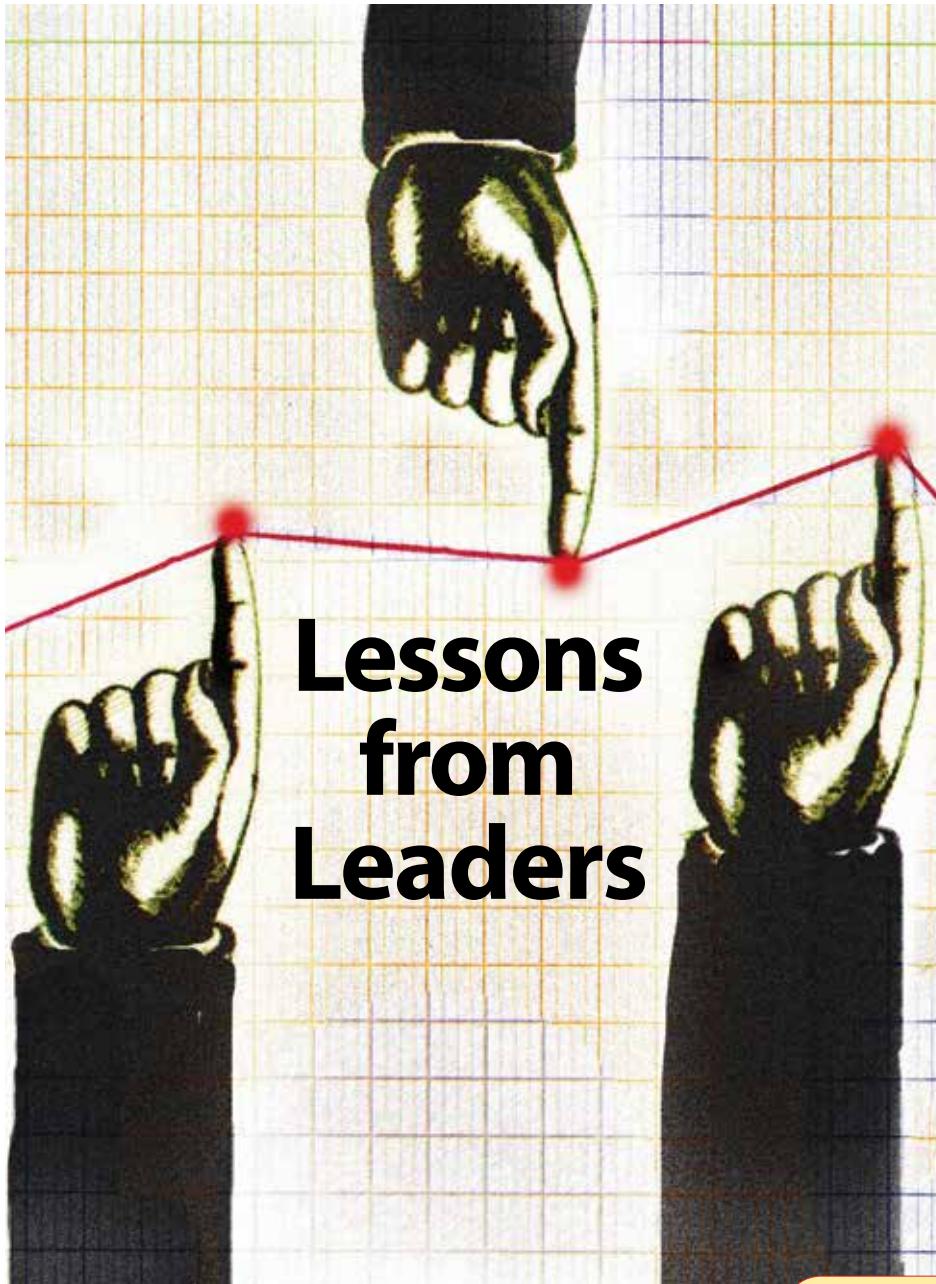


SUPPLY CHAIN

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Is Your Supply Chain Ready for the Omni-channel Revolution?

Omni-channel retail sales are expected to grow exponentially between now and 2025. Winning in this arena will require a supply chain that increases product availability with flexible delivery options at a lower cost.

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Omni-channel retail sales are expected to become a \$1.8 trillion dollar market by 2016, and then quickly grow to \$7 trillion by 2025. Winning in this arena will require a seamless delivery of goods that meets increasing consumer expectations for assortment, convenience and price, and a supply chain that increases product availability with flexible delivery options at a lower cost. As developed regions scramble to integrate in-store and online channels and developing regions work through financial and logistical infrastructure, supply chain innovation will be critical to omni-channel growth. A.T. Kearney has identified six global trends that will shape a successful supply chain in the new omni-channel revolution.

1. Blurring of Value Chains

The traditional value chain is starting to blur under omni-channel as companies attempt to get closer to consumers. Retailers are taking on traditional manufacturer roles such as product design, development, and product sourcing. Manufacturers, on the other hand, are shifting downstream and taking on retailer roles, such as managing the shopping experience (either in stores or on the Web), offering “merchainment” and product informational services, and even brokering actual order fulfillment. As value chains continue to blur, manufacturers

and retailers will need to manage channel conflict over the segmentation of products and SKUs and collaborate on shared assets and inbound logistics optimization. For manufacturers it may mean direct to consumer fulfillment or network integration with retail stores or even pop-up store operations. For retailers it may mean adopting a manufacturer mindset and capabilities in private label, developing a segmented supply chain for private label, and more sophisticated inventory deployment.

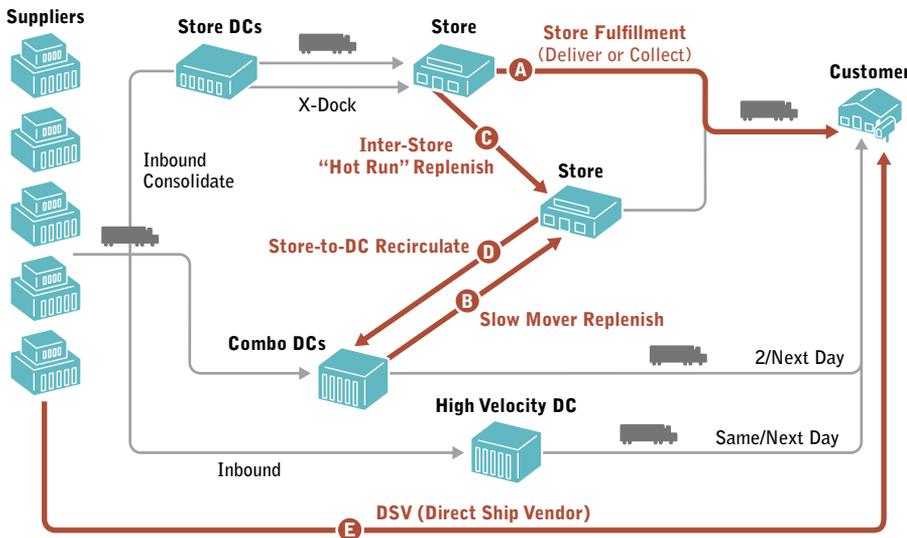
2. Rise of the Marketplace

While the concept of the marketplace has been around for decades in vehicles like the “classified ads” in the Sunday newspaper, only recently has their digital counterpart become a critical retailing channel. Amazon’s marketplace saw 25 percent CAGR while eBay and FlipKart are becoming endless aisle options for consumers in emerging markets. There is an explosion of emerging marketplaces from new players and global retailers offering logical places for retailers to expand internationally. Going forward, every omni-channel retailer must have a coherent marketplace strategy and corresponding supply chain capabilities—in particular, that includes decisions about where and when to hold inventory versus cross-dock orders versus shipping vendor direct to balance assortment, lead time service, and cost. Marketplaces can be a significant compliment to standard e-commerce sales used by many U.S. and European retailers to expand in emerging markets; however, marketplaces can be risky if they negatively affect the quality of product, customer presentation, accuracy, and service.

EXHIBIT 1

Activating a Nimble, Multi-echelon Network with Dynamic Flows Will be Key for Competitive Performance

Nimble Connected Network



→ Non-Traditional Supply Chain Flows

Right Mix of Flows Needed for Differentiated Performance

✓ Enable Best Possible

	Supply Chain Cost	Inventory Cost	Service	Variety
A	✓		✓	
B	✓	✓		
C			✓	✓
D		✓		✓
E				✓

Source: AT Kearney

3. Strategic Bet in Same Day

Scalable, affordable same day delivery continues to be the nirvana aspiration for retailers. While demand for same day is still emerging in the U.S. with less than 2 percent of orders, the UK shows a penetration of 8 percent to 10 percent of deliveries. According to BI Intelligence from A.T. Kearney, U.S. same day delivery forecast is expected to grow 154 percent by 2018 and retailers in China are starting pilot programs that should accelerate same day growth. We see four emerging same day models – (i) retailer managed (e.g. JD.com or Amazon); (ii) 3PL owned and managed (e.g. SF Express, DHL, Cainiao); (iii) 3PL crowd sourced (e.g. shutl, deliv) and (iv) marketplace crowd sourced (e.g. Google Express). As retailers pursue same day delivery strategies, they must consider the pros and cons of each of the above models and assess the underlying should-cost economics. Strong candidates for same day

delivery are grocery, mobile devices, specialty products, and high margin products. Retailers should pilot and experiment with same day models as they determine the best approach: whether the service is intended to drive sales; is a competitive requirement; or is part of a marketing play.

4. Flexible Network Assets and Flows

In the future, retailers will need to transform their channel specific, inflexible supply chain into flexible omni-channel flows to push the performance frontier in terms of cost, turns, and service tradeoffs. As shown in Exhibit 1, DCs will need the capability to pick, pack, and ship any order (eaches and cases), regardless of their destination (home, stores, other DCs). The entire network will be multi-tiered. These reconfigured fulfillment assets will be powered by one-view inventory and smart replenishment and

channel decision systems to enable flexible, dynamic flows. Trucks making milk runs from DCs to stores will be able to reroute their order drop-off points. Slow moving SKUs will be picked up from stores and returned to the regional DCs and other stores for improved turns. Demand shaping logic will allow shoppers to choose between higher-priced fast delivery or free-shipping slower delivery options.

5. Ambidextrous Role of Stores

Stores are still preferred across all stages of the shopping cycle. Two thirds of consumers who purchase online use a store right before or after the transaction. The 2014 A.T. Kearney *Omni-channel Shopping Preferences Study* found that 53 percent use both stores and online in their shopping journey. Even e-commerce pureplays see the need for stores. However, stores roles will change in the future as they operate both as nodes for customer engagement and as nodes

for close-to-demand fulfillment.

From a customer engagement perspective, stores will evolve from their traditional point-of-purchase role to providing a digitally enhanced shopping experience. Imagine a physical shelf complemented with digital displays that enable endless aisle show-rooming with mobile technologies to provide frictionless payments and checkout. Orders can be subsequently delivered next day from a nearby regional DC. From a fulfillment perspective, stores will have the necessary picking technologies, channel agnostic inventory, and order management capabilities to fulfill same day and next day online orders. Getting the right balance between consumer engagement and fulfillment will be critical if retailers are to turn stores into a source of strategic differentiation instead of an underutilized asset.

6. Digital Disruption Tipping Point

Digital technologies such as Artificial Intelligence, 3D printing, robotics, crowdsourcing, and the Internet of Things (IoT) are advancing at an exponential rate. Each has the potential to disrupt supply chain paradigms. The convergence of these disruptors creates an even more unpredictable myriad of scenarios. Consider the following

scenario where a consumer's smart sensor enabled refrigerator informs her iWatch to place a fresh grocery replenishment order, at which time a Watson like app communicates with the Google Shopping marketplace and builds a basket by picking from store shelf inventory across two local stores. The orders are then crowdsourced by Google for same day delivery. Under this scenario, the traditional retailer has a very minor role in the shopping and engagement eco-system, effectively relegated to holding inventory. Supply chains need to recognize that these rapidly evolving digital platforms could dramatically change their role in the future.

Peter Drucker once warned: "The greatest danger in times of turbulence is not the turbulence itself, but to act with yesterday's logic." As companies consider these six omni-channel trends, they need to assess the risks of using yesterday's logic and the opportunities afforded from using tomorrow's logic. Supply chains can start their future proofing today by leveraging their external partners for innovation and collaboration; developing and piloting more flexible, adaptable supply chain approaches; and embedding a mindset of continuous improvement within their organization. ∞∞

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