Winning Omnichannel Supply Chain in Retail

An end-to-end roadmap from forecasting to planning to execution to the last mile

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Introduction

The retail industry has been relatively slow to embrace digital technology. But the success of Amazon, in using the internet, consumer data and analytics to provide a disruptive and highly effective customer-centric service, is transforming the industry.

In addition to providing benefits for the customer, digital technology also promises a potentially massive upside for the retailer in, for example, providing access to data that reveals how consumers use the internet, what their product interests are and what they are buying and why at any given moment. It is also transforming relationships among the various parts of the supply chain as well as offering retailers, vendors and 3PLs the opportunity to know the status of the products in real time.

However, transforming a business is no easy task while it is running—particularly if it is successful. How do you innovate yet keep the lights on? As a result, many retailers are now asking themselves a number of fundamental questions, such as:

▶ How much should we invest in technology?

▶ What roles do our stores play in the distribution strategy?

▶ Can we afford to offer 1- or 2-day shipping?

▶ Where do we ship from?

▶ What is the role of our DC in eCommerce?

▶ How much of our logistics do we hand to a third party?

▶ Do we change the systems or the organization first?

▶ How can we integrate our suppliers and warehouses?

▶ How much and what data is important?

▶ How much data do we share with the supplier and 3PL?

In this paper, retail executives and industry consultants address the future of the supply chain industry in the digital age. They discuss the advantages of leveraging digital technology and how best to adapt it to a retailer's needs, as well as the problems the disruptions may pose for a company's workforce. The most important takeaways from their contributions include:

1. Amazon and eCommerce

▶ The e-com boom ushered in by Amazon has left no aspect of retail untouched, from real estate and transportation to consumer behavior and expectations

▶ Global e-commerce sales are set to top $4trillion by 2020

▶ Shopper browsing has increasingly shifted from the physical to the digital storefront – whether that is on a PC, a tablet or a mobile

2. The Customer-Centric Supply Chain

▶ Customers are demanding service though both physical and digital channels, though there is widespread disagreement among retailers as to what "omnichannel" means

▶ Retailers need to keep abreast of, and continually reevaluate, their supply chain capabilities to deliver product to consumers when, how and where they want it

▶ Far from being obsolete, physical stores have an important role to play in this "omnichannel" mix going forwards, for example as pick-up points

3. Demand Forecasting & Planning—The Master Key to a Healthy Supply Chain?

▶ Accurate forecasting underpins retailers' ability to meet omnichannel demand, by allowing them to get the right products in the right quantities to the right places

▶ Retail and FMCG supply chain departments can boost forecasting accuracy through data-sharing with other departments, such as marketing – for example, overstocking prior to a promotion and running promotions following and overstock

▶ The more real-time data retailers have regarding their own and their suppliers' distribution networks, the more agilely they can match supply to demand

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4. Complete Visibility—What Have We Got and Where Is It?

▶ Complete visibility over what you've got, where you've got it and how you can efficiently get it from A to B is critical for meeting omnichannel demand

▶ Inventory visibility does not just help retailers meet demand – it is also vital for FMCGs and manufacturers to keep on top of production schedules

▶ Robust data-sharing platforms connecting all players in the supply chain – retailers, 3PLs and suppliers – are a must-have for end-to-end supply chain optimization

5. What Does an Omnichannel Warehouse Look Like?

▶ The rapid growth of e-com has forced retailers to commit substantial investments to fulfilment centers and warehouse automation

▶ Some retailers maintain separate facilities for store replenishment and direct online fulfilment, while others merge these two silos into one all-purpose stock pool

▶ Bricks-and-mortar stores may also function as omnichannel warehouses, although issues may arise with cannibalization of in-store stock by online orders
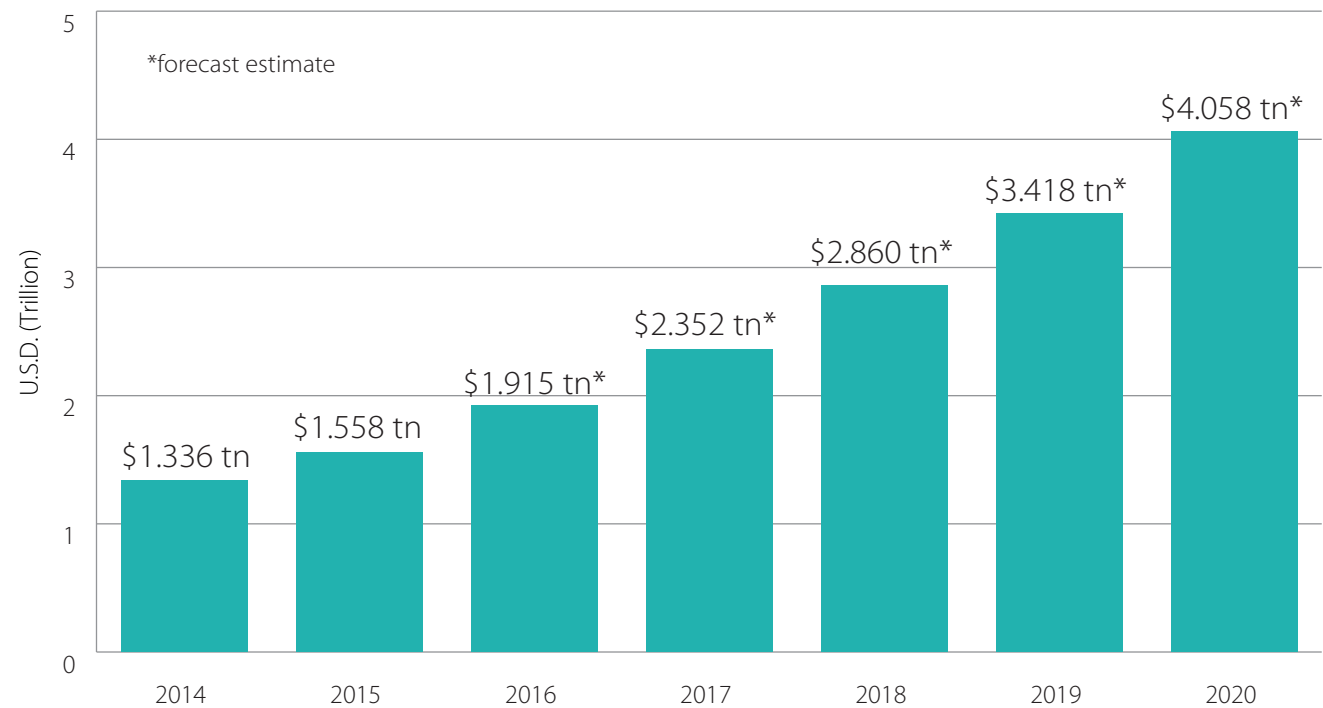
6. Reorganizing for the Future: Digitizing the Mindset

▶ In order to keep pace in the omnichannel age, retailers need to create new business structures, abolish internal silos and base decisions on cross-functional collaboration

▶ As retailers strive to keep pace with e-com giants such as Amazon, legacy mind sets are every bit as a big a hurdle to overcome as legacy systems

▶ Supply chain is on the brink of a data-driven turn, exemplified by the rise of technologies such as Artificial Intelligence (AI), analogous to what has happened in other digitized industries like financial services

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Digital technology is changing the world and the way we live in it at an astonishing pace—and that includes, of course, the way we buy and sell consumer products. "eCommerce is changing everything," says **Jim Tompkins, CEO of Tompkins International**. "I don't care if you're talking about real estate, transportation, if you're talking about retail customers or if you're talking about consumer products."

Shopping on the internet, whether via PC, tablet or the mobile phone, will dominate the retail industry for the foreseeable future. According to **Brett Goffin, Head of Retail at Google**, "Mall footsteps went from 40 billion during the holiday season of 2010 to 16 billion during the holiday season of 2015. The reason it wasn't such a huge deal is that sales increased. So, if footsteps are down and sales are up, why is that? Because the customer is more informed and there is no such thing as mall browsers anymore. All the mall browsing now occurs online."

Retail e-commerce sales worldwide from 2014 to 2020 (in trillion U.S. dollars)

*forecast estimate

- 2014: $1.336 tn
- 2015: $1.558 tn
- 2016: $1.915 tn*
- 2017: $2.352 tn*
- 2018: $2.860 tn*
- 2019: $3.418 tn*
- 2020: $4.058 tn*

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Net sales revenue of Amazon from 2004 to 2015 (in billion U.S. dollars)
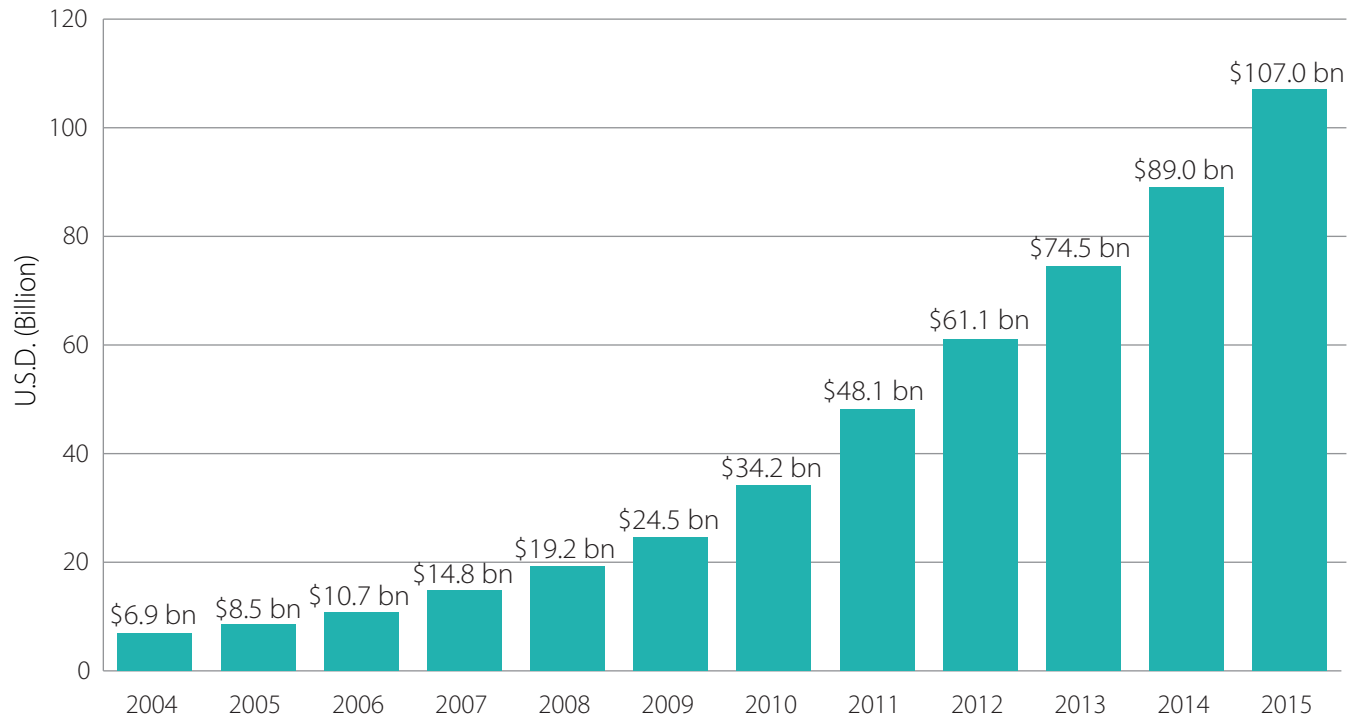
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By being the first, and still the best, company to leverage the internet and the digital devices that connect to it, Amazon has set a benchmark for how to incorporate the technology while transforming customer expectations of what makes the ideal shopping experience. The dramatic success of Jeff Bezos's company is forcing retailers to reconsider traditional strategies and adapt to a drastically changed playing field.

As Tompkins puts it: "How are we going to relate to this? How are we going to understand this? And what are the impacts of these disruptions?" He worries that retailers may not be taking the disruptions seriously enough and are therefore still slow to respond.

"I'm not sure that the retailers get the level of disruption or the level of transformation that's taking place in the workplace," he says. "Obviously they see some of it because they're very smart people, but they're so busy executing and so busy following what they've done for years, I'm not sure they get the store versus eCommerce thing. The level of transformation and disruption that's taking place is just phenomenal, so I don't think retailers are putting that all together and understanding:

things are really different, we need to conduct ourselves differently."

That means, today more than ever before, putting the customer first—and that means making the shopping experience a part of his and her digital lifestyle.

Key Takeaways

1. The e-com boom ushered in by Amazon has left no aspect of retail untouched, from real estate and transportation to consumer behavior and expectations.

2. Global e-commerce sales are set to top $4trillion by 2020.

3. Shopper browsing has increasingly shifted from the physical to the digital storefront – whether that is on a PC, a tablet or a mobile.

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The word *omnichannel*, for better or for worse, is on the lips of practically everyone in the retail industry today. The term was born in the digital age, as consumers discovered that the new technology offered them a variety of shopping, purchase and delivery paths. To best offer these options to the consumer, most retailers have restructured, are currently restructuring or are looking to restructure their behind-the-scenes architecture.

According to **John Munnelly, Head of Operations at the Magna Park Campus of John Lewis**, omnichannel is all about the customer experience. "There are many interpretations to what omnichannel can mean," he says. "My personal view is that it is trying to give the customer a seamless experience, and that seamless experience can take on many different forms. I think in its purest form it's the ability for our customer to trade either online or in a department store using a range of different applications—whether that's desktop, PC, actual transactions in a shop or mobile."

So, retailers can no longer be satisfied with simply giving customers what they want at the point of sale; they now have to provide the product when they want it and how and where they want to receive it. **Scott Spata, Vice President, Supply Chain, at the Home Depot**, said the complex system of supply chain logistics is set in motion with one simple question put to the customer: Do you want it delivered or do you want to pick it up?

"Everything after that question is behind the scenes," he says. "When you get behind the scenes for omnichannel, there's a lot of work, from IT to distributional logistics across the board. Because we have to source the product. It always starts with sourcing: Where is the inventory? How close is it to the consumer? And what's the fastest way to get it there based on the expectations you set at the point of sales?"

"When you get behind the scenes for omnichannel, there's a lot of work, from IT to distributional logistics across the board. Where is the inventory? How close is it to the consumer? And what's the fastest way to get it there based on the expectations you set at the point of sales?"

Scott Spata, VP Supply Chain, The Home Depot

Mike Passales, Former Vice President of Omnichannel Strategy at Target, says that customer expectations and choices largely determine his company's inventory positioning and replenishment strategies. "It's worth integrating our digital experience for a guest, from what they do when they engage online, to then making the choice between pickup in-store or shipping," he explains. "Does a customer expect fast two-day free receipt of goods or are they okay with four or five days with certain types of purchases? One of the things we're trying to get closer to right now is what are those guest mindsets. For us, it's how we are leveraging all our assets and inventory and having that in stock all the time."
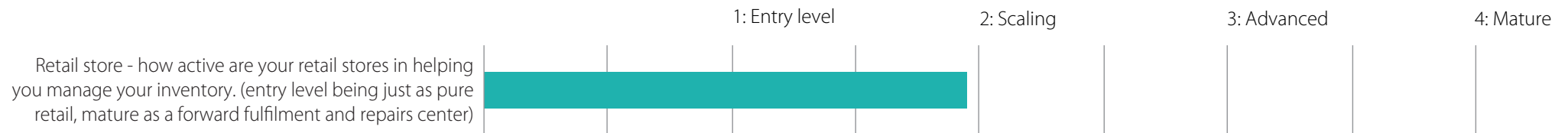
That involves a continuous re-evaluation of supply chain performance and examining shifts in what the customer wants and expects. "We have capabilities, whether it's same-day, in our store, or whether it's a next-day or two-day delivery from a DC, or whether it's a larger, bulkier good that may take a few more days," Spata says. "That customer experience starts with them telling us how they want to be serviced."

That requires the flexibility of being able to adapt the supply chain as customer expectations change. "We spend a lot of time in our delivery arena making sure those options are available to our customers on the biggest, broadest SKU depth online and that, in doing that, we're meeting those

needs," he explains. "So we try to understand that it's one thing when they place an order and we have to service it, but when are they placing the orders, what are those trends that we're seeing? How often are they choosing to pick it up in-store versus having it delivered to their home? And why are they choosing the options they choose? So that we can get into that customer experience, it's so important that we make sure that our capabilities are excelling to meet those needs."

It is important to remember, in this digital age, that real reality—as opposed to virtual reality—still plays an essential role in the customer experience, and this may be an important differentiator. This is why Google's Brett Goffin advises retailers not

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Maturity Ranking for Retailers from the Point of View of Utilizing their Retail Stores

	1: Entry level	2: Scaling	3: Advanced	4: Mature
Retail store - how active are your retail stores in helping you manage your inventory. (entry level being just as pure retail, mature as a forward fulfilment and repairs center)				

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to slavishly imitate Amazon's business model. "Amazon is a better pure play retailer than any other retailer," he says. "We are trying to convince retailers to leverage the assets they have that Amazon doesn't have, which is your stores, to think about the omnichannel experience rather than the pure play experience."

David Walmsley, Former Director of Marks & Spencer Digital, agrees. "Most purchases are still going to be picked up in a physical location," he says. "Whether they are paid for in that location or paid for online before the customer arrives is a pretty moot point. From the customer's point of view, they are going in the store to experience the brand and do some browsing or pick something up or go to the café or whatever it is. So most of the interaction between a customer and a brand will still happen in the physical space. I think home delivery has a part to play but it's a relatively small part. Sixty percent of M&S.com orders are collected in-store because people want a reason to come in-store. I think there is a massive role going forward for stores."

Home Depot's Spata also believes that stores will remain an essential part of the customer-centric

Uses of the Bricks-and-Mortar Retail Store beyond Making Purchases
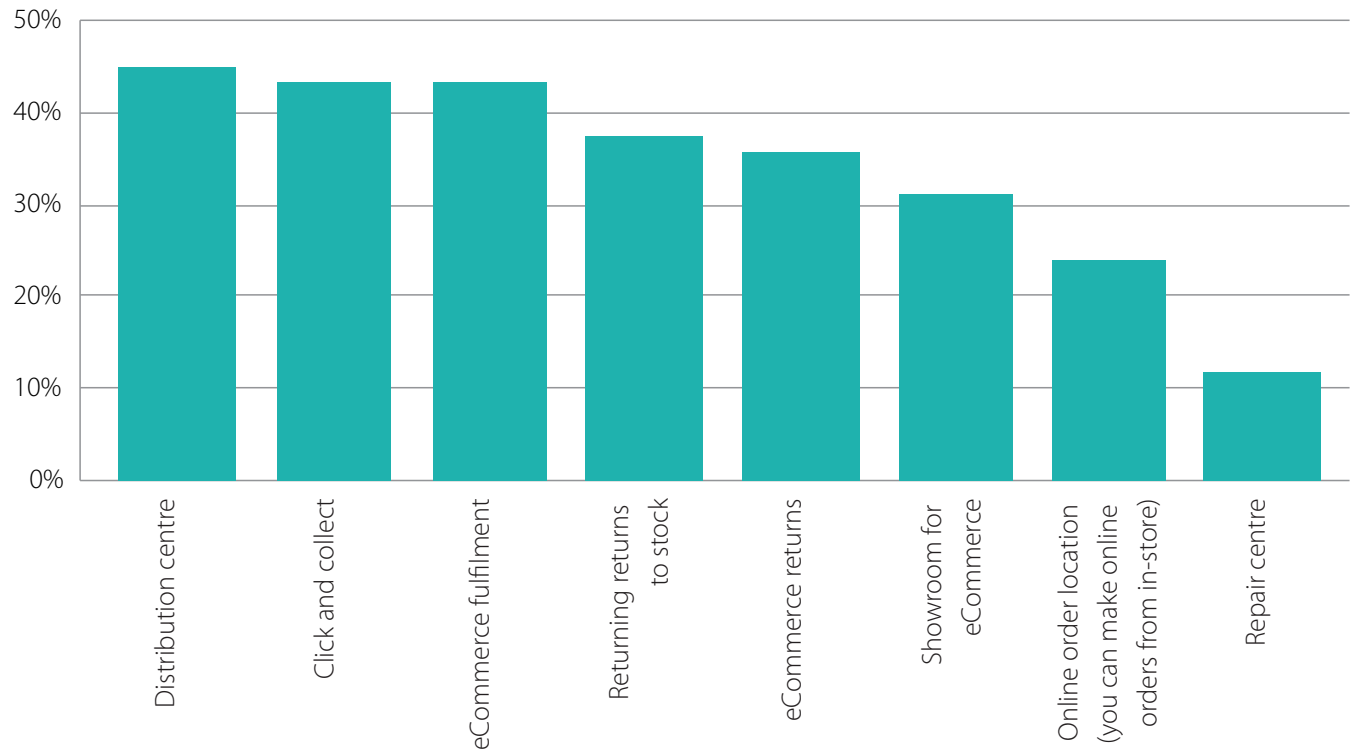
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"That system is our gatekeeper and our quarterback for where inventory is in our channels at any given moment and time"

Bryan Eshelman, COO, Aldo

supply chain in retail for some time to come. As he explains, "More than 40% of the orders that originate online for us at Home Depot actually land in our store. So not just are we delivering that experience to the customer, but most of our customer shopping experiences lead to our stores, whether it's buy online, pick-up-in-store, or whether it's buy online and we ship to store, whether it's from our distribution network or from our vendor network."

Having oversight of the supply chain is vital for the in-store experience as well, because the retailer needs to know where a specific product is at all times. To deal with that issue, Aldo Group has put in place an order management system from IBM Sterling OMS, says **Bryan Eshelman, COO at Aldo Group**. "That system is our gatekeeper and our

quarterback for where inventory is in our channels at any given moment and time," he explains. "It knows our store-level inventory situation down to the SKU, stock, colour, size level, and also what's in our distribution centres, so it makes the decision about where best to fulfil an order from if that order comes from the desktop website, from our mobile app or from a store associate who is helping to fulfil a specific size for a customer that's standing in front of them in a store that they don't happen to have in stock. So we use that system really as a method of tracking and leveraging all that inventory across all of our channels."

Eshelman notes that customer expectations of product availability have changed in the digital age and that a consumer coming to an Aldo store today will no longer be satisfied by having a pair of shoes not available in the store in her size shipped for free to her home, as had been the case only a few years ago. "The bar has been raised and it raises a lot of questions about the inventory you put in a store, and you try to customize that to the location, so we don't disappoint her," he says.

To make the supply chain truly customer-centric in this increasingly digital retail world,

Key Takeaways

1. Customers are demanding service though both physical and digital channels, though there is widespread disagreement among retailers as to what "omnichannel" means.

2. Retailers need to keep abreast of, and continually reevaluate, their supply chain capabilities to deliver product to consumers when, how and where they want it.

3. Far from being obsolete, physical stores have an important role to play in this "omnichannel" mix going forwards, for example as pick-up points.

retailers need partners more than ever before. And to simplify the increasingly complex supply chain, Spata says, relationships with vendors have to change substantially, to what he called "true vendor collaboration."

"In my view, an excellent forecast is really the heartbeat of a business. If you're able to do a worldclass job there—at the store level, at the DC level, up to your vendors—there's a massive amount of value to be had."

Chris Baker, Partner, Oliver Wyman

This collaboration is particularly important in the vital area of demand planning, which **Chris Baker, Partner at Oliver Wyman**, describes as "what do I have and what do I need?" As simple as that question is, finding the answer is far from obvious, given the growing complexity of the supply chain. "In my view, an excellent forecast is really the heartbeat of a business," Baker goes on to say. "If

you're able to do a world-class job there—at the store level, at the DC level, up to your vendors— there's a massive amount of value to be had."

But demand planning is impossible to get 100% right. As **Mark Thibodeau, former Senior Director of Inventory for CVS Health**, puts it, "We expect ourselves, as leaders in supply chain, to be able to predict the future. It's just insane. To me, the key question is, how are you organized around reducing uncertainty, for yourself and your team, in each step of the supply chain."

Often, in some industries, particularly in fashion, uncertainty is impossible to reduce, admits **Guy Meisl, European Supply Chain Director at Deckers Brands**. "In Europe, we had the warmest, wettest winter on record," he recounts. "I sell cold-weather boots. That's a problem. We forecast what we absolutely expected to sell, but we were hit by the first combination of that weather pattern in 47 years. So, our forecast this year: rubbish."

"In Europe we had the warmest, wettest winter on record. I sell cold-weather boots. That's a problem. We forecast what we absolutely expected to sell, but we were hit by the first combination of that weather pattern in 47 years. So, our forecast this year: rubbish."

Guy Meisl, Supply Chain Director, Deckers Brands

Thibodeau agrees that forecasting is flawed but nonetheless necessary. "I've never seen anything accurate when you're looking at the future," he says. "That doesn't mean you don't forecast." He adds that there are several ways to reduce the
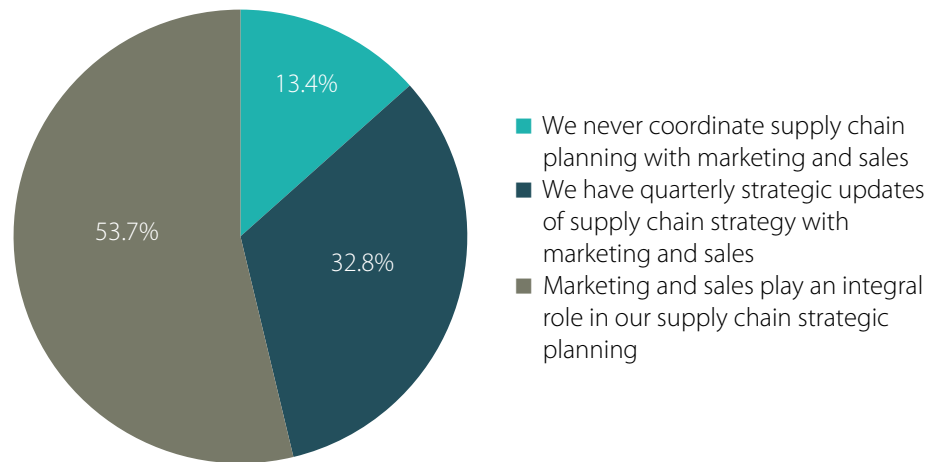
uncertainty in predicting what's going to happen in a week or a month, and one of them is data.

David Walmsley agrees that data analytics is key to forecasting demand. "You are forecasting for a physical business which is growing at a certain rate and then you're forecasting for a digital business that is growing at an exponential rate. And that is a fundamental challenge in most organizations, whether retail or not."

Most organizations, he explains, follow where the volume is, rather than where the growth is— and it is this that could help the business change its focus and understand the growth trajectory while filling in missed demands. "For example, a buyer might look at trousers and say let's do +10 or +15% on the year," he says. "But if you are missing 30% of the demand from the previous year, if the stock wasn't there, then you're actually looking at a business that can be growing at 40 to 45%."

Walmsley insists that this is essential to helping demand planners do their jobs far more effectively. "Giving people the confidence to make those kinds of assumptions is fundamental in a business where their jobs are going to be tied to them getting their math right or wrong."

Extent to which Retailers Coordinate SCM with Marketing and Sales Departments

- ■ We never coordinate supply chain planning with marketing and sales
- ■ We have quarterly strategic updates of supply chain strategy with marketing and sales
- ■ Marketing and sales play an integral role in our supply chain strategic planning

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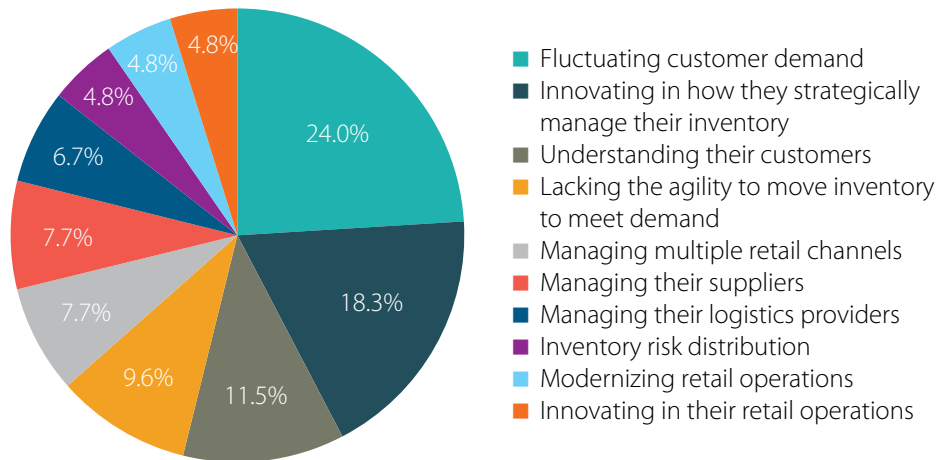
David Walmsley, Former Director Digital, M&S

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At the same time, traditional retail data, such as cost of item sold, shipments, receipts, inventory, turn, remain important to demand forecasts. "That drives your purchases," Thibodeau says. "Because the receipts are your purchases. Part of what I call reducing uncertainty is having that in place."

Replenishment should not, however, be based solely on a demand forecast, Meisl says. He recommends "a holistic grabbing of information from all your business". He explains: "So are your marketing team about to do something clever that they've forgotten to mention to the merchandising team? Is there a scenario where a particular line of your product has been featured on a television program, been featured on a particular blog that has attracted huge attention, huge number of hits on the website, and you need to take that into account. So, actually, I'm not replenishing just to twice last week's sales, but I'm replenishing to twice last week's sales plus 5,000 tweets, 50,000 tweets, half a million tweets."

In addition to collaboration, Meisl suggests another quality that could compensate for the uncertainty in demand planning: agility. "Access to data is the key," he says. "It would be phenomenal

Extent to which Retailers Coordinate SCM with Marketing and Sales Departments

Pie chart segments:
- Fluctuating customer demand — 24.0%
- Innovating in how they strategically manage their inventory — 18.3%
- Understanding their customers — 11.5%
- Lacking the agility to move inventory to meet demand — 9.6%
- Managing multiple retail channels — 7.7%
- Managing their suppliers — 7.7%
- Managing their logistics providers — 6.7%
- Inventory risk distribution — 4.8%
- Modernizing retail operations — 4.8%
- Innovating in their retail operations — 4.8%

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"Are your marketing team about to do something clever that they've forgotten to mention to the merchandising team? Maybe I'm not replenishing just to twice last week's sales, but to twice last week's sales plus half a million tweets."

Guy Meisl, Director Supply Chain, Deckers Brands

"By analyzing Google's search demand data and what questions are most often Googled about, retailers can also identify product trends and understand customer behavior, even as it is changing."

Brett Goffin, Head of Retail, Google

if, at the point the product was about to leave the factory, or even when it was on the boat, I could say, 'Don't deliver that to L.A.; deliver it to Rotterdam. Don't deliver it to Rotterdam; deliver it to New York.'" He cites a conversation he had with an employee of HP, who said they had taken that agility one step farther by being able to redirect product, in case of bad forecasting, to the place where it would generate the most margin. "So it's even smarter than saying, 'Oh, we can sell it here'. We can sell it *for the most money* here.' That offsets any challenges you have about forecasting."

Thibodeau recounts an example from his experience at CVS about how real-time data can provide such agility. His team discovered data on a spike in the number of people searching for cold symptoms on Google in several regions in the U.S. "Two weeks later I saw the sales in those regions, and they had increased," he says. "It wasn't that we were concerned about being accurate on the forecasts, but when we saw something was happening, what was causing it—that reduces uncertainty."

In addition to spotting one-off trends, Google's Brett Goffin says that by analyzing Google's search demand data (such as what type of hoodies are the most popular; answer: hoodies with a zip lock), what questions are most often Googled about, say, leather clothing (answer: how to clean it), retailers can also identify product trends and understand customer behavior, even as it is changing.
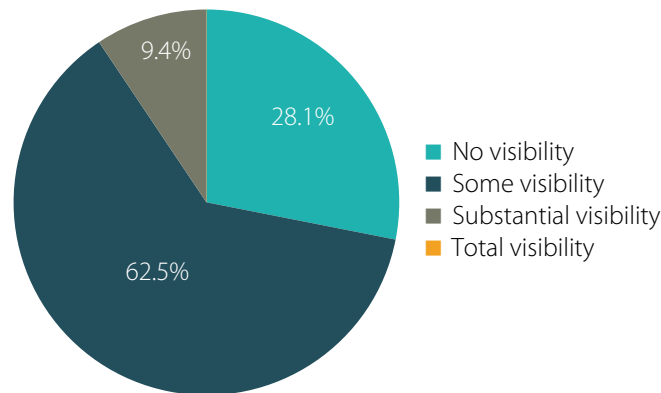
Key Takeaways

1. Accurate forecasting underpins retailers' ability to meet omnichannel demand, by allowing them to get the right products in the right quantities to the right places.

2. Retail and FMCG supply chain departments can boost forecasting accuracy through data-sharing with other departments, such as marketing – for example, overstocking prior to a promotion and running promotions following and overstock.

3. The more real-time data retailers have regarding their own and their suppliers' distribution networks, the more agilely they can match supply to demand.

"Visibility has never been so important as it is today," says Meisl of Deckers Brands. "Knowing what you've got, where you've got it and knowing how you can efficiently get it from one place to another is absolutely critical."
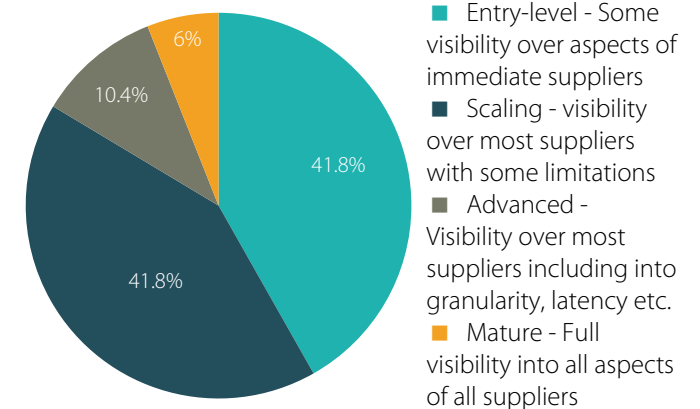
Not only does visibility help every area of a business stay informed about product availability, but it also a necessary aspect of Spata's "true collaboration" among all parties on the supply chain. To make this point, he gives a hypothetical example in which instead of purchasing three truckloads of goods once a week, he now seeks to purchase three-quarters of a truckload every day. "They [the vendors] like it better because they have a stable number of units they ship. And it's easier for us to manage the inventory. And it's better for transportation because you know how many trucks you need."

Visibility Level of Suppliers into the Supply Chains of the Retailers that they Serve

28.1%

9.4%

62.5%

- No visibility
- Some visibility
- Substantial visibility
- Total visibility

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Visibility Level of Retailers into their Suppliers

6%

10.4%

41.8%

41.8%

- Entry-level - Some visibility over aspects of immediate suppliers
- Scaling - visibility over most suppliers with some limitations
- Advanced - Visibility over most suppliers including into granularity, latency etc.
- Mature - Full visibility into all aspects of all suppliers

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"We're basically doubling our business in the next four years and the only way we can do that is with partners that can deliver"

Sergio Villalobos, Director Global 3PL Strategy, Nike

This requires a big effort, Spata says. "You have to go back to the data science that you need, to calculate production times by vendors, lead times by vendors in all the lanes you need to get to all your distribution points. Then you want to engineer that to where they know they're going to get an order like this, they know their window for the truck pickup is like that and that the window from pickup to delivery is set to almost within hours. We liken it to an airport: the planes come in, you know when you're supposed to load, and things go out."

Sergio Villalobos, Director of Global 3PL Strategy for Nike, agrees, saying that Nike's bold near-term expansion plans will rely very heavily on the visibility that only a close relationship with suppliers and 3PLs can bring. "We're basically

doubling our business in the next four years and the only way we can do that is with partners that can deliver, for example, a 1-to-20 deliveries ratio during peak. I don't think it's only about metrics. Bringing 3PLs into our strategic discussions so they have visibility on what we are trying to build—so they can either invest with us or find ways of doing that—that's the only way to build that relationship."

Steve Matthews, Practice Director for Internet of Things at Teradata, cites Amazon as a model of how access to data and analytics for all parties along the supply chain can optimize the customer experience. "Amazon recognized that in order to get an effective supply chain of product to customers they needed an equally effective supply chain going the other way, turning data into information and sharing it with their suppliers in order to optimize the experience for the customer."

Teradata's Retail Business Consulting Director, Leslie Dinham, says it is important for a retailer to be able to share not only current inventory and sales but their demand forecast, "so you can take the data all the way – how the retailer is planning to take the products going forward so that the supplier can plan for their production. It helps

"Suppliers want a relationship where they can see into the future, so they don't have to hunt you every season, they don't have to keep massaging that relationship to get business. They want insight into your plans, they want insight into what you want"

Rajiv Malik, Former VP Operations, GAP

them, so they produce the right amount. And by sharing the data, the retailer can understand when the product's going to be available."

One aspect of this visibility would be for the retailer to also share customer information with the supplier, she adds, such as the type of customer purchasing the product and what the retailer foresees as gaps in the assortment, "based on customer information that a retailer has and that a supplier is completely blind to."

Rajiv Malik, former Vice President, Operations, at Gap Inc., shares that opinion. "Suppliers want

a relationship where they can see into the future, so they don't have to hunt you every season, they don't have to keep massaging that relationship to get business," he says. "They want insight into your plans, they want insight into what you want."

Ideally, supply chain visibility would be provided by a single data system, or business analytical platform, accessible to all relevant parties so they can see all the data relevant to their function along the supply chain—for example, where the orders are in real time, if the products have been delivered to the store and the status and location of products in transit.

As Teradata's Matthews puts it, "There's a lot going on when things are on a truck, when product is being transported. You can learn, through monitoring, through sensors, what is happening on that truck. You don't often own this entire supply chain in most cases. Sharing that data optimizes the supply chain."

Drew McElroy, Co-Founder and CEO of Transfix, said his freight logistics company relies very heavily on technology, especially mobile. "We get to ride along in the cab with every single driver on every single shipment," he explained. "The

"Every facility that we deliver to has geo-fencing. So I can tell you the in and out time of every single shipment."

Drew McElroy, Co-Founder & CEO, Transfix

things that we can leverage out of that data and out of that sort of hook I think are considerably different from more traditional companies."

Having mobile access to each of the trucks gives the company—and its customers—visibility, he says, "the ability to know where everything is and how long its projected to take to get to where it's going. That allows for management by exception. The minute it's not where it's supposed to be or starts to fall behind schedule, we're able to proactively attack that problem before it manifests itself into something much worse."

In addition, mobile technology provides visibility of the driver's performance. "The ability to mitigate risk amongst the driver and carrier community because of data is pretty darn strong," he explains. "Now we have a new way of scorecarding drivers.

We can tell you who speeds, who brakes too hard, and who corners too fast." In addition, the data delivered by the mobile phones allows visibility of shipment departure and delivery times. "Every facility that we deliver to has geo-fencing," McElroy explains. "So I can tell you the in and out time of every single shipment."

Key Takeaways

1. Complete visibility over what you've got, where you've got it and how you can efficiently get it from A to B is critical for meeting omnichannel demand.

2. Inventory visibility does not just help retailers meet demand – it is also vital for FMCGs and manufacturers to keep on top of production schedules.

3. Robust data-sharing platforms connecting all players in the supply chain – retailers, 3PLs and suppliers – are a must-have for end-to-end supply chain optimization.

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For Munnelly of John Lewis, the startling growth of online retail business has forced retailers to expand, reconfigure and, in many cases, automate their warehouses, as was the case with his company. "We set up back in 2005, with the original aspect to accommodate department stores. That's obviously moved hugely to accommodating the online business," he says. "We've moved up from a footprint of circa 400,000 square feet, [to] just over 2 million square feet. The campus is now fully automated; we spent a small fortune on mechanization to ensure that we remain efficient and are able to expedite customer orders as soon as possible. And we have prided ourselves on increasing the capacity and capability each and every year. So the real challenge we've had here is this annual increase in demand and having to accommodate the additional mechanization each year."

Jeff Girard, Senior Vice President, Logistics, at DSW Inc., agrees that eCommerce has put a strain

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Jeff Girard, SVP Logistics, DSW

on warehouse efficiency. "As there's a shift to more and more people purchasing online," he says, "it's putting a stress on the workforce, on the people that work in DCs and FCs, and automation can certainly help out with that."

A survey cited by **Onur Uranli, Global Director of Strategic Marketing at Sealed Air**, underscores how changing customer expectations are increasing pressure on retailers to upgrade their

"We no longer have to accommodate a larger stock holding to accommodate the availability of both channels, so customers and department stores are served on a first-come, first-serve basis"

John Munnelly, Head of Operations, John Lewis

warehouse and distribution capabilities. The survey was commissioned by Sealed Air in 2015 and involved some 2,400 consumers between the ages of 18 and 34. "Up to 80% of the respondents expect their online orders to be fulfilled within less than 24 hours," he says. "That puts a lot of pressure on the retailers and the brand owners to make sure that their fulfilment centers or distribution centers are equipped with fully automated systems so they can keep up with that demand."

In addition to automation, John Lewis's solution to omnichannel demands, Munnelly explains, is to use a single pool of stock to serve all of its

channels, the Magna Park Campus. "We no longer have to accommodate a larger stock holding to accommodate the availability of both channels, so customers and department stores are served on a first-come, first-serve basis. The ambition obviously across the whole of our channels—and we have about 350,000 products on sale across our estate—is to enable that single pool of stock to be applicable in each of the different areas."

The decision not to fulfill from its stores has made the task easier, Munnelly adds, noting that there are two reasons for this strategy. "Firstly, I think we have an amazing facility here at Magna Park that does that quite amicably and incredibly efficiently. Secondly, there is an ongoing conflict with the in-store inventory. I'll give you an example, a customer takes the time to jump in their car or on a local transport to arrive at the department store, browses and shops at their leisure only to find out that the product they were just about to put their hands on has been taken by somebody taking and picking it up for a home delivery order."

Girard, on the other hand, says that DSW has a decentralized shipping strategy. "We ship any online orders directly out of our fulfilment center

and out of all of our stores. We do not ship out of our distribution center direct to consumer."

He explains that DSW wanted to combine the fulfilment center and its distribution center in its existing distribution facility when it launched its dotcom business, "but we realized it was not going to work [because] we were going to outgrow the distribution facility on its own. It was a scale thing. It was also that, back in 2007, we weren't sure if people were going to buy shoes online. So we didn't want to be distracted by it."

Girard says that once the company saw online would be successful, it decided to own the distribution capacity. "So we entered into a partnership with a third party that manages it, but it's our facility and equipment."

For **Seth Beardsley, Senior Director, Supply Chain, at Lacoste**, total visibility and collaboration are key to efficient omnichannel distribution. "It's even more important, if you are leading the supply chain, to be involved in all aspects of your business," he says. "You have to knock down the silos or your distribution center will fail at the omnichannel distribution—especially when you bring the eCommerce customer on board—

because the decisions made on the business side and the way the customers react to it is lightning compared to B2B."

He says that while Lacoste's warehousing is a 3PL, like DSW, his company owns "all of the systems and the systems that manage the material-handling equipment. The team that runs the warehouse manages the people." This requires a close collaboration because, as Beardley says, "if we don't give them up-to-date information on daily plans, promotions, it really hurts us in the long run."

Key Takeaways

1. The rapid growth of e-com has forced retailers to commit substantial investments to fulfilment centers and warehouse automation.

2. Some retailers maintain separate facilities for store replenishment and direct online fulfilment, while others merge these two silos into one all-purpose stock pool.

3. Bricks-and-mortar stores may also function as omnichannel warehouses, although issues may arise with cannibalization of in-store stock by online orders.

It's a cliché to say that the future is already here—but it's true. And the future is eCommerce. With its astonishing success, Amazon has set the bar very high for leveraging digital technology to provide a seamless customer experience. Retailers are now struggling to catch up, while at the same time looking how best to integrate the technology in their existing business in a way that benefits all the channels. This means, inevitably, putting in place a new business structure, preferably around a single data platform, where everyone in the company and on the supply chain—vendors, suppliers, 3PLs—are literally on the same page.

David Walmsley says that putting everyone on the same page will be vital to future success. "I think the end-to-end planning piece is fundamental," he says. "You need to be able to link together your customer view with your commercial view with your stock view. Every week I've got a key touch point, where I bring in together the digital team, the buying team, the supply chain team. That joining point in planning is fundamental to our success."

And, he says, ultimately this collaboration will be based on technology. "I think artificial intelligence should be the big game changer for all of us. Retail is going to go through the same revolution financial services went through 15 years ago. Fintech has completely changed the DNA of the financial markets. I think retail is moving from this head vs. heart split to something that's a lot more led by the head. Heart and creativity is a fundamental piece to retail, but I think we need to be a lot more scientific in terms of how we run our businesses. That's the bigger challenge."

As DSW's Jeff Girard cautions, this is not an easy task. "What we struggled with early on, when we knew we were going down this path is, do you develop the systems first and then change the organization or do you change the organization

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David Walmsley, Former Director Global Digital, M&S

first and then develop the systems?" he explains. "There are downsides to both. Either way you go, you are going to have some rocky road. We decided to change our organizational structure first."

"It's easy to paint a picture, philosophically, of, Hey, I want one master data management for point of sale, from sourcing all the way to guest. I think everybody gets that. Building that architecture when you're currently running, while you're trying to transform that data, that's really hard."

Mike Passales, Former VP Omnichannel, Target

He goes on to say that his company originally had a completely separate buying group and a completely separate planning group for its online business. Even the name of a shoe sold online was different from the name of the same shoe the company had in its stores. This created a number of difficulties, such as buyers having to deal with two separate reports. "So we changed the organizational structure and made it one," he says.

"And then we went down the path of changing the systems. That was probably the best move we ever made, because we got the organizational buy-in real early on and then everybody was behind getting the systems change to support what we needed to do."

Target's Mike Passales says that a lot of companies, having initially hesitated, are now playing catch-up in trying to integrate digital technology into their supply chain. And they are now running into problems because it's a tough execution. "It's easy to paint a picture, philosophically, of, Hey, I want one master data management for point of sale, from sourcing all the way to guest. I think everybody gets that. Building that architecture when you're currently running, while you're trying to transform that data, that's really hard."

One major difficulty are the employees and managers who have worked with a certain

"The systems are the easiest thing to change; it's the people that's the hard thing to deal with"

"Do you layer systems on top of old systems rather than rip it all out? Do you build or buy? People are starting to understand that they need to move into this world, but you get a little stuck in figuring out how to move into that world"

Jeff Girard, SVP Logistics, DSW

mindset for years and must now adapt to a new structure and new rules. As Girard puts it: "The systems are the easiest thing to change; it's the people that's the hard thing to deal with." He says that there were people at DSW who adapted early, others who lagged behind a bit but caught up and still others in the company who lagged far behind the change. "You have to deal appropriately with all the responses," he says. "So we had a couple of people from the HR team specifically assigned to manage all of the change."

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The burden of legacy systems and thinking is a difficult hurdle to overcome, Rajiv Malik agrees. "There is change management involved. And it's expensive."

According to **Pooja Agarwal, Vice President of Operations at Birchbox**, many people are simply confused about how to go about it. "Do you layer systems on top of old systems rather than rip it all out? Do you build or buy? People are starting to understand that they need to move into this world, but you get a little stuck in figuring out how to move into that world."

This becomes especially challenging if you are successful, says Passales. "When you're already established in 1,000 stores, 1,800 stores, a $75 billion company, there's a lot of goodness you already have, so you have to be careful not to mess up that equation, because if you change it so much, you may be taking away the things that are good."

But, according to Jim Tompkins, the disruption digital technology continues to produce means that being good is no longer good enough if a business wants to remain competitive. "Let's say you have a successful company that has done

"It doesn't need to be perfect. Getting 80% of the solution in 10 weeks is way better than getting 100% in two years. You have to take some bold bets. And you're not always going to be right."

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continuous improvement. It grows and it has more success, and that's a marvelous story," he says. "However, if there's a disruption in product or service, and your competition comes out with something different from what you're doing, if what you do is continuous improvement, you will fail, you will not be successful because continuous improvement does not allow you to deal with that level of disruption. To deal with that level of disruption, you need to transform yourself."

Passales also insists that the change to digital and a single data platform is necessary—and inevitable. And the reorganization must be collaborative. "We know what our business requirements are and what we want it to look like," he explains. "It's important for operating and product teams to sit down together and align on those business requirements and allow them and the people who are in data and who build those architectures to help you find out what that master data management structure looks like."

This vision must be shared and visible to all parties, he insists, "because it has to scale across all your channels, all your devices, to provide everything your guest needs for visibility and also for yourself. You need to understand operating health and reporting for your businesses, you need to understand where your loss is and where your opportunities are. Without a data foundation, it's really tough."

It may be that some retailers will be moved to change only when their bottom line tells them that they are falling behind. "When you're winning, you're less interested in taking more risk," Passales says. "Once you start getting challenged and it doesn't feel like you're winning as much, or you're losing, it's amazing what that does to your risk

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equation. It doesn't need to be perfect. Getting 80% of the solution in 10 weeks is way better than getting 100% in two years. We want to be a growth company, and we want to accelerate, so you have to take some bold bets. And you're not always going to be right."

Key Takeaways

1. In order to keep pace in the omnichannel age, retailers need to create new business structures, abolish internal silos and base decisions on cross-functional collaboration.

2. As retailers strive to keep pace with e-com giants such as Amazon, legacy mind sets are every bit as a big a hurdle to overcome as legacy systems.

3. Supply chain is on the brink of a data-driven turn, exemplified by the rise of technologies such as Artificial Intelligence (AI), analogous to what has happened in other digitized industries like financial services.

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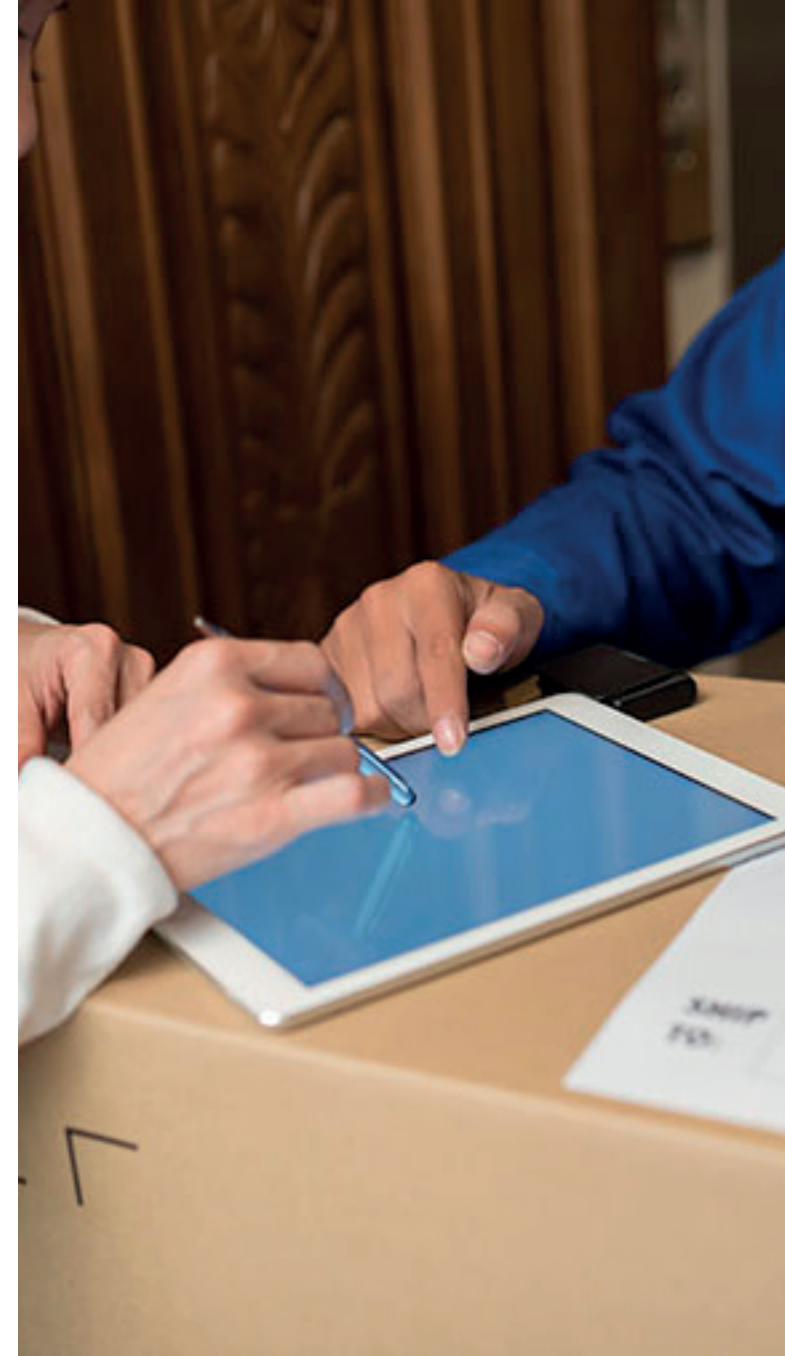
1. Retailers, even those running successful businesses, must understand the disruption that is currently transforming the industry, particularly how it has changed, and continues to change, consumer expectations and demands.

2. Retailers need to adapt their supply chain to those consumer expectations by offering a variety of shipping and delivery options. To achieve this, the digital consumer's mindset should be continuously evaluated and updated.

3. Stores will remain important in the digital age. While Amazon has set the benchmark for eCommerce, it should not serve as a model to be slavishly imitated by other companies. It is important that retailers also leverage their bricks-and-mortar assets, to provide a true omnichannel experience.

4. To offer an optimal customer-centric service, retailers need to simplify the increasingly complex supply chain. This requires closer relationships with vendors, what one retail executive calls "true vendor collaboration".

5. Flexibility and real-time data can compensate for the inherent imperfections of demand planning. Analyzing the search data of a search engine such as Google can keep retailers alert to changing buying patterns and consumer tastes.

6. Product visibility is more important than ever before. And the location and quantity of the products should be visible to everyone on the supply chain—retailer, vendor and 3PL. This also means that retailers need to make available to suppliers such customer information as what type of consumer is buying the product. The most efficient means of creating that visibility is a single data platform.

7. Because of the strain eCommerce is putting on inventory storage, the omnichannel warehouse will need to be automated.

8. Incorporating digital technology into a running business is not easy. Not everyone will feel comfortable with the changes. A concerted effort must be made to overcome legacy systems and mindsets.

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Final remarks from eft

"With distribution moving from the backroom to become, increasingly, a key competitive differentiator for consumers, the industry needs to commit to addressing supply-chain challenges holistically and collaboratively, through the abolition of silos and tighter collaboration between retailers and their supply/distribution networks.

Retailers have long been struggling with what it means to do business in an 'omnichannel' world and the D3 Retail Summit serves as a rallying point where they can meet peers and network with global brands, 3PLs and tech players."

Please feel free to get in touch about our research or the D3: Dynamic Distribution Disruption - Retail Summit on the details below.

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We have podcast interviews on audio for all contributors to this Whitepaper. These podcasts can be made available to you on request. **Contact Priyanka on the details above for more information**

2nd Annual D3: Dynamic Distribution Disruption – Retail Summit 2017
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Speakers involved in 2017 include the below +30 more:

Alexis DePree, VP Global Customer Fulfilment, Amazon

Ratnakar Lavu, CTO & CIO, Kohls

Scott Spata, VP Supply Chain, The Home Depot

Bryan Eshelman, COO, Aldo Group

Jeff Girard, SVP Logistics, DSW

Mike Griswold, VP Retail Research, Gartner

Don La France, SVP Supply Chain Technology, 1800flowers

Pooja Agarwal, VP Operations, Birchbox

Topics Addressed at The Summit in 2017:

1. Real-time inventory visibility
2. Demand Forecasting & planning
3. Inventory Allocation & replenishment
4. Store as a distribution node
5. Omnichannel warehouses & DCs
6. Network optimization
7. 3PL, 4PL, freight forwarder strategy
8. Supplier relationships
9. Final-mile and same-day delivery
10. Cross-border eCommerce
11. Tech transformation supply chain
12. Organizational shake-up to align incentives

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