

**BearingPoint®**

# **Integrating the retail supply chain**

**Customer focus in an age of disruption**

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# Welcome to our fourth annual retail research report

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The retail sector is going through an enormous transformation.

Revolutionary changes in the make-up of our society, combined with the ever-accelerating pace of technological change, continue to impact the sector heavily and have been further compounded by the unprecedented Brexit vote and the lingering uncertainty that continues to surround the UK's final exit from the European Union.

The biggest change by far is the way in which consumers shop today. The growth in digital commerce and online shopping means that consumers have more buying power and greater choice than ever. Low shipping costs and the internet have turned the globe into every consumer's high street, competition is now on an international scale.

So how should retailers respond?

The key challenge being faced by many retail boards is how to prepare a business to cater for ever increasing customer demands and ever accelerating expectations whilst maintaining profitable growth.

These are the challenges we seek to uncover in this report. I hope you find it stimulating, thought provoking and helpful in planning for the years ahead.

Stuart Higgins  
Director – Retail

# Introduction

The speed at which new developments are transforming the retail sector is nothing short of phenomenal. From mobile payments to frictionless fulfilment, from digital experiences to the sharing economy, the pace of change is dizzying – exceeded only by the demands and expectations of customers.

Compared to just five years ago, today's shoppers are very savvy. Not only do customers casually shift loyalty between brands but they also now freely switch between shopping channels. What's more, they may do their shopping from the other side of the planet.

To futureproof their businesses, retailers must keep pace with changing customer demands. But it's not just about jumping onto a trend.

First, they need to align their business operating model accordingly – and then, optimise their end-to-end supply chains to deliver their customer proposition profitably.

This isn't merely a recommendation; it's a requirement. The successful retailers of the future will be the ones that best recognise and adapt their business model to respond to these changes.



**Omnichannel Pioneers** – fully committed to transforming front-end and back-end operations to deliver a seamless experience to customers.



**Omnichannel Followers** – recent converts to omnichannel retailing without a fully integrated business model. Followers tend to focus on front-end solutions.

## The retail archetypes: which one is yours?

Three years ago, we characterised the retail landscape using the four core archetypes depicted below. We find the classification as pertinent today as in previous years. The archetypes help retailers identify where their businesses are strategically placed – and understand the most appropriate operating model to adopt.



**Optimised Multichannel/PurePlay** – retailers who have made a strategic decision to adopt either a multi-channel or pureplay approach, often very successfully.



**Challenged Multichannel** – retailers that are still trying to adapt to a multichannel world by bending existing bricks and mortar infrastructure.

The responses provided to this year's survey have resulted in several striking trends as seen through the lenses of the four retail archetypes. Some of these explored in this report include:

- The goalposts continue to move. The retail market is responding to needs of customer requirements and the onset of omnichannel and multichannel retailing, but this is a continual and ongoing process without end – which means making the correct investment decisions is critical to success.
- The customer centric supply chain is core to success. Winning archetypes are integrating and shaping their supply chains to service customers' needs more profitably.
- Integration is key to gaining traction. Respondents who have integrated their end- to-end supply chain (from supplier to store or home) see improved inventory management, better availability and reduced fulfilment costs.
- Retailers implementing a 'customer driven' supply chain face common challenges. Technology, legacy systems, levels of investment and functional silos remain key challenges to implementation.
- The guiding principles of a successful supply chain endure. Know your customers intimately, deliver what they need, remain agile and design transformation programmes that minimise risk.

**“The successful retailers of the future will be the ones that recognise what their customers’ value and adapt their business model to respond to these changes.”**

**Laura Morroll, Senior manager**

# Customer expectations: The goalposts keep moving

Traditional retail operating models are slowly disappearing. Where the power once lay firmly in the hands of the retailer, the consumer is now the driving force in the relationship.

This shift of power, combined with an ever-changing social, demographic, economic and technological landscape, is forcing retailers to get closer to their customers than ever before.



## Technology.

Technology and digitisation are becoming increasingly important to the way consumers shop and retailers communicate.



## Economic.

A weak economy will result in cautious consumer behaviour hampering opportunities offered by modest rises in disposable income and a growing population.



## Cultural.

An increasingly culturally diverse nation has external implications such as aligning product ranges to specific cultural segments, while internally affecting retention and diversity.



## Retail landscape.

Old legacy systems are no longer fit-for-purpose and business models that worked five years ago are no longer appropriate or agile enough for today's digital consumer.



## Demographic.

The customer base is becoming polarised. While Millennials have overtaken Baby Boomers to be the largest living generation, those aged 50+ represent more than one-third of the UK population.

These factors, alongside others, are disrupting the market and the way customers shop and interact with retailers.

# The empowered customer

Historically, in the old model of retailing, retailers could select the ranges they wanted to offer to the customer, make them available locally on the high street, and price them competitively against other stores in the locality in order to win footfall and sales. Practically unimaginable to consumers today, their choice was limited by the availability of competing products and services within the same local market.

The internet has turned the globe into every consumer's high street, and they're shopping it at a frenzied pace and on their terms:

- An almost infinite range of goods and services is available to browse and select from across the world.
- Delivery can be arranged at a time and place of the customer's choosing.
- Prices can be compared online in an instant – often while viewing the product in a physical retail store.

This new hegemony requires retailers to think differently about customer retention. In a world equipped with mobile technology that encourages consumers to shop around to get the best deal, it is even more important that retailers are able to attract and retain customers. When shopping habits are as impulsive as the range of goods is extensive, the key to success will be to unlock customer loyalty.



## The 'empowered customer'

How do you win and retain customer loyalty when the customer is in the driving seat?



## Fulfilment in an increasingly urbanised world

How do you service convenience and speed with last mile solutions for urbanised areas?



## From ownership to sharing

How do you adapt your inventory and operating model to cater for the emerging sharing economy?



## Shifting the boundaries

How do you rethink traditional partnership models to collaborate more effectively?



## Disruptive technologies

How do you drive innovation and compete whilst staying true to your business strategy?

## Fulfilment in increasing urbanisation

Even as population centres grow, developing retail locations to serve them may be hampered by the very policies that make urbanised areas liveable.

By 2008, The United Nations reported that around 50% of the world's population was already living in urban areas. By 2050, it is predicted that around 86% of the developed world will be urbanised. Accommodating this shift will have a profound impact on the future of retail.

Why? For one thing, because increased urbanisation drives increased congestion, emission and environmental challenges. Already, policy makers are attempting to limit the impacts of population growth, through legislation such as congestion charging and low emissions zones for major conurbations such as London.

Combine this with the increasing customer demands for convenience and speed of delivery, and you have a last-mile dilemma: retailers' fulfilment solutions will need substantial innovation in order to continue to satisfy customers' needs, while at the same time minimising the impact of legislative compliance.

As social and environmental awareness grows, customers will be eager to try low cost, low emission, and innovative urban delivery models such as that operated by Deliveroo, and explore their potential application in retail.

## From ownership to sharing

The sharing economy has rapidly emerged as an attractive alternative to ownership. Although it's still in the early stages, we are seeing a number of profit and non-profit 'sharing' solutions evolving, enabled primarily by advancing technologies.

Why wait to hail a taxi when you can get one to come to you with a few swipes on your smartphone?

Why deal with overbooked, generic hotel rooms when you can sign up for charming accommodation to suit your family's unique needs?

As well as improving the customer experience, technology is reducing transaction costs and making the sharing of assets cheaper, easier and implementable on a much larger scale. Because of its inherently 'on demand' nature, it gains the additional benefit of waste reduction in the general economy.

A big driver of growth in the sharing economy is the availability of rich data about people and preferences. This is breeding disruptive low cost of entry start-ups such as BlaBlaCar and Airbnb.

But how do retailers exploit this emerging opportunity, and do they really know what it means to their customer and brand?

The sharing concept applies more broadly than just to consumers. We are seeing businesses share infrastructure and services with each other, allowing smaller retailers to access capabilities that previously required significant capital investment, such as home delivery.

As the sharing economy develops in the retail sector it will be vital for retailers to track and respond to the various risks, trends and opportunities as they emerge. This will give them the visibility to avoid an erosion of market share such as that seen within the hotel and rental sector as Airbnb emerged as a disruptor.

**Sharing economy: an economic system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the internet.**



**“Retailers should look at customers first, and cost second; it’s about understanding what you are as a retailer, knowing what you do and how you present this to the market as a differentiated proposition.”**

**– Neil Ashworth, CEO Collect+**

## Shifting the boundaries

The power is shifting from retailer to consumer but the connected consumer is also enabling new paths to purchase. These are transforming the traditional model of manufacturers selling to retailers selling to consumers – and challenging retailers to develop more creative uses of existing supply chain capabilities.

- Manufacturers are experimenting with direct-to-consumer fulfilment in an attempt to increase margins and get closer to the customer, enabled by digitisation and technological advances
- Retailers are increasingly using concession models, enabling branded suppliers to optimise range and space to drive store profitability
- Retailers are using supplier direct fulfilment models to significantly extend the breadth of their range beyond that which can be effectively traded in a retail store

These changes are resulting in increased direct competition from suppliers who are finding more innovative paths for products and services to reach consumers.

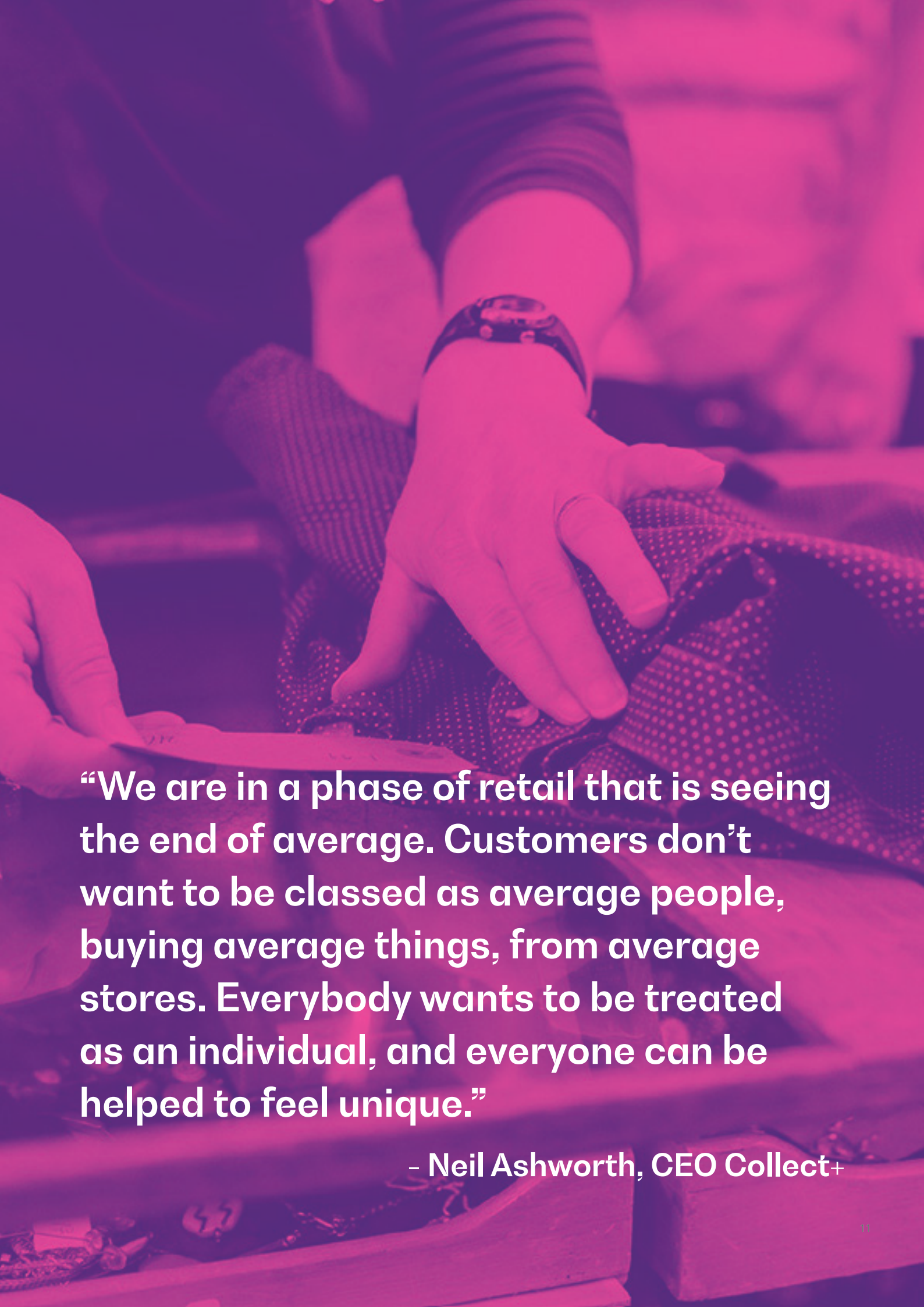
## Disruptive technologies

Disruptive technologies have been at the heart of retail innovation and development for the last decade. If anything, the rate of disruption is likely to increase over the next 10 years, posing a further threat to traditional retail models.

Old disruptors such as the smart phone and Amazon are now ubiquitous and have transformed the way we shop. Future as-yet-unknown disruptors will continue the inevitable transfer of power from retailer to consumer and further threaten the established retail models.

We are already seeing customer expectations significantly heightened by services and new technologies in other non-retail sectors, such as Uber and Just Eat. This move towards immediate gratification has profound implications for retailers, as customers begin to expect similar levels of service and convenience as a given in their retail journey.

The solutions retailers choose are evolving in response to this and are much more modular in nature.

A close-up photograph of a person's hand wearing a black watch and a ring, holding a piece of patterned fabric. Another hand is visible holding a tag. The background is blurred, showing more fabric and a person's face. The entire image has a pinkish-red tint.

**“We are in a phase of retail that is seeing the end of average. Customers don’t want to be classed as average people, buying average things, from average stores. Everybody wants to be treated as an individual, and everyone can be helped to feel unique.”**

**- Neil Ashworth, CEO Collect+**

# The emerging focus on service

## Influencing customer behaviour: more service, same price

Given the shifting macro trends, it is no surprise that the customer service bar is constantly being raised by new experiences from across the retail industry and beyond.

This is the fourth annual LCP Consulting Retail Survey and each year has seen retailers prioritising a three-way mixture of Customer Service, Price and Assortment to attract and retain customers.

While price is important, customer service increases year-on-year as the key factor driving customers to purchase.

With the pace of change so rapid and unforgiving, winning archetypes are recognising that the key to sustainable profitability is putting the customer at the heart of their operating model, ensuring consistency of offer and service across each and every touch point in the customer journey.

### Which are the three main factors that drive a customer to purchase?



**“In a world where the customer can switch loyalties and channels in the click of an app it is vital that retailers understand their customers’ expressed and unexpressed desires and tailor their fulfilment operations to deliver high levels of customer convenience and service at optimal cost.” – Stuart Higgins, Director Retail**

## But do retailers really understand their customers?

Given that retailers now perceive customer service as the most important factor in a consumer’s decision to purchase from them, clearly extensive knowledge about the customer is a priority.

From our research, however, it is surprising that the most widely used data source in defining a customer proposition continues to be retailers’ own internal understanding of their customer. Only 39% of retailers are actually talking to real customers to understand their needs.

This is all the more concerning given the findings that customer needs and expectations are higher than ever before and influenced by experiences beyond the retail sector.

How can retailers hope to truly understand their customer needs and expectations (and to respond with appropriate service models) if they are developing their entire customer understanding without looking outside the business’ existing knowledge base? It could be argued that greater use of external consultants for consumer understanding (up from 15% last year to 33% this year) helps bridge this knowledge gap around changing consumer expectations and needs. It is nonetheless a concern that the majority of retailers don’t talk to real customers when developing their offer.

### Retailer attitudes 2016 % of retailers who agreed with the following



77%

The most successful businesses focus on delighting the customer first to drive profitability



64%

Within the next 1-3 years the majority of my online deliveries will be same day or next day



59%

Led by Amazon we’ve trained customers to expect that all ‘added value services’ are free



62%

Customers’ expectations for home delivery services are completely out of line with what they expect to pay



48%

Black Friday is an unprofitable and unsustainable promotion



38%

Returns are good for business

**77% of retailers agree that success means putting the customer first**

There is a major risk in defining a customer offering based on an internal perspective of the customer, and that is that it can become a self-fulfilling prophecy: 'customers buy what we offer so we think this is what they want and we will continue to offer it.'

On a positive note – and consistent with the theme of shifting macro trends – there is a marked decrease in the number of retailers focusing their service offer on matching that of the competitors.

This shows that retailers are beginning to realise that although not irrelevant, a competitor's offer may not necessarily be the right one for their own customer, and should not be the major factor in influencing their customer proposition. In other words, it seems, some retailers are pushing back against the race to the bottom.

## Expanding customer knowledge

After retailers' own internal understanding of their customer, the second most widely used information source in developing a customer offer is analysis of existing customer data.

Although its usefulness should not be underestimated, 'retrospective' analysis, based on previous sales history, does have its limitations. For instance, sales and store card data will only capture existing or lapsed customers, and can only provide transactional insight into existing ranges.

Fundamentally, any historical analysis can only ever give a view in 'hindsight', and retailers need to combine this with other sources of information on future trends and expectations to give them 'foresight.'

When it comes to developing a customer proposition, the winners are taking a balanced approach. They recognise that the answer isn't in one survey or data set, but rather the connection between an apparently disparate set of data sources including macro trends, CRM and sales data, consumer surveys and insight.

But, this connection doesn't come easily and retailers are starting to recognise the need to have capabilities and people in place that can facilitate this process. The emerging role of the 'Customer Director,' in some cases replacing the 'Marketing Director,' is closely linked to this requirement. As one major retailer stated: "this really gives the customer a seat at the board table."

**“Customer expectations have been evolving at a rapid pace and you must keep up with these changes. It is important for retailers to genuinely understand their customer expectations, or the customers they are trying to capture. At FatFace, we are just as interested in the 85% who don't buy from us.” – Simon Ratcliffe, Infrastructure Director, Fatface**

# The retail archetypes – What has changed since the last report?



# The customer driven supply chain concept

It's clear that, in order to be successful in this constantly evolving environment, retailers need to understand their customers deeply and put customer needs right at the heart of their proposition.

Winning archetypes are going one step further than this: they are integrating and shaping their supply chain to service customers' needs profitably.

It's no longer simply a case of supporting online sales and home delivery in spite of their eroding margins compared to in-store sales. Leading retailers are doing much more – they're further striving to adapt their operating models to engineer out costs.

## Integrating delivers tangible benefits

The supporting evidence for doing this is compelling. Retailers who identify as having fully integrated their business and supply chain are not only delivering improved service and customer satisfaction but are realising tangible, bottom-line business benefits such as reduced stockholding and improved availability.

We have identified a number of Pioneers who are taking the time to truly understand their customer (despite the shifting goalposts of expectations) and integrate their business to deliver their proposition effectively and profitably. We believe these businesses will continue to win, and they'll win on multiple levels – as delighting the customer has been directly linked with driving profitability.

This theme is true across markets and geographies, and our survey showed that both US (75% of respondents) and UK (78%) retailers now

believe that the most successful and profitable businesses are placing the customer at the heart of their business decision making processes.

## Bolting-on capability erodes omni optimisation

Today, most retailers still operate legacy supply chains that are optimised for store replenishment.

Over time, capability has been bolted on to enable online fulfilment, but relatively few have restructured to enable true omnichannel back end operations that can efficiently service the needs of the customer in this environment.

This legacy often also extends to systems, data and information, and additionally to staying tied to historical approaches for measuring and managing business performance. The result?

Few retailers have current and deep visibility of their true channel economics.

This is concerning, given that the trend in sales moving away from store towards omnichannel brings with it an inevitable margin erosion – as the cost of servicing an online customer for home delivery is higher than that to service a store customer.



# Re-engineer business process to win

Most retailers have accepted that they have to adopt the service demands of the customer in order to survive, but doing this profitably is a challenge. The winning archetypes in this year's survey are recognising that it is not just about changing the business to service the needs of the customer, but re-engineering their business processes and systems to service the customer in a sustainable and profitable way. This is the customer driven supply chain.

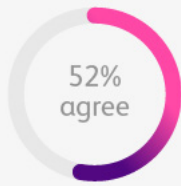
Our business and operational framework helps retailers re-engineer their business processes, capabilities, and systems to develop the Customer Driven Supply Chain.



**“Responding to ever increasing customer service expectations doesn’t have to mean increased costs and reduced profitability. Those retailers who adopt the Customer Driven Supply Chain concept are driving service and loyalty whilst at the same time reducing complexity and cost.”- Stuart Higgins, Director - Retail**

## Retailer attitudes 2016

The most successful businesses focus on delighting the customer first to drive profitability



**“Retailers now believe that the most successful and profitable businesses are placing the customer at the heart of their business decision making processes.**

**– Stuart Higgins,  
Director – Retail**

## Delighting the customer to improve profitability

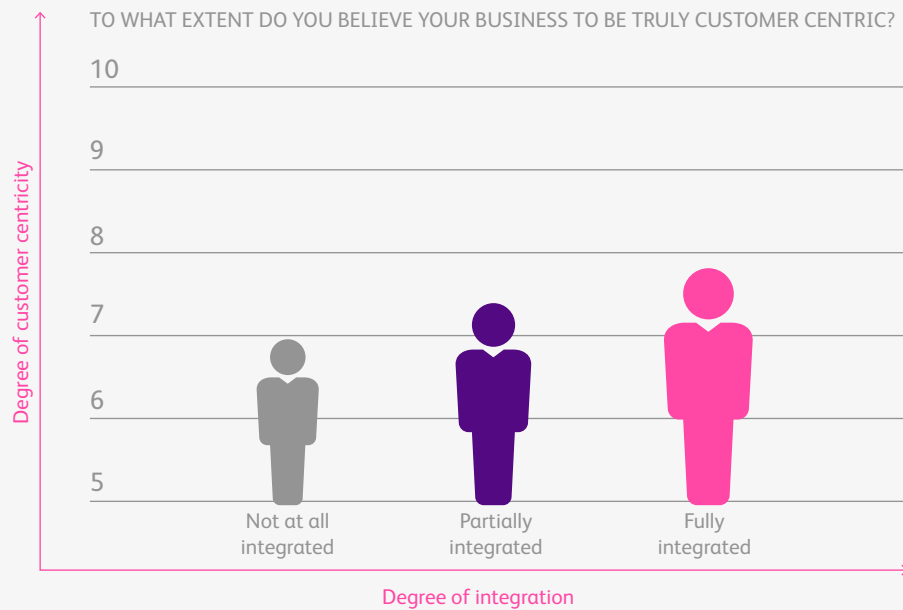
An impressive 77% of respondents agree the most successful businesses focus on delighting the customer first to drive profitability. But delighting the customer is no mean feat and many retailers who over-promised in their offer have under-delivered in execution.

Others who invested in the glossy front end have found the back end operational workarounds to be unsustainable. For the winners, the principles of the customer driven supply chain are simple:

1. Understand the needs of your customer and position your business to service those needs.
2. Focus on enhancing customer service to drive sales.
3. Don't add in unnecessary cost by over-delivering against your customer needs.
4. Integrate the business end-to-end in order to satisfy the needs of the customer and root out and remove inefficiency.

In our experience, adhering to these principles pays off in many ways; integration leads to improved agility, lower operating costs and a higher net margin; we have observed a 3-5 margin point improvement.

## There appears to be a positive relationship between customer centricity and integration



**“It is no coincidence that customer centric businesses are more integrated and also more profitable. The three go hand in hand.”**  
– Laura Morroll, Senior Manager

# The benefits of a customer driven supply chain

Winning retailers clearly see the benefits of a fully integrated, customer driven supply chain. The main drivers for moving to this model remain the same: increased sales and better customer service. But a shift is occurring.

## Integrating the retail business: it's not just about customer service and sales

Our retail reports have previously covered the growing need to integrate front end sales capability (whether store or online) with back end fulfilment capability to deliver fully on the customer promise and ensure service and sales are maximised.

At the same time, in their past survey responses, retailers have focused on the benefits of omnichannel retailing, as well as integrated retail models, both in terms of the sales and customer service gains that they deliver. While this remains the case in 2017, it is notable that today, integration is also considered as an opportunity to improve business operating costs and net profitability.

This focus has now extended to a much deeper understanding of costs along four dimensions:

- Improvements in inventory management
- Better availability and full-price sell through
- Reduced fulfilment costs
- Effective returns management

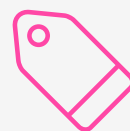
Inventory deployment is the new maxim: getting the right stock in the right place at the right time to delivery stock availability and sales – while at the same time minimising fulfilment costs

and the overall risk on markdown and clearance at end of season.

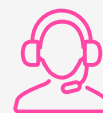
Though this is a new perspective to the integrated supply chain model, there is a common refrain that permeates throughout – all of these are 'hard' operational and business benefits.

As more retailers embark on the journey to integration, they are realising a number of unexpected benefits that previously may not have been considered as part of the business case for change.

### There appears to be a positive relationship between customer centricity and integration



57%  
SALES



39%  
CUSTOMER  
SERVICE



31%  
OPERATING  
MODEL



38%  
IMPROVEMENTS IN  
STOCK AVAILABILITY



35%  
REDUCED  
STOCKHOLDING



34%  
REDUCED TOTAL  
FULFILMENT COST



31%  
SINGLE VIEW  
OF STOCK



18%  
MORE EFFECTIVE  
RETURNS MANAGEMENT



17%  
ENHANCEMENTS  
TO ASSORTMENT  
STRATEGY

# 01 Improvements in inventory management

With inventory representing such a significant investment for a retail business, any opportunity to improve its deployment and reduce the overall working capital requirement will be gladly received by retailers.

35% of retailers told us that reduced stockholding is one of the top three advantages of moving to a more integrated business model. The Pioneer archetypes have achieved this by applying online fulfilment capabilities to their conventional retail replenishment and inventory redeployment.

- Click and Collect services and lead times mean that retailers now deliver to store more frequently to fulfil demand. This provides an environment for retailers to move away from 'Push' replenishment models towards more agile and responsive models that scale with actual demand.
- Similarly, by combining home fulfilment inventory with retail inventory for stores, leading retailers are increasingly enabling single-item picking for store replenishment. This further enhances inventory deployment and enables stock to be pulled through closer to the point of sale than ever before.

The benefits are substantial, placing the right stock in the right place at the right time to service sales, and significantly reducing the risk of markdown and clearance due to maldistribution. This is clearly evident in the margins, often achieving 3-5% increase in net margin in addition to increases in sales potential and reductions in working capital.

# 02 Better availability and full-price sell through

For the connected customer availability is the key to delivering sales and loyalty.

eCommerce has changed customer expectations on availability – from selecting from within the range available in store to the assumption of obtaining the exact item desired.

Consumers are far less tolerant of out-of-stocks and will abandon the effort and simply buy elsewhere. This is hard on retailers, who need to balance improved availability at the point of sale with a customer who is increasingly channel ambivalent (and has no problem switching channels in the moment). Retailers are pressed to provide inventory that can satisfy sales demand, without risking overstocks – which could lead to higher markdowns in future to clear.

In today's omnichannel world, this makes inventory deployment a new and developing skillset and a true competitive edge.

# 03 Reduced fulfilment costs

Retailers who understand their integrated business model along with product channel and customer profitability are starting to see that integration can not only deliver improved agility and service, but also reduce cost.

34% of this year's respondents cite reduced fulfilment costs as one of the top three advantages of an integrated business model, up from just 16% last year.

A prime example of changing operating models to reduce costs is the increasing trend towards fulfilment of Click and Collect orders from store stock.

Of course, this requires a greater accuracy of store stock file – not to mention real time visibility of store stock – but once achieved it is a far cheaper and more reliable model to replenish Click and Collect orders from store than to route them through a central fulfilment centre for onwards shipment to store.

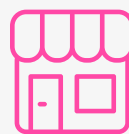
Another example is the growth in supplier direct delivery. In this case, retailers are recognising more clearly that certain products are so slow-moving and prone to markdown that the return on inventory investment they deliver does not warrant the cost.

In these instances, partnering with suppliers to deliver to the customer directly on the retailers' behalf often generates both a higher overall net margin and significantly less operational risk for the retailer.

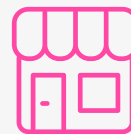
Beyond inventory and customer understanding, winning retailers are also changing their operating models in response to greater insights around net margin and profitability, across the full product lifecycle. These winners have visibility of their cost to serve and understand the profitability of different channels when fulfilling to customers.

Fulfilment decisions are taken with full knowledge and insight into projected net profitability across the product lifecycle, and this enables rapid (and cost-saving) performance. For instance, with deep visibility, online orders could be routed to and fulfilled from slow-selling stores in order to avoid potential markdown and clearance costs. In net margin terms this approach to moving inventory is more attractive than merely minimising the direct operational costs of the pick, pack and despatch operations in the fulfilment centre.

## Servicing of online orders from Store versus central stock



42%



44%



58%



55%

TOTAL 2015

TOTAL 2016

**“Our returns is a significant driver of brand perception. A poor service has a significant impact on the proposition of your business. Your returns service speed is very important to the customer (i.e. giving people their money back). Our view is that store returns generates additional footfall and a chance of selling them something else.” – Simon ratcliffe, Infrastructure Director, Fatface**

# 04 Effective returns management

Returns have always been a necessary part of online fulfilment process. Today, it's clear: offering a frictionless returns process is expected as standard by customers who value returns capability almost as highly as delivery capability when selecting a preferred retailer.

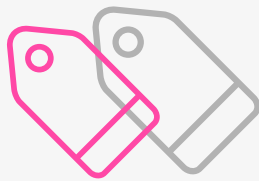
What is less clear is that there are distinct advantages to the retailer in operating efficient and effective returns processes. In fact, 18% of retailers cite efficient returns as a key advantage of an integrated business model.

- Efficient receipt of returns will speed customer credits, helping to alleviate customer anxiety and refunding cash quickly for potential fresh purchases

- Efficient sorting, grading and re-processing of returns back to stock will increase the likelihood of being able to re-sell within the core selling season and will reduce the risk of having to markdown to clear at end of season

It bears repeating that the key is not to over-service your customer's needs. A great example of this is John Lewis, which has reduced its returns window from 90 days to 35 days as a result of its shift to more fashion-orientated product. By shortening the returns window, they have reduced the risk of a product being returned after a season has ended and therefore having to be sold at a discount.

## What areas will your business benefit from a more integrated cross channel offer?



56% 65%  
INCREASED SALES



44% 45%  
CONSISTENCY OF CUSTOMER SERVICE



27% 43%  
ENHANCED BUSINESS OPERATING MODEL



36% 41%  
INCREASED NET MARGIN



43% 32%  
IMPROVEMENTS IN STOCK AVAILABILITY



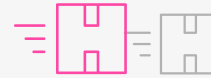
41% 29%  
REDUCED STOCKHOLDING



17%  
ENHANCEMENTS TO ASSORTMENT STRATEGY



32% 20%  
REDUCED TOTAL FULFILMENT COST



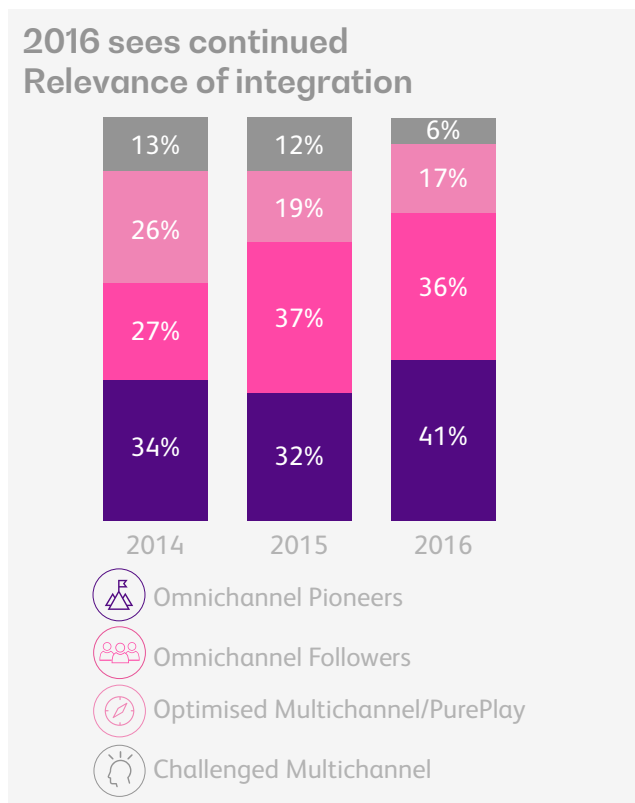
26% 16%  
MORE EFFECTIVE RETURNS MANAGEMENT

# Implementation challenges

The benefits of integration in a customer driven supply chain are clear: increased sales and customer service, combined with lower inventory, improves profitability.

It should come as no surprise that the proportion of 'Pioneers' (those retailers that identify as integrated) has increased from 32% in 2015 to 41% in 2016. Correspondingly, the lower proportion of Optimised Multichannel/Pureplay and Challenged Multichannel retailers, down from 31% in 2015 to 23% in 2016, indicates retailers are graduating from these archetypes as they understand the benefits of integration.

There are still, however, a significant number of 'Followers' (those who identify as partially or not at all integrated). The overall proportion of 'Followers' is stable at 37% in 2015 to 36% in 2016, indicating the huge scale of the change that retailers are facing as they transition to full integration.



**While 57% of retailers surveyed consider themselves to be fully integrated, 43% still have some way to go to achieve customer centricity**

Which of the following best describes your operation?



43%

Partially / not at all integrated



57%

Fully integrated



## Implementation is happening ... slowly

Given the benefits associated with integration, retailers should be expected to drive purposefully towards implementing their new operating model as an immediate priority. But this does not appear to be the case. We have seen a number of reasons for this.

## The goalposts keep moving, so how can i ever be finished?

In this ever-changing environment, retailers face a dilemma when it comes to placing their bets in terms of investment. After all, can full integration ever really be achieved when customer needs are in flux?

## I'm happy to be a follower and learn from the pioneers.

Some retailers are deliberately positioning themselves as 'Followers' and looking to leverage second mover advantage. They observe the investments that Pioneers implement and cherry pick those most suited to their business. How they position themselves is key: too far behind, and investments will not be implemented quickly enough to realise benefits; too close, and there will not be sufficient time to accurately judge the success of their competitors' investments before making their own decisions.

## The technology investment is too great so i'll re-configure my existing systems.

Many retailers indicated that a lack of appropriate systems is a major barrier to fully integrating their business. But equally we see many retailers who are reluctant to invest end-to-end in their systems, preferring to make tactical 'bolt-ons' to give them the short-term capability to take small steps – and hoping they're not outdated when the next shift takes place.

**“Retailers have to be very focussed on their technology for today and into the future. Customers are increasingly demanding of the delivery to their homes. When we think of technology, we first think of what is important to our customers – now and in the future.”- Phil Clarke, COO, The White Company**

## Re-configure or fully integrate?

While it's technically possible to re-configure existing systems and processes to an extent, doing this will never realise the same return as a fully integrated business.

It is not unusual for retailers to try and make the best of their current systems before making investments in new technology. It can provide a useful testbed for new functionality, and often provides a clearer view of what's really required from a technological perspective.

However, bolting-on capability comes at a cost.

The business will constantly rely on workarounds at the back end, even if the front-end systems appear integrated to the customer. Levels of integration will be limited by the functionality of the supporting systems – not to mention the disparate maintenance of each – and this approach will never generate the same level of return on investment as a truly end-to-end architecture.

System change is often large and complicated, and it can feel like too significant an investment to tackle as a whole. We are seeing a change in retail systems solutions, with a more modular approach evolving, making it more attractive for modernising retail operations. This is in direct contrast to the large, historical business suites that come with long, disruptive and costly implementation phases.

## Functional silos limit levels of integration

A prevailing theme from past reports has been the challenge of aligning business units to deliver an integrated business. That theme continues to present a major barrier for retailers, regardless of which stage they are in on their integration journey.

Traditional organisational structures where commercial and operational teams are separated do not represent best practice in the integrated retail world. They are however, still commonplace.

As with systems, retailers have attempted workaround fixes for these organisational challenges and created a separate team to drive the online channel, often in direct conflict with retail teams. The introduction of the 'customer director' will mitigate this to an extent as the customer experience along with the customer offer will be considered from an end-to-end perspective.

**“When you start off in one channel the choices are easy. When you have more channels, the stock and margin decisions get more complicated. How you make these critical commercial decisions in an environment of multiple choices, is a new level of capability and complexity for decision making.” – Simon Ratcliffe, Infrastructure Director, Fatface**

# Not every retail business will make the transition

These rapid disruptions can be too much to bear. For some retailers, the size of the change and the associated challenges is overwhelming, and they end up filing for administration or being sold and broken up.

According to the Centre for Retail Research, 2016 saw 30 retailers fail, up from 25 retailers in 2015.

Some of the higher-profile cases included:

- **BHS** – with 164 stores and 11,000 staff the demise of BHS was one of the most significant retail failures in 2016, and the largest retail collapse since Woolworths. Its inability to innovate and move with the competition unfortunately made its demise inevitable.
- **AMERICAN APPAREL** – the American fashion retailer has put its UK operations into administration, after the parent company filed for Chapter 11 (protection from creditors) in 2015.
- **BANANA REPUBLIC** - the fast-fashion subsidiary of Gap has closed most of its eight UK stores to trade exclusively from its website.
- **MY LOCAL** (formerly Morrisons 'M' Local) – one of the leading factors leading to the closure of this chain's 130 convenience stores was the poor footfall at most of its locations, the single biggest success factor in convenience retailing
- **AUSTIN REED** – the 155-store tailoring brand fell victim to being positioned in the 'middle of the market and its inability to adapt to recent shopping trends
- **BLUE INC** – the young fashion brand was forced to appoint administrators to sell 60-65 stores and lose 500 jobs
- **STAPLES** – the stationery retailer is set to close its 106 UK stores employing 1,100 staff after selling the company for a nominal sum to Hilco Capital, citing online competition as a major factor.
- Although the 2017 Centre for Research report isn't yet available we have already seen a number of notable administrations including:
  - **JAEGER** – the classic British clothing retailer, in business since 1884, failed to find a buyer for its 46 stores and went into administration in April 2017
  - **BRANTANO** – the shoe retailer went into administration in March 2017, putting 1,100 staff at risk just three months after purchase by an investment firm, with 140 stores and 60 concessions across the UK
  - **JONES THE BOOTMAKER** – saved from administration in March 2017 by a last-minute sale, saving 72 of its 170 shops and around 840 jobs in the UK

# An emerging difference in approaches

A gap is developing in attitudes towards building the customer driven supply chain.

In offering a connected service to customers across channels, our Pioneers have created a single stock pool, which in turn has helped them realise working capital reduction and improvements in availability. These retailers understand the wider business benefits of integration and so investments are considered across a number of criteria.

Conversely, there is an inertia within the Challenged Multichannel retailers. Resistant to change and reluctant to invest heavily in new business processes and systems, they believe that this will not generate an acceptable return on investment.

The gap between willingness and resistance to change signifies the level of uncertainty in taking on the risk of investment, and this directly distinguishes the Pioneers from Challenged Multichannel retailers. Because the evidence is clear: winning archetypes are showing broad, holistic business benefits of integration – and in fact are generating a very attractive return on investment.

## What are the potential barriers to achieving retail success

Customer expectations and technology - high investment needs to be future-proof as far as possible, standing still means going backwards!

UK general merchandise retailer (£1-5 billion turnover).

Cost of operating a high street chain of stores.

US speciality retailer (£50 – £100 million turnover).

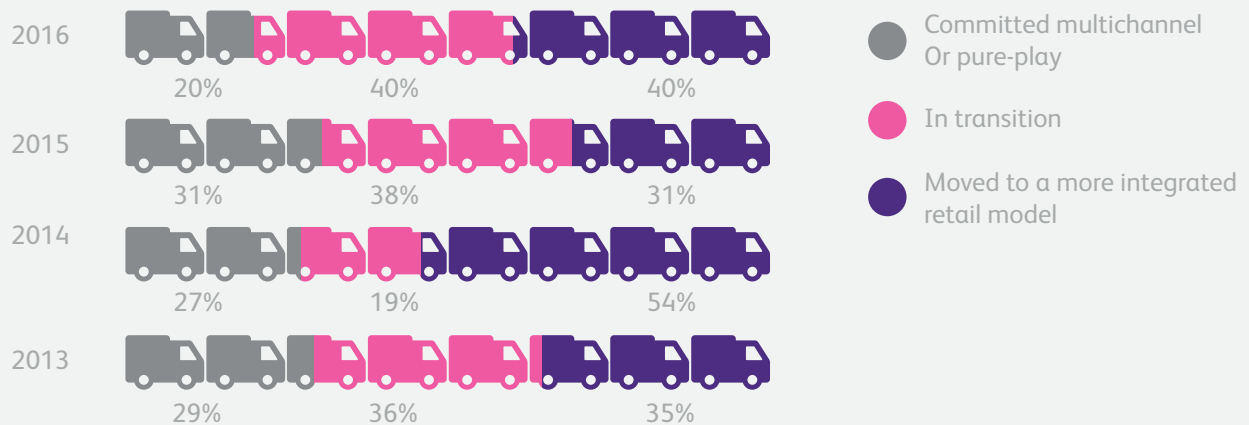
Lack of integrated systems, poorly aligned business units, non-cohesive customer service.

US clothing and clothing accessories retailer (£100 – £500 million turnover).

Inferior product, competition, stiff shipment costs, saturation of market by active consultants.

US Furniture and home furnishings retailer (£100-500 million turnover).

## After faltering in 2015 the transition continues



**“There are concerns at an industry level about fulfilment and there is concern about offering so many of these services at a loss. I doubt whether that tide can be pushed back as the base hygiene standards have risen. That’s just evolution, that’s how it is now – what is to change is to get smarter on the choices offered and to lower the cost of delivery.”**

**– Simon Ratcliffe  
Infrastructure Director, Fatface**

# Successfully delivering the customer driven supply chain

A Four-part Framework for Integration Success

## 01 Know your customer intimately.

In today's landscape, retailers must get closer to their customers than ever before. Use a variety of sources of insight and analytics when developing a customer proposition, combining the hindsight of retrospective analysis with the foresight of customer surveys and trend identification. Having the capabilities and people in place to facilitate the process - potentially enabled by the 'Customer Director' – will enable connections to be made between these apparently disparate data sources.

## 02 Invest in agility to respond to change.

The retail environment changes rapidly, and this trend will accelerate in the coming years. In an uncertain context, how does a retailer make investment decisions? Winning archetypes ask questions such as:

- How quickly will we be able to react to a change in customer needs with this investment?
- How much risk does this investment represent if customer requirements change tomorrow?
- What can we do to mitigate the risks on this investment?

Through challenging investments in this way, winners are increasing their ability to react to changes in customer's needs, while reducing exposure to risk.

## 03 Design your supply chain to deliver the customers' needs: no more, no less.

Design your supply chain in a way that delivers to the customer requirement profitably. The trick is not to over-service customers' needs. Strictly identify and focus on what is really important to them, and follow through into investment decisions. Processes and systems should be reviewed with this principle in mind, with any unnecessary steps engineered out to reduce waste and focus on satisfying the customer.

## 04 Phase the change in a way that delivers benefits early and minimises risk.

Because major transformation programmes are extremely large and often complex retailers are understandably wary of implementation distracting them from their core sales activities. The winners design roadmaps and implementation plans in a way that allows some benefits to be delivered early on, generating momentum and inspiring confidence in the overall change programme. They also build in 'go/no-go' decision points at appropriate points on the journey, to avoid making investment decisions without the most up-to-date and relevant information.

# Conclusion

Global retailers face revolutionary changes that are forcing them to transform. The biggest power shift is that the customer is now the driving force in the relationship.

Our 4th Annual Retail Survey, 77% of retailers agree success means putting the customer first in order to drive profitability. Our survey shows that for retailers to achieve they will need to continually adapt to the ways consumers buy, and also adapt the way they deliver their proposition.

## 01 Customer expectations: the goalposts keep moving

Retailers trade in an increasingly tough environment, with multiple technology, demographic, economic, and social factors changing customer interactions with retailers – and driving retailers to respond and innovate.

## 02 The emerging focus on service

Even stronger than price emerges a new focus on customer service along with a consistent brand offering across channels as keys to driving customers to purchase. This is where winning archetypes are focusing their attention to maintain market share and remain at the forefront.

## 03 The customer driven supply-chain concept

The customer driven supply chain concept is gaining traction with retailers, who are recognising that integration is key to putting customer needs right at the heart of their proposition whereas bolting on non-integrated omnichannel solutions is not sustainable.

## 04 The benefits of a customer driven supply chain

Those that recognise that customers are at the heart of the supply chain and have taken the time to understand them are reaping the benefits both in top line sales and – critically – in bottom line profitability. They do this by using their inventory more effectively, reducing fulfilment costs, managing returns efficiently, and providing better availability.

## 05 Implementation challenges

The benefits of implementing a customer driven supply chain are clear. At the same time, while the challenges may at times feel insurmountable, we are seeing this start to change slowly. Perceptions of difficulty include technology and systems implementation, as well as both cost investments and the complexity of effective cross-functional execution.

## The future

**The world is going to keep changing and retailers must remain agile, optimising their end-to-end supply chains to deliver their customer proposition profitably. Given the ongoing changes that continue to have an impact on the sector, the question is no longer whether retailers know they need to put customers first and align their business operating model accordingly. It's whether they have the capacity and motivation to change their business operating model and shape their supply chain to service their clients' needs profitably.**

## About BearingPoint

BearingPoint is an independent management and technology consultancy with European roots and a global reach. The company operates in three units: Consulting, Solutions and Ventures. Consulting covers the advisory business; Solutions provides the tools for successful digital transformation, regulatory technology and advanced analytics; Ventures drives the financing and development of start-ups. BearingPoint's clients include many of the world's leading companies and organizations. The firm has a global consulting network with more than 10,000 people and supports clients in over 75 countries, engaging with them to achieve measurable and sustainable success.

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