

# OMNICHANNEL SUPPLY CHAIN: The **Customer-First** Imperative

HYPER LOCALIZATION, LAST-MILE INNOVATION AND COLLABORATION  
FUEL THE SHIFT TOWARD CUSTOMER-FIRST STRATEGIES



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# Reinvent Your Supply Chain for the Customer-Centric Age

## MEETING THE NEEDS OF THE NEED-IT-NOW SHOPPER REQUIRES A FLUID AND DYNAMIC SUPPLY CHAIN

The advent of digital shopping coupled with consumer demand for fulfillment in as quick as a few hours has forced retailers to completely reimagine their supply chains. The modern omnichannel supply chain must be nimble, collaborative, efficient, and most importantly inventive. Retailers are investing heavily in their supply chain infrastructure to ensure they are prepared to meet customer demand twenty-four hours a day, seven days a week.

RIS' annual Omnichannel Supply Chain report examines three key trends shaping the modern supply chain: hyper localization, innovative last mile fulfillment, and supply chain collaboration. What these three trends have in common is shifting away from a product-centric supply chain to one that is built around the needs of the shopper.



### Hyper Localization **PAGE 3**

In the customer-centric age, having a localized, in-demand assortment drives customers to your store and keeps them coming back. While providing a tailored merchandise array is a key tenant to building long-term shopper loyalty, few retailers have figured out how to do it right. In fact, less than 10% of retailers are equipped with the analytic firepower to predict product demand. Check out how localization leaders Pet Supplies Plus, Walmart and Amazon get it done.

### Last Mile Fulfillment **PAGE 6**

The last mile of the omnichannel supply chain is often the most challenging. Not only do retailers need to be able to pick, pack and ship orders at lightning speed — they need to do it economically. To lessen the financial impact of fulfillment and ensure customers receive their orders when and how they desire, cutting-edge retailers are experimenting with a host of new fulfillment options. Check out how innovations from Walmart, Target and Domino's are reshaping the last mile.

### Collaborative Supply Chain **PAGE 8**

To meet demand and ensure product is where it needs to be, when it needs to be there, the modern retail supply chain has become a team effort. Retailers must be able to pinpoint the quickest and most affordable way to fulfil digital orders, either through its DCs, stores, or vendor network. These previously siloed entities must perform a dynamic and fluid dance with one goal in mind, moving product from point A to point B as seamlessly as possible.



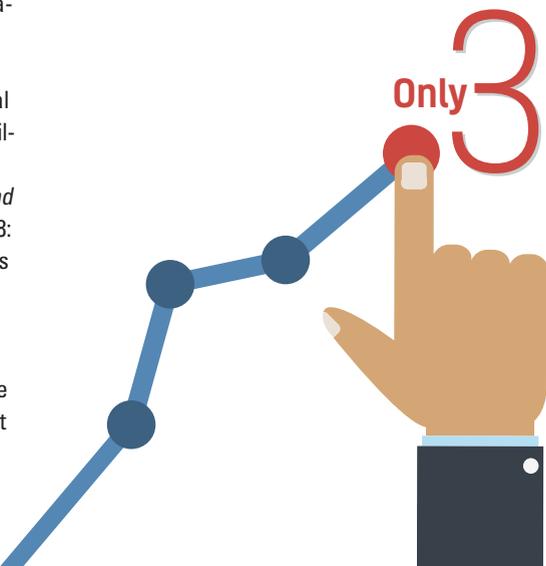
# Driving Personalization with Inventory

**STANDARDIZATION MOVES ASIDE FOR A MORE TAILORED, LOCALIZATION OF SKUS**

BY JAMIE GRILL-GOODMAN

Thanks to advancing analytics and inventory solutions, large chain retailers are moving away from standardization to localization when it comes to their assortments. Small shopkeepers have historically tailored inventory assortments to their community, but for national or global retailers the task is in a different league. Only 3% of retailers have prescriptive analytics for assortment planning, while 6% boast predictive analytics, according to *RIS* and *CGT*'s, "Retail and Consumer Goods Analytics Study 2018: May the Best Insights Win." Additionally, 29% of retailers say they are testing artificial intelligence (AI)/machine learning in the areas of inventory planning and demand planning and forecasting.

The art or science debate comes into play when we ask, is it better to have employees localize a store or let AI curate your assortment?



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Source: *RIS/CGT* "Retail and Consumer Goods Analytics Study 2018: May the Best Insights Win"



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## HYPER LOCALIZATION

OMNICHANNEL SUPPLY CHAIN REPORT



### Pet Supplies Plus Boasts a Local Vibe

Pet Supplies Plus (PSP) has been successful by assuring it maintains a hyper-local feel, no matter how big the retailer grows. The company, established in 1988, operates 433 retail stores, which includes 213 corporate stores and 220 franchise locations, as well as omnichannel operations. And it's growing — on track to open 50 new stores this year and 50-60 in 2019.

Still, each store boasts a local vibe and connection to its shoppers. The company doesn't do national advertising, instead staying highly focused on the neighborhood around each store. From 2015 into 2018, PSP worked on an entire infrastructure replacement and now it can personalize the customer experience according to individual spending habits and geographic trends. PSP maintains a company-wide set of SKUs and every store may carry some or all of its available inventory. For example, a store in Michigan can offer a wide assortment of booties and other winter pet apparel, while a Florida location

could offer year-round flea and tick products. In addition, store team members have easy access to accurate data so they can spend more time engaging with customers and their pets on the sales floor.

“We truly have one version of the truth,” Miles Tedder, chief operating officer for Pet Supplies Plus, tells *RIS*, which allows franchises to localize and personalize their offerings via the Preferred Pet Club loyalty program and the website.

“We maintain the inventory at an individual store level and make it available by store on the website,” he explains. “Neighbors can see the products each store has in stock, and if it's available for buy online, pickup in store.”

These omnichannel services “allow customers to shop how and when they want to shop,” explains Tedder.

ON TRACK TO OPEN  
**50**  
AND 50-60 IN  
**2019**

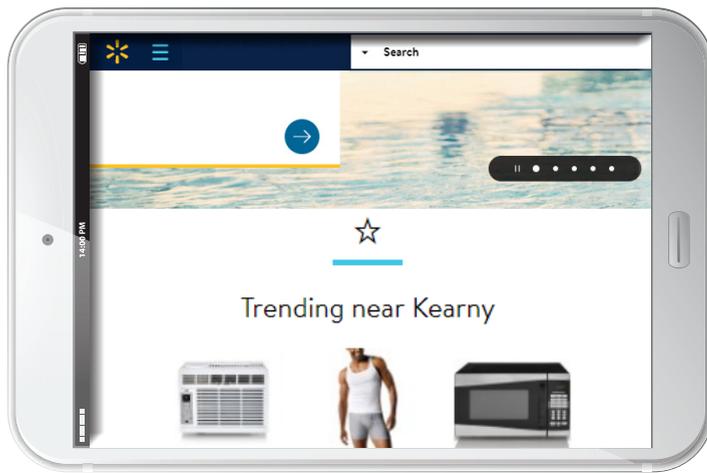


### H&M Opts for Local Over Global

Hennes & Mauritz AB's H&M retail chain is ramping up its use of data to customize what it sells in individual stores, breaking with its practice of stocking stores globally with similar merchandise. The fast fashion chain aims to reduce markdowns by using algorithms to analyze store receipts, returns and loyalty card data to better align supply and demand. The tech is being used in a store in Stockholm's Östermalm neighborhood. By analyzing purchases and returns in a more granular way, H&M discovered items like floral skirts in pastel colors, along with higher-priced items, sold unexpectedly well, and store sales have improved significantly after stock changes.

# HYPER LOCALIZATION

OMNICHANNEL SUPPLY CHAIN REPORT



## Walmart Features Hot Products by Location



Walmart recently unveiled a website redesign, which features local and personalized elements. A new section on the site showcases top-selling items in an e-commerce customer's location, lifting the veil on what SKUs are hot in the geographic area of the customer. This section also houses a shopper's local store profile, including availability of services, such as online grocery, order status, and Easy Reorder, which lets customers easily repurchase the items they buy most frequently in stores and online.



## Amazon Books Uses Local Curation

Amazon Books blends Amazon's online experience into the physical store using data from online shoppers to fill its brick-and-mortar shelves.

Sections in the store are stocked with books local readers might have enjoyed and recommendations based on those titles, as well as books based on online shopper ratings. Beyond books, the stores sell curated highly-rated merchandise from Amazon.com, including toys, gifts, home décor, and more. Additionally, using curators, books are displayed that represent what readers are reading in the region and what statewide readers are interested in.



# Centralized Inventory Management

Source: Boston Retail Partners, "2018 Customer Experience/Unified Commerce Survey"

21%

Retailers have the technology and it's working well

28%

Have it but say it needs improvement

31%

Plan to implement it within three years

# Innovating the Last Link in Omnichannel Supply Chain

**GETTING PRODUCTS INTO THE HANDS OF SHOPPERS REQUIRES PERFECT EXECUTION AND INNOVATIVE THINKING**

The last link in the omnichannel supply chain opens up a world of challenges for retailers. Questions like “can we implement click-and-collect profitably” and “what can we do to get orders to shoppers more quickly” loom in retailers’ minds. As retailers revamp fulfillment and explore such innovative ideas as car trunk delivery and pickup towers, a major goal of utmost importance is to incorporate customer satisfaction into the last link in supply chain.

BY JAMIE GRILL-GOODMAN

1,400+

The number of Walmart stores with online grocery pickup



### Curbside Delivery

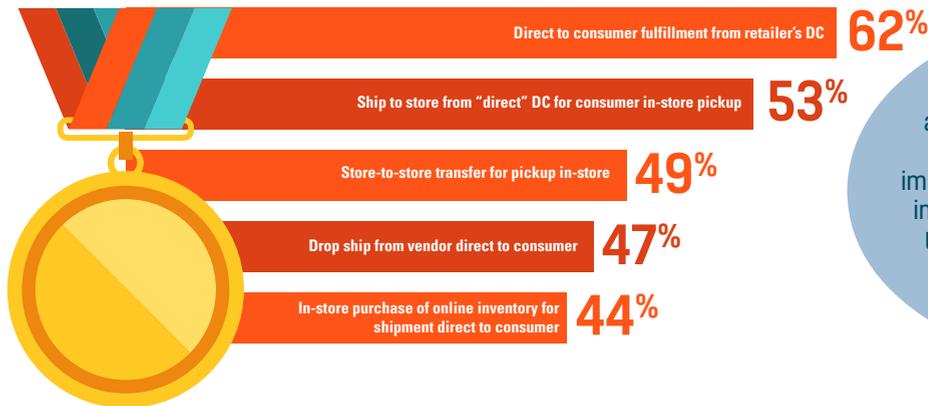
Walmart has set out to make grocery shopping a lot easier, now boasting more than 1,400 stores with online grocery pickup. The free service enables customers to order groceries online and pick them up curbside at their local Walmart store without leaving their cars. Shoppers can order through a website or mobile app select a time to pickup their orders, park in one of the specified online grocery pickup parking spaces, and enter a designated number to call to alert an associate. Orders are retrieved and delivered to the car within minutes.

Not to be outdone, Target is scaling up curbside pickup as well. Shoppers throughout the Southeast are already able to use Drive Up — it’s available in more than 600 stores in 20 states, set to expand to 1,000 stores nationwide by the holiday shopping season. Shoppers place online orders via the Target app, selecting Drive Up as the fulfillment option, and employees bring orders out to the car within two minutes of arrival.



## Fulfillment Options “Winning” Retailers Have and Are Satisfied With

Source: RSR, “Supply Chain Execution: New Challenges Demand New Solutions”



“When it comes to inventory accuracy and visibility and all the internal processes it enables or improves, winning retailers turn those into customer facing differentiators that create even more separation from their competition.”

– RSR, “Supply Chain Execution: New Challenges Demand New Solutions”



### Click & Collect: Within an Hour, Towers and Lockers

Click & Collect or buy online, pickup in-store (BOPIS) is quickly becoming more than a “nice to have” service. As retailers move to transform their stores into fulfillment hubs, 48% of retailers are up-to-date with BOPIS technology, while 29% plan on implementing it within the next three years, according to *RIS*’ “Store Experience Study 2018.” The report also finds BOPIS shows a huge 67% jump in investment from 2016. The next-fastest growing capability is shipping from stores (up 30%).

Not surprisingly, as more retailers add BOPIS capabilities, those capabilities are also evolving. Retailers such as Staples and Office Depot are promising BOPIS orders will be ready in one hour or less. Walmart items displaying “Free Pickup Today” on its website are available within four hours. Walmart also goes a step further, offering a pickup discount on certain items and it’s adding 500 Pickup Towers to stores across the country, to bring the total to more than 700 by the end of 2018. The high-tech order vending machines have fulfilled more than half a million orders since first introduced and all new Pickup Towers will be enhanced with Pickup Lockers for large items.



### Bleeding-Edge Fulfillment: Keyless Entry, Trunk Delivery, Self-driving cars,

E-commerce giant Amazon also offers lockers as package retrieval options, including in apartment lobbies and Whole Foods Market stores. It’s also experimented with a few out-of-the-box ideas. Last year it debuted Amazon Key, allowing some Prime members to receive deliveries directly in their homes through keyless access. Later, it rolled out Amazon Key In-Car, delivering Amazon packages directly into the trunks of shoppers’ parked vehicles.

Domino’s Pizza added over 150,000 Domino’s Hotspots nationwide in April, so customers can receive food delivery orders at spots that don’t have a traditional address – local parks, sports fields and beaches. The pizza retailer has also partnered with Ford Motor Co. to launch tests to understand the role that self-driving vehicles can play in pizza delivery, conducting a second round of tests in February that focus on the customer experience.

“Our first round of testing the customer experience in Ann Arbor provided some great learnings and insights, including the fact that there are customers who are interested in this as a delivery option,” said Kevin Vasconi, EVP and CIO of Domino’s. “Our testing is focused on the last 50 feet of the customer experience, between the front door and the car.”





# Unified Efforts Keep Product Flowing Seamlessly

BY TIMOTHY DENMAN

## **BY BUILDING A COOPERATIVE SUPPLY CHAIN THAT INTEGRATES SERVICES AND SOLUTIONS RETAILERS CAN EFFICIENTLY MEET CHANGING DEMAND**

In order to meet demand and ensure product is where it needs to be, when it needs to be there, the modern retail supply chain has evolved into a team effort. The instant an order is placed the retailer must be able to pinpoint the quickest and most economical way to fulfill it, either through its DCs, stores, or vendor network. These previously siloed entities must perform a dynamic and fluid dance with one goal in mind, moving product from a growing number of supply chain nodes as seamlessly as possible. The retailers that are able to do this successfully rely on a collaborative approach between internal and external sources that powers the supply chain from sourcing to order completion.

# Global Sourcing



## Continued Investment, Continued Improvement

The retail supply chain continues to become more complex and interconnected, and that sophistication is not just during the last mile, it is throughout the chain including its first link.

While retailers continue to fortify their direct-to-customer fulfillment abilities, they are also investing heavily in their sourcing capabilities to ensure they have the products customers demand in stock. It is vitally important to know what shoppers desire, but it is equally important to be able to source that product seamlessly and economically.

Two-thirds of apparel retailers and brands revisit their sourcing strategy every six months or sooner, according to *Apparel Magazine's* "Sourcing Shake Up: How to Steer Your Way Through 2017 & Beyond" report. With ongoing strategy adjustments and updates, effective product sourcing is obviously keeping retailers up at night. But what are their biggest concerns?

According to the *Apparel Magazine* report, retailers top sourcing priorities over the next three to five years include lower total cost of ownership (76%), improvement of product quality (44%), near shore sourcing options/speed to market (35%), and increased vendor-owned activities (21%).



# 67%

Retailers and apparel brands revisit their corporate sourcing strategy every six months or sooner to balance cost/risk/quality tradeoffs against the direction of the business.

Source: Apparel Magazine, "Sourcing Shake Up: How to Steer Your Way Through 2017 & Beyond"



## Starbucks: Bean to Cup Transparency

Retailers continue to invest in global trade management, sourcing management and product lifecycle management solutions to improve their supply chain prowess. In addition, they are increasingly testing and investing in blockchain technology throughout the supply chain to ensure product is sourced and handled properly and efficiently.

Starbucks is one of these innovative retailers experimenting with blockchain technology, which it dubs "traceability technology." The coffee giant is piloting the technology with coffee farmers in Colombia, Costa Rica and Rwanda to track coffee from "bean to cup," sharing real-time information as the beans move throughout the supply chain.

"Over the next two years, we will look to demonstrate how technology and innovative data platforms can give coffee farmers even more financial empowerment," said CEO Kevin Johnson. "We'll leverage an open-source approach to share what we learn with the rest of the world."

The initiative builds upon Starbucks' 2015 announcement that 99% of its coffee is ethically sourced. With the addition of blockchain tracking technology, Starbucks is now able to not only ensure its coffee is ethically sourced, but is transported in compliance with its rigorous handling standards.

"This could be a seismic change in an industry that hasn't had much innovation in the way coffee moves across borders and oceans," said Arthur Karuletwa, director of traceability at Starbucks.





### Third-Party Fulfillment

The vast majority of retailers outsource the last mile of direct-to-customer fulfillment to a third-party delivery service — UPS, FedEx, US Postal Service, etc. While very few retailers have the bandwidth to make their own deliveries, they typically pick and pack the product from their DCs and store shelves and prepare it for shipment.

In the grocery segment, however, things are taking a different trajectory. While 62% of grocers still manage home delivery internally, 26% have handed over the service to third-party services like Instacart, according to *RIS/Progressive Grocer's "2017 Grocery Tech Trends Study: Embracing Digital Transformation"* report.

Instead of having in-store staff shop the store to fulfill customers' digital orders, many leading grocers including Whole Foods, Costco and Wegmans are outsourcing

the entire digital fulfillment process to third-party vendors.

Sprouts, for example, began using Instacart for digital fulfillment earlier this year. The new partnership is in all of the brand's major markets and will be scaled throughout the chain.

"Online delivery is a natural way for Sprouts to support customers wherever they are on their healthy living journeys, as well as reach new shoppers beyond our store neighborhoods," said CEO Amin Maredia. "The majority of Sprouts' shoppers across the West can now enjoy convenient delivery of more than 12,000 fresh, natural and organic products."

The benefits of handing over digital fulfillment to a service like Instacart are numerous. It lessens the burden on in-store staff, eliminates the need for delivery vehicles and insurance, and allows for quick delivery provided by a highly motivated, freelance workforce.



# \$1.2 Billion

Over the next five years The Home Depot will invest more than a billion dollars in its supply chain infrastructure to speed up delivery times.

### Home Depot Aims for Same-Day or Next-Day Delivery to 90% of U.S.

Customers are impatient. Once they click the buy button the race is on to get them their purchases as quickly as possible, and every second counts.

The countdown becomes even more vital in the home improvement sector. Professionals and do-it-yourselfers can have a project stall waiting for parts and materials to arrive, and make purchase decisions based on a retailer's ability to fulfill their order at lightning speed.

Recognizing the need for near instantaneous delivery of digital orders, Home Depot has earmarked more than a billion dollars over the next five years on increasing supply chain speed. Once the multi-year project is complete the retailer plans to be able to offer same-day and next-day delivery to 90% of the US population.

To make this lofty goal a reality the retailer is building out its downstream network, sending goods from its distribution facilities and stores directly to shoppers' homes or job sites. The new supply chain network will consist of several different types of facilities to support the various product categories.

Home Depot will build 40 flatbed distribution centers to handle building material products that are delivered directly to job sites and around 100 market delivery operation centers, which will flow consumer products like patio furniture and appliances directly to the shopper. The retailer also plans to add additional "parcel plus big" direct fulfillment facilities which handle smaller items, as well as some bulk SKUs.

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