

Omnichannel Update

Bryant University's
**7TH ANNUAL SUPPLY CHAIN
MANAGEMENT SUMMIT**

Thursday, August 21



James Cooke



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Protean Supply Chains & the Omnichannel Dilemma



TODAY'S PRESENTATION

- Discussion of Trends Driving Changes in Supply Chain Management
- The Financial Imperative:
 - Minimize Inventory & Free-up Working Capital
- The Retail Landscape:
 - e-Commerce & the Amazon Threat
- The Omnichannel Response & Strategy
 - Challenges & Issues
 - Current Research
- Future Outlook & Predictions

The Big Picture of Supply Chains

- ◆ Companies are developing “protean” supply chains with the capabilities for rapid response to volatile changes in the marketplace
- ◆ After the 2007 – 2010 “Great Recession” companies want to maintain minimal inventory to free up working capital and drive up profits/shareholder returns
- ◆ Companies want to create “Demand-driven” supply chains, using demand signals rather than forecasts to drive production and replenishment

Definitions

- ◆ **E-commerce:** Goods sold through a web site.
- ◆ **Multi-channel:** Goods sold through multiple channels – i.e. direct sales, distributors, and e-commerce.
- ◆ **Omni-channel:** A special form of multi-channel practiced by retailers who sell goods through both stores and over the Internet.
 - Omni-channel retailing is based on providing consumers with a wider variety of buying and fulfillment options, many of which leverage the store in new ways.

Amazon: Key Driver of these Initiatives

Amazon

- ◆ \$74.5 Billion in revenues in 2013
- ◆ Forgoing profits, investing heavily in new DCs
- ◆ Amazon Prime
- ◆ Experimenting with Same-day Deliveries



Responding to the Amazon threat

- ◆ **Omnichannel distribution strategy:**
 - A counterattack against Amazon by retailers
- ◆ **Most stores – particularly U.S. - want to set up a common pool of inventory for stores and DCS**

Our Research: Omnichannel Strategy Drivers

Reasons for Practicing Omni-channel	Percent
Increase sales	77.9%
Increase market share	73.0%
Improve customer loyalty	69.7%
Increase margins	37.7%
Decrease mark downs	32.0%
Preserve market share	32.0%
Improve ability to rebalance inventory	30.3%
Learn more about our customers	24.6%
Decrease capital expenditures in building new e-fulfillment warehouses	19.7%

86.9% Saw Omnichannel as a Strategic Initiative

But What Path Forward?

Omni-channel Capabilities Currently Supported	Percent
Return to store, even when goods are ordered online	72.6%
Order at store, fulfill from warehouse	68.5%
Order online and pick-up in stores	53.3%
Pick orders at store for home delivery	43.1%
Order at store, fulfill from another store	35.6%
Parcel return, even when goods were bought in a store	35.6%
Order online and pick-up at a location other than your stores	13.7%

Omnichannel can be Operationalized in Different Ways

Developing the Business Case

Do you understand what it costs to fulfill omni-channel orders?	Percent
The costs of each picking by SKU or product class in an e-commerce DC	78%
Transportation costs by SKU or product class for deliveries from an e-commerce DC	70%
Value added services associated with e-commerce orders at a DC	59%
Transportation costs by SKU or product class for deliveries from a store	57%
The costs of returns, by product, for omni-channel orders	49%
The costs of each picking by SKU or product class in the back room of a store	38%
The costs of each picking by SKU or product class in the front of the store	29%
VAS associated with store pick-ups or home deliveries fulfilled from the store	27%

Retailers Hampered by Poor Cost to Serve Data

In Store Picking

What is the shortest pickup time you will promise for an order placed online, but picked up in the store?	Percent
Less than an hour	10.6%
One to two hours	15.2%
Two to four hours	16.7%
Orders placed in the morning can be picked up in late afternoon	9.1%
Orders placed one day can be picked up the next day	42.4%
Longer than two days	4.5%
Depends upon availability or product	1.5%

Buy Online/Pick-up at Store Leads to Faster Lead Times and Eliminates Delivery Fees

The Downside to Picking at the Store?

Store Inventory Accuracy Levels	Overall	Slot Level Front of Store	Slot Level Back of Store
98 percent and above	30.2%	23.2%	31.9%
95-97.9 percent	32.3%	30.4%	20.3%
90-94.9 percent	14.6%	13.0%	8.7%
Below 90 percent	16.7%	13.0%	10.1%
We don't measure this	6.3%	20.3%	29.0%

**Appallingly Bad Inventory Accuracy
At Store Level, especially
when compared to DC!**

Inventory Accuracy Depends on AutoID

What forms of AutoID do you use to help insure inventory accuracy at the store level?	Percent
At Point of Sale	45.9%
Traditional barcode scanning for the store floor or back room	62.4%
Smart phone barcode scanning for the store floor or back room	4.7%
RFID	8.2%
None or I don't know	20.0%

**Front of Store Picking Can't Rival
Back of Store Picking for Accuracy!**

Using the Store to Compete on Speed

Guaranteed Lead Times for home deliveries made from a store location	Percent
4 hours	6.4%
Same day	21.3%
Next day	34.0%
Two days	21.3%
Three days or more	17.0%

These Performance Levels put traditional retailers at an IMMEDIATE disadvantage to Amazon?

Methods of home delivery

How are goods shipped to your customer	Percent
Parcel	80%
Drop shipped by partners	51%
3PL Delivery partners	43%
Courier	31%
Store fleet	21%
By store staff using their vehicles, subway, or foot	3%

Survey size with “don’t knows” excluded is 116

Most rely on parcel for home delivery

Omnichannel leaders

◆ **Tesco:**

- Virtual subway store in S Korea (Touch Screens) & UK (Smartphones & QR Codes)

◆ **Wal-mart Stores**

- Counter-attack against Amazon

◆ **John Lewis:**

- Developed hybrid DC strategy in UK for omnichannel distribution

TODAY'S CHALLENGES

- The Illusion of a Common Pool of Inventory
- Perfect order quest in a store
- Lack of dedicated pickers in a store
- Lack of RF/voice technology to direct store picking
- Command and control over local delivery
- Need for dynamic routing technology
- Should stores be turned into DCs?

TOMORROW'S CHALLENGES

- Disruptive Technologies
 - 3-D Printing
 - Drone Delivery
 - Product personalization
- Retail Experience in a DC
- Integration of supply chain partners

Conclusions

- Amazon (and other online retailers) are raising consumer expectations (In-stock & Rapid Delivery)
- Omnichannel Response to this threat often relates on stores, but
 - The stores are not ready for the challenge
 - They lack the process, the technology, and the metrics of a true DC
- Conclusion: To succeed, retailers will have to work with suppliers to change processes, fully-exploit enabling technologies, and change the role of their stores in the overall supply chain.
- In other words, they must embrace Protean Supply Chain Management

Omnichannel Distribution

Q & A