillment centers located close to populated areas in order to reduce the time it takes to deliver goods.

In December, the company was awarded a patent for a system that ships packages based on anticipated demand and the ability to redirect goods while en route from suppliers or distribution centers.

The company operates a fleet of trucks to deliver groceries in three cities and could conceivably use those vehicles to deliver other merchandise.

Amazon also is working on Amazon Pantry, a service that would sell paper towels, pet food and cleaning supplies in bulk, shipping directly to customers in a large, standard shipping box — and, in effect, competing with Costco and Sam's Club for so-called "center-aisle" packaged goods.

While online sales represent only about 14% of total retail sales, the rapid growth of Internet-based commerce is forcing everyone — shippers and freight carriers — to reassess the way in which goods are delivered to stores and individual customers.

"The lines are becoming very blurred between online and in-store commerce," said Doug Kahl, vice president of sales for enVista, a consulting firm that works with retailers to develop and implement omnichannel distribution strategies. "We are seeing retailers put in place not just transportation networks, but system capabilities."

EnVista CEO Jim Barnes said his company is introducing a proprietary cloud-based software program called Enterprise Commerce Management to help retailers respond to the demands of e-commerce.

"It works like a wrapper to give operational, marketing and supply chain people the information they need," Barnes said.

Greg Kefer, vice president of corporate marketing for GT Nexus in Oakland, Calif., said retailers have invested heavily in online marketing. But they are woefully "underinvested," he added, in systems to fulfill orders, making it difficult to match the "in-store" experience for shoppers.

"The problem is information. Data is partitioned. There's no common language," Kefer said. "That's where the supply chain comes in."

Retailers need to know not only what is coming into their distribution centers, but what is sitting on shelves in stores. And, they must be able to match those products with sales in-store or online.

Kefer said a recent experience he had in buying a scooter from a major toy retailer shows what can happen when information is segmented and not shared in a timely manner.

After placing an order online, Kefer said, he went to the store to pick up the scooter, but it was not there. He drove to another store to pick up the product, but found it had been damaged. To return the item, Kefer said he was told it had to be returned to the store where he had attempted to pick it up in the first place. Finally, after taking delivery of the scooter, Kefer said he was asked to pay an extra 30 cents to cover the difference in local sales tax rates between the first and second stores.

To avoid problems like this, Kefer said, retail supply chains need to be more like social networking sites, such as LinkedIn, where "if something happens to someone in your network, you know about it."

The question then becomes, "Who will become the dominant information utility for commerce?" Kefer said. "There will be one or two, not 12, such networks," he said.

EnVista's Barnes said he sees a lot of companies "blowing up" current information systems and creating something to meet the demands of customers "to buy from anyplace, source from anywhere and deliver faster."

"The current system is like asphalt with cracks exposed. Patching over systems is time consuming and may not meet needs," he said.

Kefer said brick and mortar stores "are not going to disappear" and some that sell proprietary goods or that specialize in "fast fashion," in which inventories are constantly updated, will do well competing against online retailers.

Anne Strauss-Wieder, a retail industry consultant, said the function and layout of stores is changing with more space for selling and less space for backroom storage, making it necessary for stores to have more frequent deliveries of smaller quantities of merchandise.

Package carriers and less-than-truckload haulers will benefit from this trend, she said, and warehouses will become "multipurpose" facilities for store replenishment and e-commerce.

Dan Wagner, founder of Powa Technologies, a tech firm based in the United Kingdom, said the surge in online sales during the recent holiday season highlights the "two-track" nature of retailing.

"Traditional Main Street stores really need to up their game to compete in the new shopping era that we are entering," Wagner said. "They need a multichannel approach that adopts best practices from online and adapts its techniques and technologies to traditional brick-and-mortar retail."

Wagner is preparing to launch a product that allows people to use a smart phone to take a digital image of something they want to buy and to make the purchase.

Stores can use mobile apps to send messages or special offers directly to customers with smart phones while they are in the store, making shopping a more interactive experience and giving store owners valuable information about shopping behavior, Wagner said.

Melissa O'Keefe, senior director of e-commerce and marketing for Innotrac Corp., an Atlanta-based consulting firm, said her research shows that retailers have "a ways to go" to meet changing customer expectations for how they want to buy goods.

"Omnichannel is the big buzz right now," O'Keefe said. "This study revealed that retailers have a ways to go in some of the most critical areas, like leveraging inventory across channels and shipping orders from stores that mirror the brand experience delivered when shipping from a distribution center."

Serving retail is “an intricate dance,” said Dave Vehec, senior vice president at Genco, a Pittsburgh-based logistics company.

Among the services Genco provides is product returns, which can average up to 30% of sales online compared with 6% in stores. Returned goods often are in pristine condition and can be “repurposed” or sold through other online channels, Vehec said.