



Beating the Burden of Brick and Mortar for Omni-Channel Fulfillment Success

Fulfillment is a critical enabler of a differentiated multi-channel strategy

Fulfillment Enablers

- Flexibility to changing mix
- Channel decision



Large Assortment



End-to-End Convenience

- Same/next day delivery
- Time definite delivery
- Minimized splits
- Flexible returns



Visibility

- One-view inventory
- Real-time demand management

What consumers want – the winning promise

Low Prices



- Eaches picking efficiency
- Last mile efficiency
- Managing peak

Seamless Experience



Many fulfillment solutions emerging ... but breakthrough performance remains challenging

Elements of Fulfillment – Which is the Right Mix?

Network / Asset Type

Footprint and Flow



Managed inbound

Network

Drop ship

Fulfillment Assets



Lockers



Store



DCs

“Eaches” Picking within Asset

Goods to Man Picking



KIVA

AS/RS

Automated Picking



WMS

- Random Put-Away
- Wave & Batch Picking

Last Mile Delivery

Home Delivery



Crowd source

Store Pick-Up



Drive-through



Click & Collect

Leading brick & mortar retailers must overcome several challenges to unlock full potential performance

Challenge	Traditional Brick & Mortar Focus	Multichannel Focus
Network Footprint	<ul style="list-style-type: none"> • Store location key • Less demand volatility 	<ul style="list-style-type: none"> • Store+ warehouse key • More demand volatility
Inventory Management	<ul style="list-style-type: none"> • Visibility at pallet level • Fewer, higher velocity SKUs 	<ul style="list-style-type: none"> • Visibility at basket level • More, thin SKUs
Eaches Picking	<ul style="list-style-type: none"> • High volume cases • Replenish stores 	<ul style="list-style-type: none"> • Low volume eaches units • Building consumer baskets
Front & Back-End Systems	<ul style="list-style-type: none"> • Limited need for real-time integration 	<ul style="list-style-type: none"> • Integration critical

3 guiding principles for breakthrough fulfillment

Focus Today

1

Design a fit-for-purpose solution

1.1

Clean-sheet design anchored on consumer promise

1.2

Build for flexibility

2

Define shared incentive to mobilize the organization

3

Balance near-term IT solutions with end-state design

Observed Performance Impact



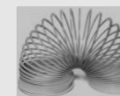
2-3X service improvement



>25% fulfillment cost efficiency



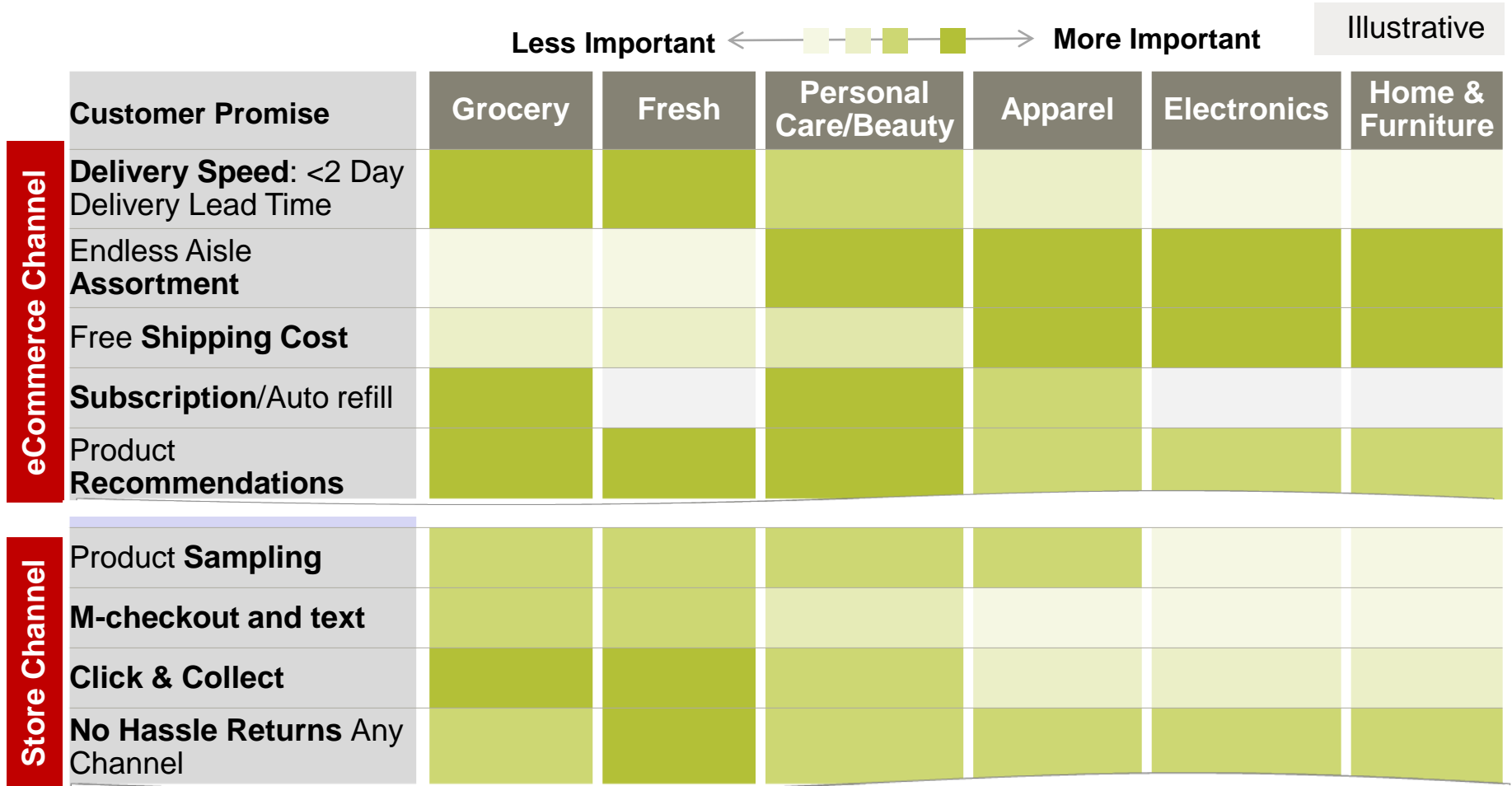
Unlock category growth



Reduce risk of throw-away investment

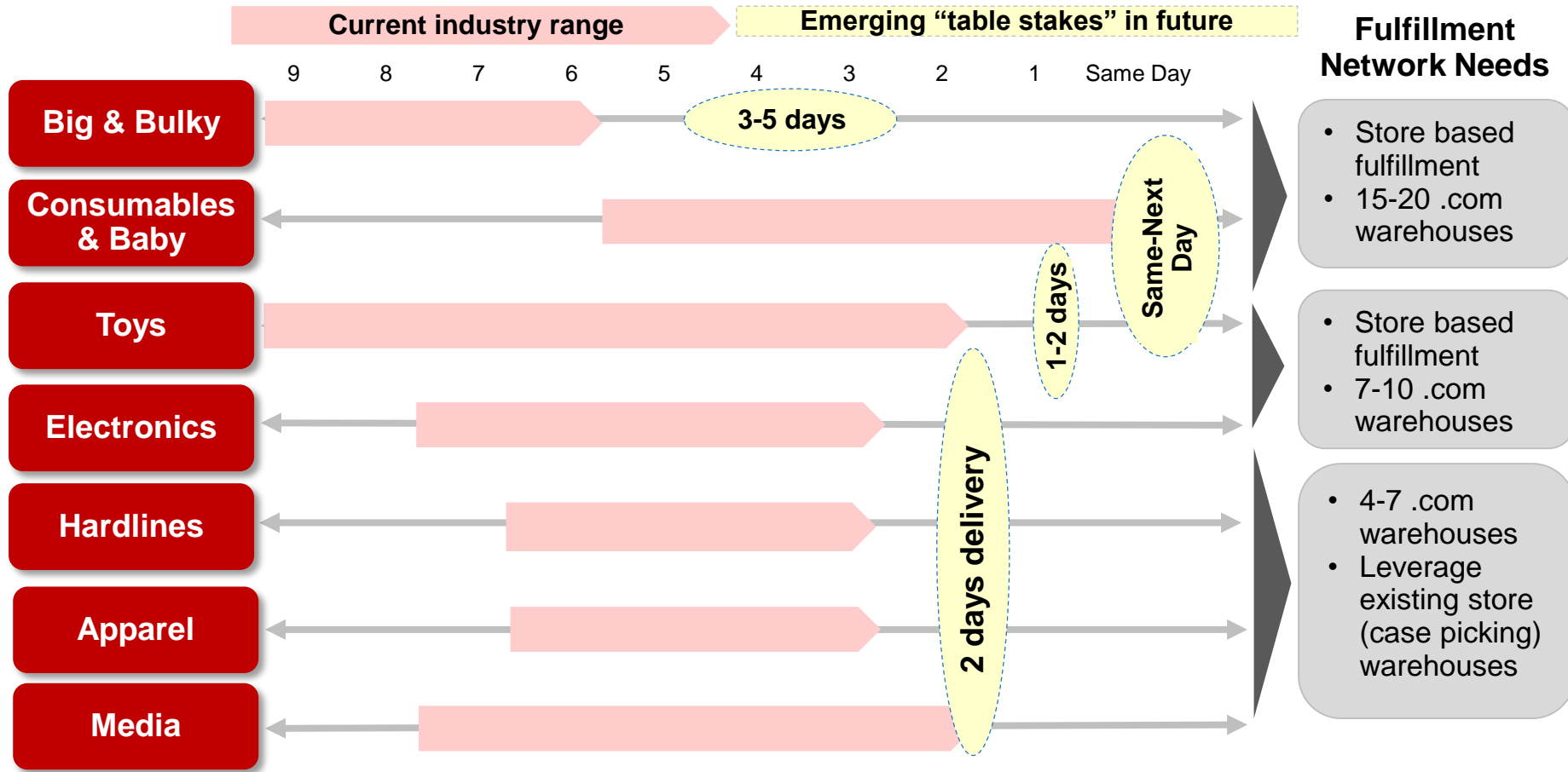
Note: range reflect observed average of larger retailers

1.1 Fulfillment must start with a clear segmented view of future consumer promise

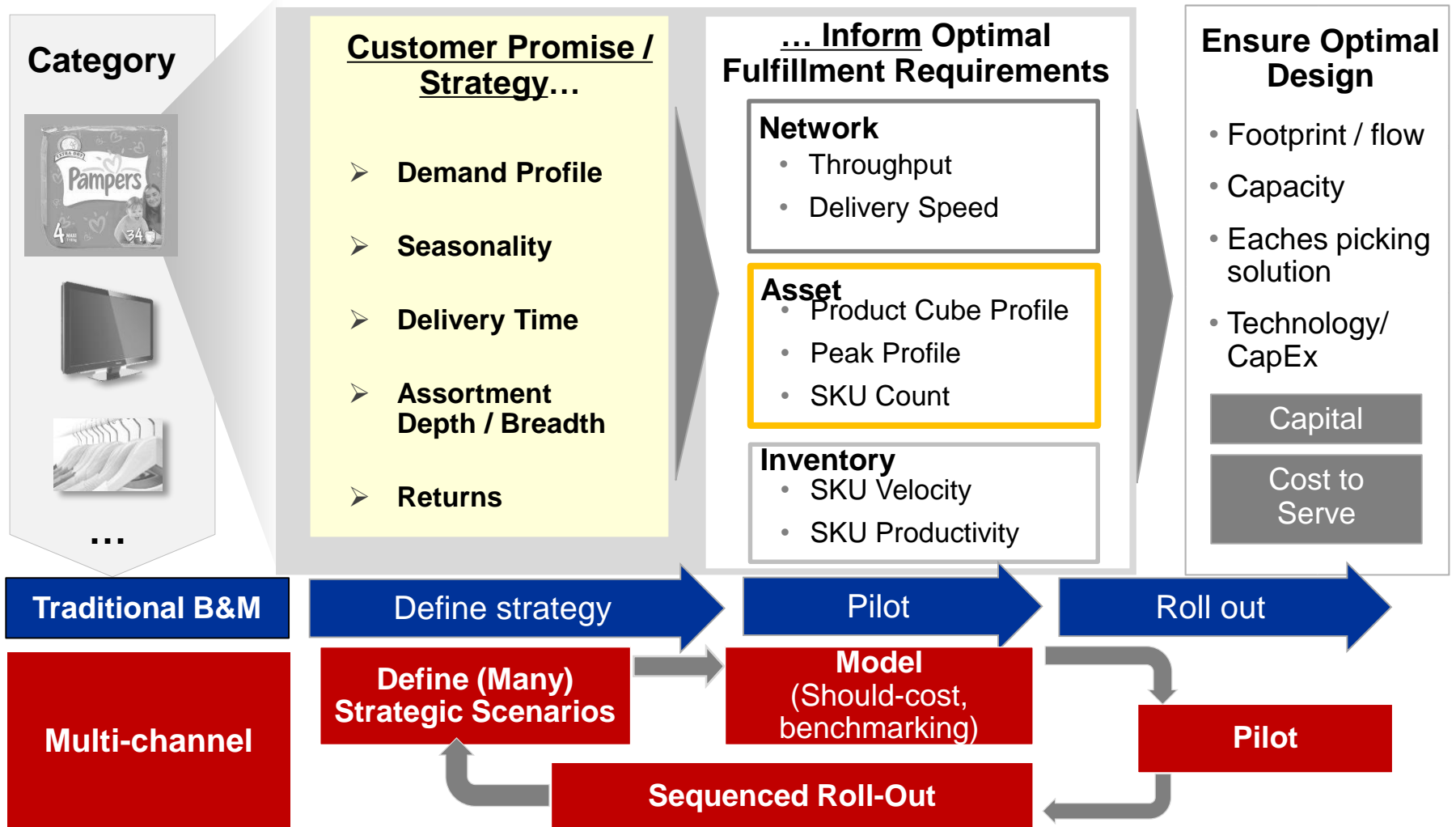


Trade-offs are key: where will you place strategic bets to truly differentiate?

1.1 Example: Consumer promise of fast delivery speed can impact your network footprint and asset needs

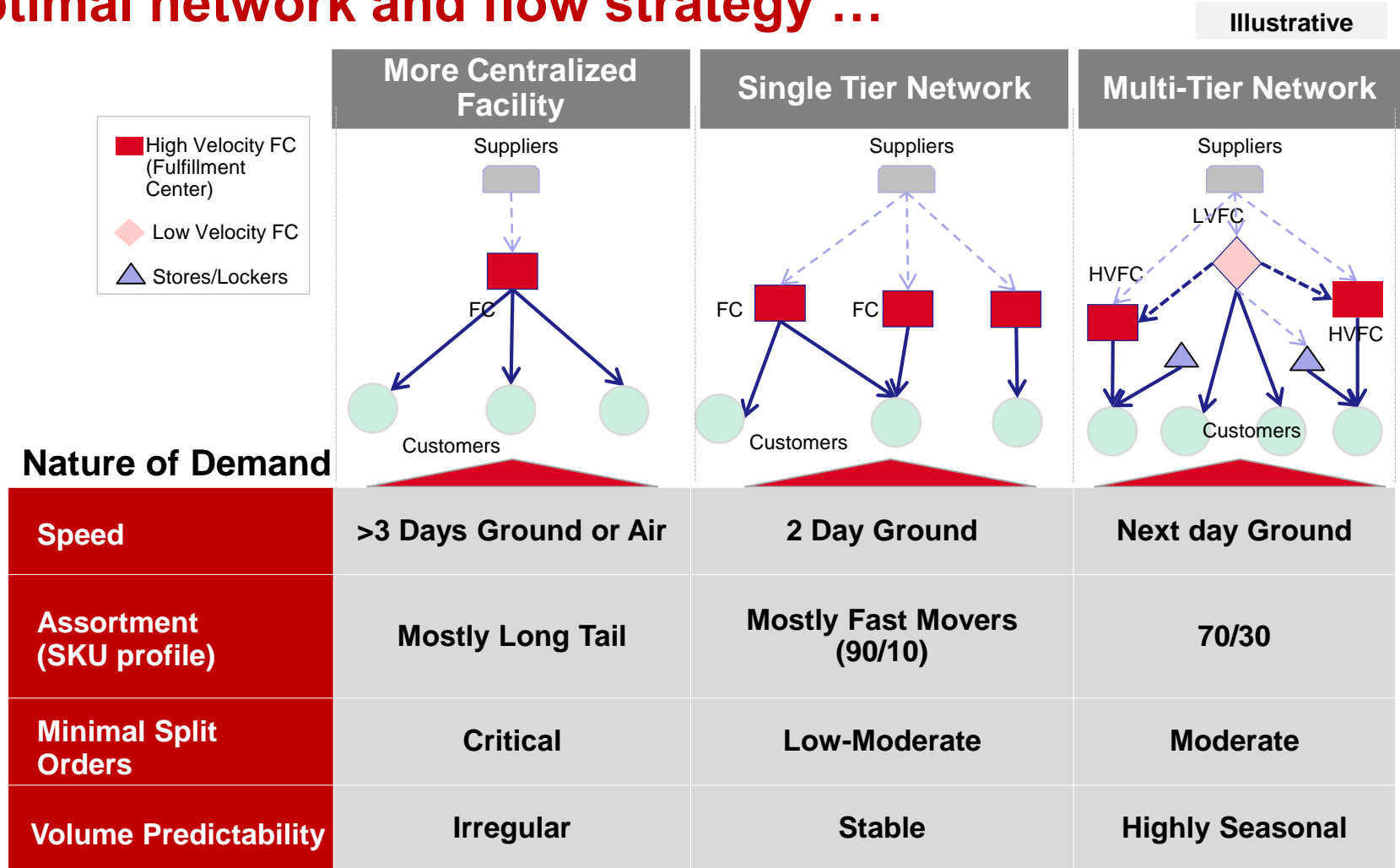


1.1 Rigorous mapping of customer promise to clean-sheet supply chain requirements is critical



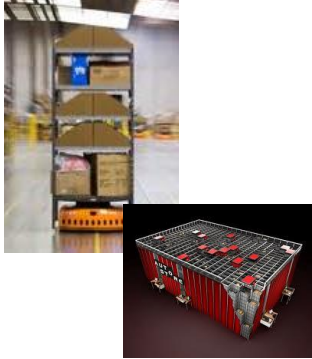
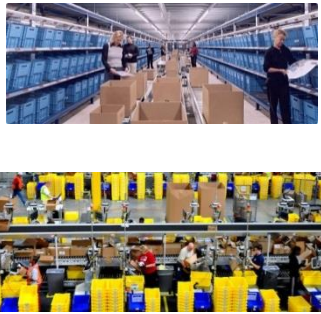


1.1

Your future customer promise requirements will drive optimal network and flow strategy ...



... as well as your assets and technology configuration

	Store / Locker	Store Converted Warehouse	High Velocity Eaches Facility	Low Velocity Eaches Facility
Nature of Demand				
Lead Time	Same/Next Day	Same/Next Day	Next – 2 Day	2 – 3 Days
Assortment	Medium	Low	Medium-High	Very High
Fulfillment Cost Req.	Med-High	Low-Med	Low	Med
Volume	<1MM units/year	<5MM units/year	>5 MM units / year	>5 MM units/year

1.2

Build for Flexibility to manage inherent uncertainty in future market

Build for Flexibility

The only constant is change

- Consumer expectations changing
- Commercial plan constant flux:
 - Geo-Demand
 - Product mix
 - SKU breadth
 - SKU profile

Network/Footprint Design

Identify and focus on the “invariant” portion of solution

Smart In vs. Outsource

Leverage partnerships and 3PLs as a flexible asset

Systems Design

Apply advanced systems architecture design that provide reusable components

1.2 Focus on the “invariant” aspect of future strategic scenarios when building out a solution

Illustrative

Geo-Demand

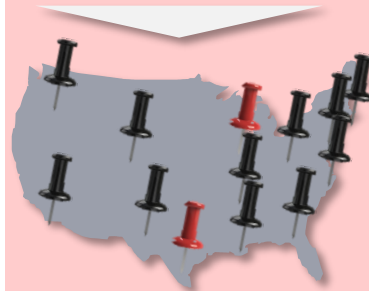
Assortment

Speed / SLA

Picking vs. Ship Cost

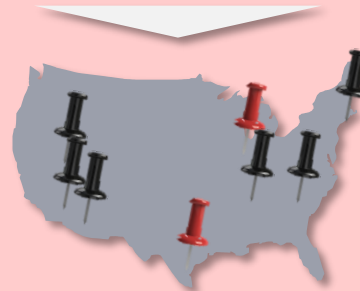
S1

- Larger Rural Impact
- Conveyables
- Avg. 2 Day
- Freight > Pick Cost



S2

- East/West Balance
- Consumables and Apparel
- Avg. 3 Day
- Pick Cost > Freight



1.2 Leverage partnerships and 3PLs as flexible channels and assets

Nature of Category Demand Inform In-House vs. Outsourced Fulfillment Channel

Volume	>25K orders/day	1-25K orders/day	<0.5K orders/day
Peak	Low Seasonal peak	Moderate Seasonality	Highly Seasonable
SKU Type	Fast Moving SKUs	Fast + Medium Moving SKUs	Long Tail SKUs
Exp.	Extensive In-House Experience	Developing In-House Experience	New Category or Market
Affinity	High x-Category Affinity	Medium x-Category Affinity	Low x-Category Affinity

In-House Operations
 3PL Outsourced
 Supplier Direct Ship

2

Define shared incentives to drive integrated actions and behaviors

Shared Incentive

Cross-Channel Financials



Compensation tied to multi-channel targets

- Trading area not store specific sales



Balanced targets

- Revenue and profit

Cross-Channel Operational KPIs



- **Introduce leading KPIs**

- Multi-channel transactions (e.g. click and collect at stores)
- Cross-channel customer retention



- **Track continuous improvements**

- Store INV availability for online orders
- Eaches picking unit cost

Fulfillment guiding principles much more difficult to get right and more mission critical vs. traditional channel

Why Its More Difficult vs. B&M

1. **Stores and warehouse** need to be **ambidextrous** in design and capabilities
2. **Increased seasonal peak** (8-12X ratio not uncommon)
3. **2-10X more assortment** (2-10X)
4. **Thinner SKUs - harder to forecast demand**
5. **Enabling IT/system and capability gaps:**
 - More back-end
 - More front-end
 - More integration

Why Its More Mission Critical

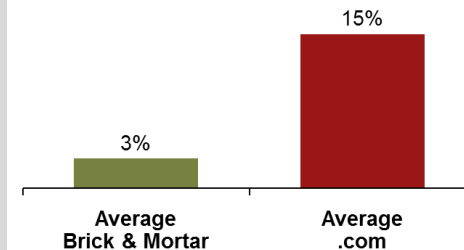
1. **Direct and immediate brand impact**

Missed B&M cross-dock = small likelihood of shelf OOS

Missed .com order fulfillment = 100% unhappy customer

2. **More impact on operating-profit**

Average Fulfillment Cost as % of Order Basket Size (Consumables)



Fulfillment cost = warehouse / store picking + outbound delivery

Self diagnostic – is your fulfillment ready?

Less Prepared = 1

More Prepared = 5



Customer Analytics	Historic sales driven Ad-hoc CRM solutions	CRM and Social Network signals inform planning
Demand Planning	Forecast at category level based on historic . sales	SKU level integrating historic and predictive analytics across channels
Inventory Management	Push based replenishment	Pull based replenishment across channels
Network and Asset Design	Built and grew out of store network Lack of segmented network design Ad-hoc use of 3 rd party 3PLs	Design based on future consumer needs Segmented roles for assets Rigorous Make vs. 3PL vs. drop-ship logic
Organization Design	Limited .com only KPIs / incentives Money tied to P&L profit	.com incentives shared x-functions Money tied to profit, growth and y-o-y .com operational targets
Front and back- end integration	Lack common item file Lack one-inventory view	Common item file One-inventory view
Technology saviness	Limited strength in Search, Network Optimization, Big Data analytics	Best in class front-end (Big Data, search algorithm) and backend (operations research) capabilities

Calculate Your Score:

- **Leading:** 30-35:
- **Learning:** 20-30
- **Lagging:** Under 20

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