

EXCERPT FROM AGL SUPPLY CHAIN MARKET STUDY

Commissioned by American Global Logistics | Delivered by Logistics Trends & Insights, LLC

SUPPLY CHAIN BRIEF: EYE ON RETAIL

**72 percent of
retailers are
digitizing their
supply chains to
enable real-time
visibility.**

MASTERING THE BALANCING ACT

A well-run supply chain is critical for retailers to fulfill customer demands in today's omnichannel environment before someone else beats them to it. With rising inventory volatility and customer expectations both putting pressure on retailers, however, many businesses in this notoriously tough industry are facing a precarious supply chain balancing act.

As the U.S.-China tariff battle continues, hefty duties are causing prices to spike and prompting retailers to reevaluate their inventory strategies. Some businesses are forward-buying inventory to get ahead of additional duties¹, a practice which requires precise forecasting to avoid dreaded stockouts or a surplus of goods.

Along with fine-tuning their procurement plans, retailers are also grappling with sky-high customer expectations and fulfillment complexities. The rise of omnichannel fulfillment and non-traditional competitors, like Amazon and Alibaba, mean nearly every delivery is now a last-mile delivery. And even once those products make it to their final destination, the journey often isn't over. Shoppers return 30 percent of online purchases, more than three times the return rate for brick-and-mortar purchases, and retailers only resell half of those goods at the original price, according to Invesp². With shoppers indicating that a friendly return policy significantly influences where they buy online, businesses are ramping up their returns management capabilities, making supply chains even longer and more complicated.



Amid pressure from all sides, retailers are investing in supply chain technology like never before. In our latest Supply Chain Market Brief with Logistics Trends & Insights, AGL explores the technologies shaping the retail sector – and the tools with the greatest potential in the years to come.

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The demands of omnichannel and just-in-time delivery are forcing retailers to reimagine their supply chains. At the same time, we're entering a renaissance for supply chain technology, with a wealth of solutions available based on shippers' unique needs and processes. Retailers that couple the right technology with logistics expertise can unlock significant new value from their supply chains.

Jon Slangerup, Chairman and CEO, American Global Logistics

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The Rise of Retail Tech

With digital tools transforming every aspect of retail operations, supply chains are receiving particular attention from many forward-thinking businesses³. Nearly three-quarters of retailers plan to reinvent their supply chains to enable real-time visibility through tools like automation, sensors and analytics, a Zebra report found.

Achieving true supply chain optimization is still a work in progress for most retailers. Thirteen percent of firms rely exclusively on Excel for supply chain management, an American Shipper survey found. Among retailers implementing new technologies, only 15 percent are scaling those platforms, and just 4 percent say they're seeing the benefits so far, Gartner reports. But those who make the leap to a digitized supply chain successfully can earn a serious advantage. McKinsey found that businesses that adopt digital supply chains boost annual earnings by 3.2 percent on average⁴ – the largest increase in digitization of any business function.

According to Armstrong & Associates, many retailers are turning to outside expertise to help fuel digital innovation, spending \$50.7 billion on third-party logistics providers in 2018. Whether they work with 3PLs, rely on in-house capabilities or both, the common thread is a focus on supply chain technology.

For retailers, the overarching goals of IT investment are to increase transit speeds, predict trends, minimize the impact of disruptions and plan further in advance. Since retailers typically maintain minimal inventory in their supply chains, particularly fast-fashion brands, speedy response and delivery times are essential. But with buzzword technologies like blockchain vying for attention, shippers need to assess which tools can deliver real value – and which ones are just riding the coattails of the technology wave.

Here are five key technology areas with the potential to transform retail supply chains:

1. Shipping Execution and Tracking

Getting products from A to B more efficiently is a top goal for shippers, with 77 percent saying they invested in technology to improve shipping execution, according to an American Shipper survey. These tools optimize mode and route selections by balancing transit speed with price, helping retailers move products more efficiently to the distribution center, shelf or customer doorstep. Some tools also offer exception-based management to help businesses spot and address issues when – or before – they arise.

2. Supply Chain Planning

As retailers contend with tariffs and more complex returns processes, a data-driven planning strategy is a must. Planning technologies can help retailers gauge demand, adapt to volatility and plan for accuracy at scale. Seventy percent of retailers say they're swapping homegrown legacy systems or Excel spreadsheets for centralized planning to meet those objectives, according to Gartner⁵. Another area with largely untapped potential is real-time pricing, enabling retailers to sync prices seamlessly across digital and in-store channels based on factors like item availability and competitive pricing. While fewer than 1 percent of retailers are exploring this technology now⁶, Gartner predicts more businesses will adopt it over the next decade to deliver more consistent customer experiences.

3. Transportation Management Systems

Ground transit is in the spotlight these days as shippers contend with an explosion in last-mile delivery and customer returns, resulting in more complex fulfillment requirements and higher costs. Retailers are using transportation management systems to improve route planning and, in some cases, measure ROI through customer service improvements, an ARC Advisory study found. For example, Sephora tracks the number of on-time deliveries at its distribution centers and stores using its TMS. Home Depot also invested in routing, telematics and routing solutions to provide a two- to four-hour delivery window for its customers, and was able to measure the potential boost in revenue from providing a more precise delivery window.

4. Artificial Intelligence

Artificial intelligence (AI) simulates human intelligence to streamline logistics functions for retailers, glean insights based on data. In a true AI environment, the tool functions without any human input. The technology is poised for widespread adoption among retailers, with more than a quarter reporting they've either already adopted AI or plan to do so in the near future, according to Gartner⁷. One promising area for AI in supply chain is implementing voice recognition technology to simplify ordering.

5. Machine Learning

Machine learning is an AI technique, where computers review data and recognize patterns without any programming required. By spotting trends more quickly than humans can in large amounts of data, machine learning can help shippers make better decisions about carriers, routes, prices and quality control processes. For high-volume shippers, like retailers, these tools have the potential to drive huge profitability.

True Optimization Requires Technology and Support

While technology is the backbone of an agile supply chain, retailers also shouldn't underestimate the importance of industry relationships. Even the most advanced technologies can't call a trusted contact to source last-minute capacity – that's where a supply chain partner comes in. An experienced provider can help map supply chain activities to identify the right IT solutions, build a comprehensive supply chain approach that eliminates silos, and offer ongoing support and resources when issues come up. With more supply chain complexities sure to come in 2019, retailers that combine intelligent IT investments with seasoned expertise will have a powerful advantage.

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