

REPORTS & ANALYSIS IN-DEPTH FEATURES

Channeling E-tail Resources

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Apparel retailers attempting to break into online selling, as well as those simply trying to stay one step ahead of the pack, are focusing on enhancing the online shopping experience by fine-tuning and expanding upon existing features as well as adapting information technology and fulfillment systems to meet market demand.

On the back end, retailers have enhanced their channel integration by allowing flexible options for returning goods and at the same time are gaining greater control of inventory, which translates to fewer ordering problems.

Meanwhile, on the front-end, improvements are focused on increasing sales and reducing returns by removing some of the uncertainties from online shopping and making the experience smoother. For example, e-tailers are making it easier to use their Web sites by improving search and navigational features and offering customers the opportunity to "try on" through enhanced virtual models. Also, customers' security concerns are allayed with the help of outside services that protect not only financial information, but other personal information as well.

Overall, the knowledge gained from Internet sales over the past few years has helped to introduce some successful changes to apparel e-tailing.

Straightening Up the Back Room

Most e-tailers know the importance of efficient back-end operations. One area that has witnessed significant change is product returns or "reverse logistics."

At San Francisco-based Macys.com, for example, customers can make mail or in-store returns, says Gene Domecus, senior vice president, e-commerce. To facilitate this, the company has become more diligent about verifying that the SKUs that it sells online, which are common to at least one of Macy's divisions (East or West), are loaded onto the item file of both divisions in order to ensure a smooth return process for the customer.

He further notes that there is daily visibility as to the number of packages and the number of units returned, which are processed within four days of receipt. Still, fulfillment problems sometimes arise when the last available unit of a SKU is returned, checked back into inventory and sold again before it has become apparent that the product is damaged or unsellable. "In that case, we have taken a back order that we can't fill and can't reorder. The best practice is to communicate that cancellation in as short a time as possible, and in most cases for in-stock merchandise, we are quoting a three-day shipment representation."

Other companies, such as Lands' End Inc., based in Dodgeville, WI, are staying ahead in e-tailing by further integrating their distribution channels. Sam Taylor, vice president of e-commerce at

Lands' End, says that an online apparel retailer needs to have three things in order to be successful: a trusted brand, good gross margins for proprietary products and a back-end and technology combination for a great-performing Web site. The company, which posted \$435 million in revenues last year and was acquired by Sears, Roebuck and Co. in June 2002, is currently selling its products in Sears stores. "The challenge is working on allowing returns at Sears stores for products bought online, regardless of which products are in the store," says Taylor.

E-tailers admit that it can be difficult to curb returns, although for Lands' End, return rates for Internet sales are the lowest for the company. Taylor credits this to the Web tools designed to help customers select size and measurements. Other companies have implemented a stricter return policy in order to defray the costs of reverse logistics. Baby Mine Store Inc., based in Phoenix, which sells baby apparel and accessories, instituted a 10 percent restocking fee in May for customers who want a refund.

Handling Order Fulfillment

Some apparel e-tailers also have improved their back-end operations by revamping their entire distribution systems. **FreshPair.com**, a retailer of men's and women's intimate apparel based in New York City, began an overhaul of its operation last fall. Says Michael Kleinmann, COO: "We moved to a highly automated fulfillment center [and] we ran into technical and space problems. Fulfillment was affected since we didn't have a good handle on inventory; deliveries that came in could sit for days. Now an order comes in at 9:00 a.m., is scanned at 10:00 a.m. and is shipped the same day."

Orders are now sent in real-time and there is a constant flow of information, whereas in the past, order status was updated only when the product was shipped. Kleinmann adds that with an entire back order management system in place, one result is that there is less need for customer service.

Over at Macys.com, the company operates six fulfillment centers, including one specifically designed for apparel and shoes. The company completely rewrote its fulfillment system in 2001. "Warehouse logistics play very heavily in decision-making relative to the peak number of units on-hand per year (in a particular month) vs. the peak number of SKUs on the Web site, since each needs its own dedicated bin space for fulfillment," says Domecus.

To deal with its fulfillment issues, Baby Mine Store added a feature in May, which owner Glenn Gorichs says provides the order status to customers more accurately. In other systems, customers would receive a tracking number, but it would not provide details until the package had reached a certain point in the carrier's system. "Therefore, we first provide the notice 'being prepared to ship' rather than give them a tracking number that does not provide details," he says. In June, the company also implemented an online inventory system so that customers could order only in-stock items.

Improving Front-End Efficiency

Whereas back-end efficiency means that you can deliver what you promise, front-end efficiency helps to improve the customer's visual shopping experience. One area that e-tailers are improving is the online model.

Lands' End, for example, offers "my virtual model," a 3-D rendering of a human form based on entered body measurements that uses technology provided by Montreal-based My Virtual Model Inc. Taylor says that the realism of the my virtual model avatar was improved last year. "We now

offer more realistic options for face shape and skin complexion, and late this year we will have a further improved version. About 15 percent of our customers use the model, which is the most-used feature after the search engine," he says.

Macys.com is also changing how customers view its apparel online. Domecus says that this summer the company plans to introduce clickable swatches, in which the product image rendered will actually change color according to the swatch chosen. "Web navigation and site usability are also constantly evolving with the aim of putting fewer clicks between site entry and search results, whether browsing the site or invoking search technology," he says.

Recent improvements at Macys.com were highly focused on search because most customers use very broad terms such as "jeans" or "shirt," when in fact that might deliver more than 300 products between men's, women's, juniors, children's, etc. "Helping customers to narrow down the field is of the utmost importance, since the average shopping visit is less than five minutes, with about 10 pages viewed," he says.

Lands' End also needed to improve its search functionality, and in late 2001 it began using search vendor EasyAsk Inc., based in Littleton, MA, whose services include language recognition technology designed to allow customers to receive better results. Taylor says that a customer could enter "blue cotton sweater under \$30," for example, and view all of the items that fit in that category. Since implementing this solution, the company's search results have improved significantly, he reports.

From another perspective, **FreshPair.com** fully redesigned its front end in April. It now offers a new checkout process in which users are no longer required to enter a user name or password to place or track orders. Customers that do register have the option of signing in so that they may expedite the checkout process on subsequent orders. The company also changed navigation capabilities within the site by adding a drop-down menu and improving navigation usability. With these and other front-end improvements, the company has experienced a 10 percent increase in sales, Kleinmann says.

Starting this summer, Macys.com is improving its online navigation capabilities such that sub-menus will automatically fly out as the customer rolls his or her mouse over certain categories, says Domecus. This allows for a very deep browse of the site reduced to one actual click of the mouse.

Increased Security

Another area that has undergone some changes relates to site security. One provider in this area is Napa, CA-based Scan Alert Inc., which scans Web sites' infrastructure, including the e-mail server and database server, in order to certify that a site has been secured. "The customer will see a certificate, a little image that says it is hacker-safe. This helps e-tailers to increase their sales because the consumer is more willing to buy," says Nigel Ravenhill, Scan Alert director of marketing communications. **FreshPair.com**, which uses Scan Alert, achieved a 22 percent increase in sales among customers who saw the Scan Alert logo vs. those who did not, reports Kleinmann.

Gorichs, whose company installed Scan Alert in February, has noticed a difference in sales at Baby Mine Store. He says that the company's goal was to increase consumer confidence. "Other transaction security devices protect the credit card portion but not all of the data in the server. Scan Alert makes sure that the server is up to date. ... It is more expensive to us for customers to call in orders over the phone as opposed to placing them online. This way they have more confidence. We have seen a 20.5 percent increase in orders since February. At a cost of \$125 per month, it is well worth it," he says.

A Cut Above

Another of Lands' End's offerings, which combines both front-end and back-end efficiencies, is its custom program, through which customers can design their own clothing. The company introduced its custom chinos in the fall of 2001, and programs for jeans, men's twills and men's dress shirts over the subsequent year. Taylor says that four of Lands' End's top 20 products are in the custom category, and that customer retention for custom products is 34 percent higher than regular customer retention.

"The Web site saves a customer's profile, so that they can order again for a different color or pattern. Our technology partner is Archetype, which provides detailed measurements and creates unique statistics and patterns," says Taylor.

He adds that the custom program uses a different back-end system from that of Lands' End's regular orders. It contracts with existing vendors that have modular manufacturing installed, typically in Mexico or Central America, and they ship from the facilities directly to customers.

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