

# THE STATE OF THE RETAIL SUPPLY CHAIN

## Essential Findings of the Fifth Annual Report

Developed By



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*Helping Retailers Grow Profitably*

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# About the Study

## Overview of the Fifth Annual State of the Retail Supply Chain Report

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*“Direct-to-guest is growing dramatically. We need to have the capacity to handle it and make sure that we don’t crush our profit and loss statement.”*

The 2014 retail landscape could be characterized as bipolar. On the positive side, U.S. retail sales were up 3.8% for the year, paced by a 15.4% gain in e-commerce sales over the previous year.<sup>1</sup> This growth area captured the focus of retail supply chain management (SCM) professionals as they worked diligently to create seamless omnichannel processes.

On the negative side, retail sales were dampened by protracted congestion at West Coast ports. Despite the best efforts of supply chain teams to divert traffic to alternate ports and modes, many retailers ended the year with millions of dollars’ worth of product stuck in transit.<sup>2</sup> Though the labor problems have been resolved, a return to normal operations will take months to complete.<sup>3</sup> In the short run, this situation will continue to divert attention from more productive SCM initiatives.

Despite the periodic challenges created by port issues, transportation capacity and labor shortages, and other disruptors, retail supply chain executives are moving forward with essential investments, infrastructure modifications, and service improvements. Their strategies and initiatives are highlighted in this edition of the State of the Retail Supply Chain (SRSC) Report.

### **Recap: Fourth Annual Report**

The theme of buy anyway, fulfill anywhere was the hot topic of our previous SCRC Report. As consumers marched into the omnichannel world, retail supply chain executives honed strategies to serve customers profitably. The quest for e-commerce market share at any expense was eclipsed by a more realistic effort to balance service and cost. Leading retailers pursued inventory sharing, integrated fulfillment, and technology upgrades to protect margins.

Another interesting storyline was the widespread focus on supply chain talent. As SCM becomes a more strategic focus of retailers, highly capable supply chain professionals are needed to navigate the complex omnichannel environment. Retailers made a conscientious effort to attract, develop, and retain high caliber SCM professionals. Tools such as rotational programs, individual development plans, succession planning are used to prepare future SCM leaders.

The other focal point of the 4<sup>th</sup> Annual Report was optimizing performance across all channels. Retailers pursued this goal by supplementing traditional KPIs and descriptive tools with more holistic measures and forward-focused methods. The leaders began to lay the groundwork for “big data” capabilities. Their goal? To use predictive and prescriptive analytics to more accurately decipher demand and respond accordingly.

*“For us it’s all about capacity, throughput, and process innovation. Really, all of that is geared toward supporting the growth of the company.”*

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## Research Objectives: Fifth Annual Report

The goal of the SRSC Report is to investigate the supply chain practices that directly impact retail organization success. Our fifth annual study addresses issues of great relevance to leaders:

*Supply Chain Strategy:* What are the priorities for planning, investment, and integration?

*Last-mile Execution:* How successful are retailers at coordinating omnichannel delivery?

*Transportation Agility:* How do top retailers manage the constant barrage of obstacles?

*Omnichannel Evolution:* What essential SCM attributes separate leaders from the pack?

*On the Horizon – A Look Back and Forward:* Where did the RSCM research team hit and miss with its previous annual predictions? What is in store for retail supply chains in 2015 and beyond?

In the pages ahead, we present an in-depth analysis of each question. At select points, we also provide a comparative analysis with research results from the first four SRSC studies. The results can be used by retailers and their supply chain partners to benchmark their strategies and practices against those of major U.S. retailers.

## Study Methodology

The focus of the current research initiative was derived from industry hot topics, executive input, and the emergent issues identified in the fourth annual SRSC report. To gain meaningful insights from the major players in retailing, we sought participation from organizations with: (1) annual revenues above \$1 billion; (2) omnichannel capabilities; and, (3) broad geographic activity.

Information for this report was gathered via senior executive interviews, an online survey, and conference polling. This multi-methods approach generated 176 engagements with retail SCM professionals. Table 1 provides demographic highlights of the participant pool. Based on this profile, our report primarily highlights the strategies and activities of larger retailers.

*Table 1: Demographic Characteristics of Participants*

Characteristics	Summary
Company revenues exceed \$1 billion	93%
Company has omnichannel activities	93%
Director-level or above	95%
Supply chain experience	22 years

*“We’re trying to shape omnichannel demand through the way we price our fulfillment options so that we can make a return for our shareholders.”*

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## Senior Executive Interviews

We began this year’s study with a series of expert interviews. An interview script with 15 questions served as the foundation of the discussions. These semi-structured interviews typically lasted 30 to 40 minutes, which allowed for insightful dialogue across our research topics. The supply chain executives’ candid comments helped us understand the critical issues that drive retail supply chain strategy and operations.

## Online and Conference Surveys

Next, we conducted an online survey to study the research objectives and pertinent interview trends. This generated 51 responses. During the SRSC general session at the RILA Conference, 105 retail professionals responded to key survey questions via the audience participation app.

Our research team reviewed the interview transcripts, and analyzed the results. This report reveals our key findings via discussion, graphics, and expert commentaries.

## Fifth Annual Study Participants

We thank the supply chain professionals who participated in this year’s study. Their collective insights support a vibrant and timely analysis of the hottest retail SCM issues. As the participant sample indicates, a wide range of top retailers contributed to the initiative:

Abercrombie & Fitch	Dollar General	Petco Animal Supplies
Academy Sport	Dollar Tree	Redbox
American Eagle Outfitters	Family Dollar	Rite Aid
AutoZone	Famous Footwear	Save Mart
Bass Pro Shops	Food Lion	Sears Holdings
Bealls	Genesco	Shopko
Belk	H.E. Butt Grocers	Stage Stores
Bob’s Stores	Hibbett Sports	Staples
Cabela’s	JCPenney	Target
Canadian Tire	Jo-Ann Stores	The Home Depot
Chico’s FAS	Lifeway Christian	The Vitamin Shoppe
CVS/pharmacy	Limited Brands	Tory Burch
Dick’s Sporting Goods	Lowe’s	Toys R Us
Dillard’s	Meijer	Walgreens
Disney	Neiman Marcus	Walmart

# Current Issues and Strategies

## Retail Supply Chain Executives Pursue Customer-Aligned Capabilities

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*“There’s three legs to our strategy – support omnichannel, differentiate the experience, and deliver value.”*

The continued laser-like focus on all things omnichannel by SCM professionals should not come as a surprise to anyone. Omnichannel is a logical progression, perhaps even the next evolutionary phase, from the “early days” of e-commerce retailing where dedicated fulfillment channels were established for online customers. Retailers have quickly realized that to serve customers profitably across channels, separation is not the solution. Rather, integrated systems, shared inventory, and flexible facilities will drive greater customer engagement and company profits. Of course, this is easier said than done. Establishing true omnichannel capabilities requires strategic planning, investment, and collaboration across the retail organization.

### The Critical Issues

The supply chain environment is constantly evolving which creates new challenges each year for retailers. Key issues identified by retail supply chain executives during the interview phase of the research are listed in Table 2.

*Table 2: Strategic Priorities*

Topic	Rank
Enabling omnichannel growth	1
Establishing essential infrastructure	2
Maintaining smooth transportation flows	3
Facilitating inventory access	4

Retail supply chain executives are tenaciously pursuing capabilities that can rapidly and economically support customer demand from anywhere in the supply chain. How will retailers know when they have achieved this strategic goal? It will take place when they no longer think about specific channels or buckets of demand. As one forward thinking supply chain executive succinctly put it: *“We don’t really think about e-commerce and regular commerce. We just think about commerce.”*

Infrastructure-demand alignment is on the docket of many supply chain executives. For some, this means building out fulfillment networks. For others, it focuses on improving current infrastructure utilization through automation. And others point to an opportunity to leverage the store network as distribution points. The respondents indicated that integrated technology tools are needed and the evaluation process is frequent. *“Most companies are revisiting the design of their supply chain much more dynamically than they have in the past,”* a CSCO noted.

*“Our challenge next year and for the foreseeable future will be to lay in capabilities that allow us to respond and grow with the omnichannel customer.”*

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Transportation is a sporadic pain point for retailers. In some years of the study it hardly warrants mention by retail supply chain executives but in other years, it takes center stage. 2014 was one of those center stage years with port congestion, trucking capacity shortages, intermodal chassis headaches, and rail delays each causing significant pain. Supply chain professionals deployed a wide range of responsive strategies to keep freight flowing to DCs, stores, and customers. We offer a detailed look at these strategies in the Best-In-Class section of the report.

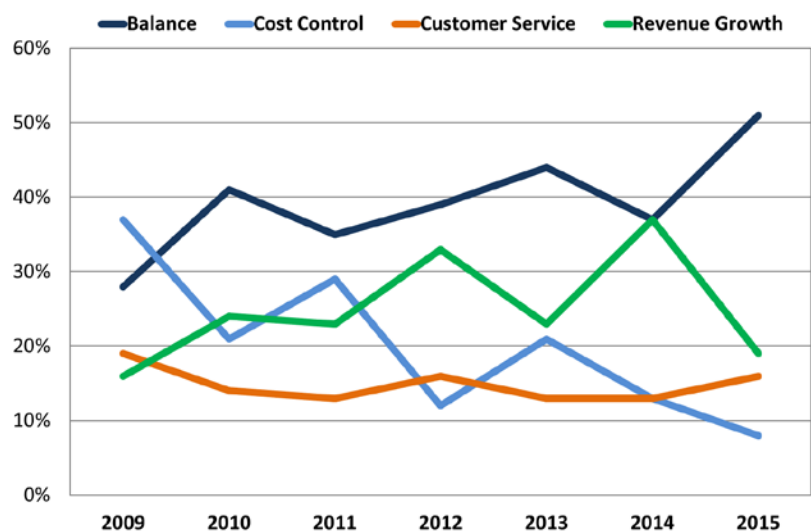
The fourth major priority for retailers is ensuring that inventory is readily available for cross-channel deployment. The “one inventory” concept is gaining traction as supply chain executives seek to increase inventory access, productivity, and velocity. *“Leveraging the inventory that’s in 1,000 stores across our network and being able to accept returns from an ecommerce sale – that’s the ticket to admission for any kind of omnichannel retailing,”* an inventory executive explained. This requires strong systems, real-time inventory visibility, and near-perfect inventory accuracy, especially when the buy online, fulfill from store strategy is deployed.

## Strategic Focus

Each year, we ask the survey participants to identify their primary supply chain strategy for the current and upcoming year. Figure 1 summarizes the shift in retailers’ strategic priorities over the life of the SRSC Report.

The forward-looking SCM strategy of most retailers is one of balance where a dual pursuit of cost control and revenue growth drive decision making. They are adopting a holistic perspective that seeks to improve organizational profit margins even if it requires additional supply chain spending. Increasingly, the supply chain executives talked about prioritizing the customer experience and optimizing total cost instead of a pure focus on supply chain expense reduction. *“We were optimized more around cost than services,”* a vice president noted. *“We’re shifting toward being more optimized around consistency and speed.”*

Figure 1: Strategic SCM Focus



*“One of our big investment areas will be improving our internal analytical capabilities or recruiting to bring that talent in from the outside if needed.”*

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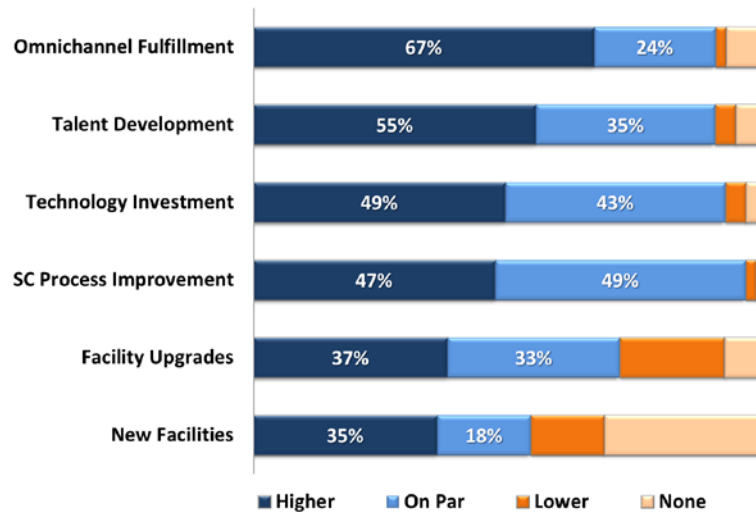
SCM executives realize that a singularly focused strategy will not optimize profitability for the organization. Pursuing a supply chain cost minimization strategy can result in higher total cost for the organization and it also limits responsiveness. Given these detrimental outcomes, there has been a decline in the pure cost control strategy over the course of the SRSC study.

Likewise, the growth strategy has stalled out due to its potential negative side effects. Many retailers have learned that chasing omnichannel market share with free delivery, subsidized same-day or next-day service, and filling an order from multiple facilities has a decidedly negative impact on profit margins. This concern, held by multiple retailers, is succinctly stated by a vice president who confessed: *“We’re allowing people to be very inefficient with their shopping habits and I don’t know how much longer that can last.”* Hence, they are working to understand fulfillment costs for all channels and becoming more sensible in the drive for online sales growth.

## Investing in the Future

If investment plans are an indication of the future, then retail supply chain executives are a highly optimistic group this year. Their spending plans are the most aggressive that we have observed over the duration of the SRSC research. Figure 1 reveals these spending plans.

Figure 2: SCM Investment Plans



Leading the way is investment in omnichannel fulfillment capability expansion. Spending on this fastest growing part of the business will surpass 2014 levels for two-thirds of the respondents. A top SCM executive revealed: *“80% of our investment in supply chain is going toward direct fulfillment and delivery. That’s pretty disproportionate spending for 4% of our business.”* People and technology will also be prime areas of investment in 2015 as retailers need top tier talent and omnichannel capable tools to manage the growing complexity of the retail environment.



*“We’re evolving the role of merchants to product development, promotional planning, and brand management. The rest of it will move to the supply chain.”*

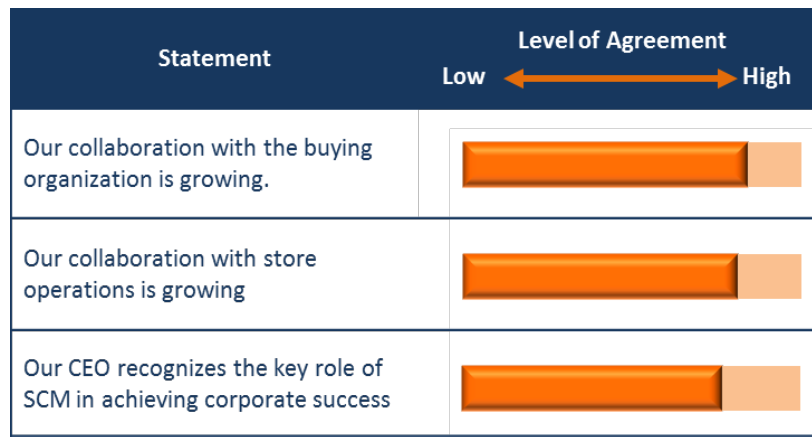
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## Cross-Organizational Collaboration

As retailers seek to build out their omnichannel strategies, supply chain capabilities become much more important. Over the lifespan of the SRSC study, we have observed the focus shift from “inside the four walls” DC execution excellence to a more strategic engagement that spans sourcing to store operations. Through economic downturns and digital upheaval, supply chain professionals have provided great value. They have become key advisors to C-level executives and trusted resources for colleagues across the organization.

The engagement of SCM across the retail organization is confirmed in Figure 3. Collaboration with the buying side focuses most heavily on inventory allocation planning, followed by demand forecasting and inbound delivery scheduling from vendors. Store support focuses on replenishment and outbound delivery scheduling. The collaboration needs to take on a new level when retailers begin to fulfill online orders from stores. The supply chain organization can consult on fulfillment process design, order processing and shipping best practices, and cost control strategies. Speaking to the fill from store strategy, one executive pointed out: *“You’ve got people who aren’t shipping experts, but in all fairness, we haven’t done a good job of educating them. That’s a big focus of ours – resetting expectations and providing tools and capabilities to the stores.”*

Figure 3: SCM Cross-Organizational Engagement



## Key Takeaways

Although a few major retailers have the demand volume to fully segment their fulfillment channels, most retailers in our study are strategically pursuing alignment between online and in-store inventories, balance between service and cost, and collaboration between functions. They are also investing heavily in processes, people, and technology to ensure that dynamic fulfillment capabilities are established. Their goal? Supply chain executives want to build flexible networks that can effectively and profitably serve demand from anywhere in the supply chain.

# Best-In-Class Capabilities

## Pursuing Supply Chain Excellence in an Omnichannel World

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Each year, our research seeks to identify supply chain capabilities that separate the most innovative retailers from the pack. Though the hypothetical concept of a best-in-class supply chain can be developed, no single retailer excels on every important capability. That has not deterred innovative retailers from pursuing supply chain excellence on multiple fronts. In this section, you will read about this year's additions to the SRSC Report best-in-class model.

### Looking Back

We began this research initiative back in 2009 by investigating the foundation elements of a best-in-class retail supply chain. Our research focused on retailers that were intently developing their SCM teams, building cost efficient networks, creating scalable capacity, and achieving strategic alignment. Year 2 of the study took a deep dive into supply chain agility and extending a retailer's SCM control from manufacturing to the store shelf. The Year 3 report analyzed the rapidly emerging capability of multi-channel network dexterity, sourcing strategy transformation, and the pursuit of integrative technology to promote cross-channel visibility, speed, and integration.

In the most recent report, we focused on the mix of capabilities to gain maximum value from people, product, and insights. These Year 4 best-in-class capabilities included:

*Talent Management* – Transforming high potential individuals into supply chain leaders.

*Omnichannel Inventory Deployment* – Sharing stock to fulfill anytime, anywhere demand.

*Managing with Data* – Leveraging business analytics for improved supply chain decision making.

Over time, many of these best-in-class SCM capabilities have become standard operating procedures across the retail industry. At that point they no longer generate distinct benefits. Likewise, changing conditions may limit the impact of current methods and drive the need for innovation. Thus, supply chain leaders must seek to regularly deploy differentiating strategies.

### Looking Forward

*"Number one, we've got to figure out how to do 24 by 7 fulfillment. Anytime a customer wants to order a product, we ought to be able to take that order and move it through the supply chain."*

The 2014 retail landscape generated challenging operating conditions that required supply chain executives to draw upon the skills discussed above as well as extend their capabilities. Chief among the requirements for success are flexible last-mile delivery options to support anytime, anywhere customers; transportation agility to overcome the widespread capacity crunches and port bottlenecks; and, rapid development of omnichannel competencies to keep pace with innovative competitors. These additional building blocks of best-in-class supply chains are detailed in the next pages.

# Capability 1: Last-Mile Options

## Balancing Cost and Service of Customer Flows

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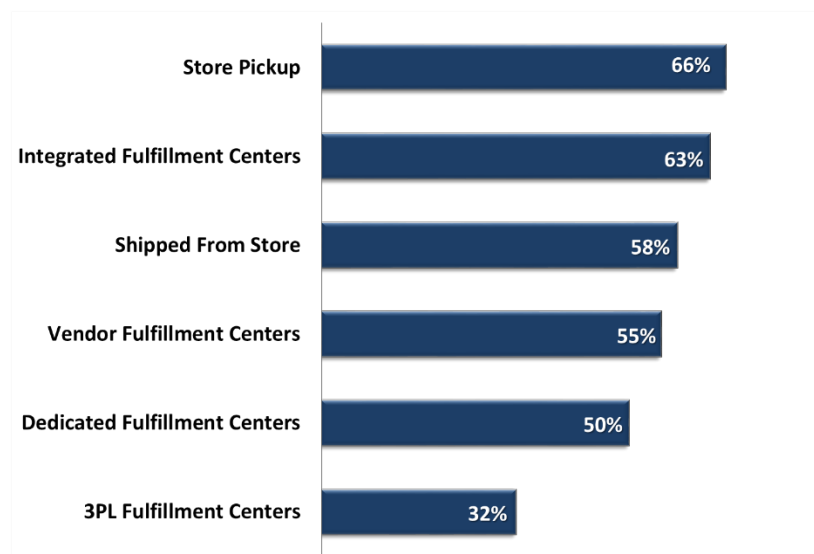
*"Customers' orders will be delivered from the nearest fulfillment point. It could be a store, a fulfillment center, a distribution center, wherever the product is in closest proximity to customers. But, can we can do it for the least amount of money? This will evolve over time."*

### The Key Issues

A key issue addressed by this year's study is last-mile strategy. Two years ago, the SRSC Report included a study of omnichannel fulfillment. Last year's report delved into the dynamics around integrated inventory management at the DC level and focused on challenges to concurrently fill online orders and replenish store inventory. This year, we are extending our study to include the delivery side of omnichannel supply chains.

A large proportion of our study participants use multiple deliver-from locations to serve omnichannel customers. Internal DCs are a traditional source point to fill and ship online orders. Figure 4 reveals that an increasing number of retailers are systematically incorporating stores as fulfillment and deliver-from points, as part of their last-mile strategy. The primary store variants include: fill online orders from DC inventory and ship it to a store for customer pickup, reserve store inventory for pickup by customers, and ship orders to customers from store inventory.

*Figure 4: Omnichannel Deliver-from Locations*



The retailers' future plans call for continued use of multiple deliver-from locations. Looking to the future, SCM executives indicate that there will be heavier reliance on delivery from integrated fulfillment centers versus dedicated facilities, store pickup will be more common than the ship from store option, and vendor direct delivery will supplant 3PL delivery.

*“Omnichannel makes the concept of what we did for so long in our careers – to keep stores in stock – look like child’s play.”*

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## The Challenges and Responses

While omnichannel retailers’ attempts to leverage their store network as a last-mile origin point makes sense, the journey to execute this strategy is not been without perils. Additional difficulties arise when retailers attempt to manage inventory flows from multiple shipping points.

### The Split-Shipment Conundrum

Allowing inventory to be accessed from multiple facilities to fulfill online orders creates a split-shipment challenge. The basket mix of items in a typical online order is quite diverse and constantly changing. The operational context of this phenomenon is that retailers may be pulling inventory from two or more facilities to fill one online order. This situation is especially complex when most of the retailer’s inventory is in the stores. In these cases, last-mile processes become costly to execute.

To mitigate the split shipment scenario, retailers are attempting to make more of the DC inventory accessible to online customers. The reasoning, according to one executive is: *“We want to expose DC inventory to customers because we believe that will help us mitigate that split shipping among multiple stores for one order and make that the tail, not the dog.”* At this supply chain echelon, inventory has traditionally been allocated to support store replenishments. Using sophisticated technology and process innovations, forward-thinking retailers are leveraging inventory across their entire enterprise to optimize fulfillment and last-mile operations. The trick is to properly coordinate product flows from multiple source points and with different transit times, while managing customer expectations about delivery commitments.

### Last-Mile Economies of Scale

While no consensus exists about the best last-mile strategy, there is a clear agreement that the retail industry has reached a new marker in the journey towards omnichannel retail. There is a realization that growth in the online segment is not a passing fad and that it is time to put an additional seat for e-commerce at the planning table. With this realization comes concerns about scalability and profitability, according to a vice president: *“We’ve kind of gone from, let’s just get a website up and running and be in the game, to let’s get market share at kind of almost any cost. And we’ve grown that to: now let’s maybe give up some sales growth and get less red ink on the ledger.”*

Supply chain executives are taking into account the cost to serve online customers when trying to obtain economies of scale in the e-commerce side of the business. This focus has led to the use of sophisticated analytics and technology-based solutions to realign the traditional physical distribution activities. A key goal is to develop the capability to identify the potential fulfillment options and related costs for each order received. It is a matter of balancing the most cost effective method with the delivery requirements of the customer.

*“When our customers are given a choice between fast and cheap delivery, they choose cheap.”*

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In filling and shipping online orders from stores, less is better. To obtain economies of scale, the strategy designates a small subset of stores to act as fulfillment nodes in the distribution network. These stores are on a quicker replenishment schedule than regular stores and store associates are trained to do picking/packing work without disrupting the flow of in-store customers. Some retailers designate specific store employees to fill online orders, others cross train their employees to compensate for daily fluctuations in the number of online orders. The consolidation of shipping volumes in fewer stores has allowed retailers to negotiate with their parcel/package carriers for flexibility in cutoff times for pickups and shipping costs.

### The Next Day / Free Shipping Paradox

Pragmatic supply chain executives largely dismiss the media buzz around last-mile crowdsourcing and drone deliveries. Retailers almost unanimously declared these options to be “good press” and “interesting ideas”, before moving on to more serious issues. One such concern is customer expectation of low-cost, speedy two-day delivery. The executives consider this to be worthy of attention and are striving to make it a cost-efficient reality.

Most executives acknowledge that ultra-rapid delivery makes sense in dense urban markets like San Francisco, Los Angeles and New York City. But they don’t believe that the demand is widespread. In their view, it is the exception rather than the norm. While there is a fraction of customers desiring same-day or next-day service, most customers are willing to wait longer to get their order, especially if the cost of premium service is too high.

*“I think there is a group out there who wants next-day delivery, but they also don’t want to pay for it. You know, they’re willing to pay maybe \$5 bucks but the cost of those same-day deliveries is probably in the \$10 range,”* concedes a vice president. For these reasons, retailers are far more engaged in slower, free delivery effort versus same-day, high cost delivery as indicated by Figure 5.

These assessments, however, are not keeping forward-looking omnichannel retailers from building last-mile capabilities to reduce delivery speed. These retailers are building their strength through significant investments in technology, analytics and electronic connectivity. Last-mile delivery is quickly becoming the next battle ground among omnichannel retailers and their online rivals. The “last men standing” will be retailers that successfully pull the minimum order requirement closer to \$0. Recently, Target cut its free-shipping minimum order size in half to \$25.

*Figure 5: Last-Mile Services*  
Percent of respondents with capability



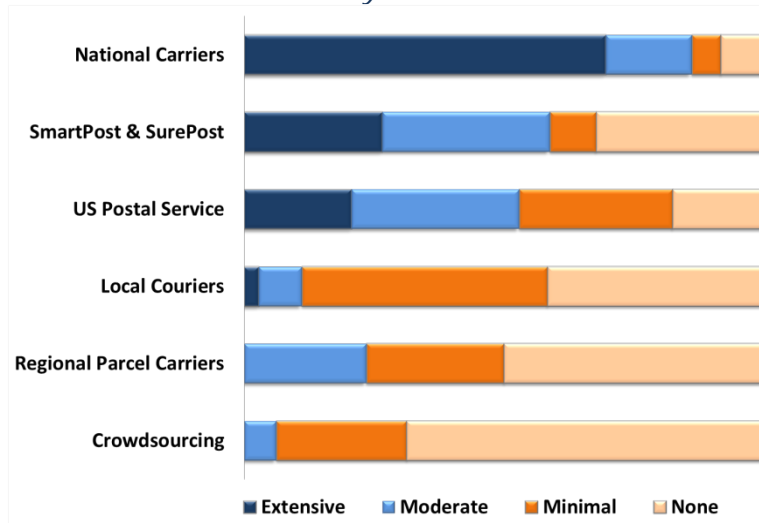
*“I have pretty good data on our carton dimensions. With the new DIM weight rules, we were looking at about \$1 million in extra costs.”*

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### Carrier Use and Pricing Changes

As one would expect, omnichannel retailers rely heavily on national package carriers for last-mile delivery. FedEx and UPS are the dominant players today, followed by hybrid services and US Postal Service delivery. The future will remain largely the same as 70 percent of the retailers indicated that the national carriers will be used extensively in the future. Figure 6 highlights their plans.

*Figure 6: Future Use of Last-mile Delivery Methods*



When asked about delivery challenges, the top response was controlling delivery cost, followed by managing peak volume. Further down the list was dimensional weight pricing. That was surprising, given the potential last-mile cost impact of the new pricing strategy of FedEx and UPS. Potential price increases for low density parcel shipments are estimated to be in the 30 percent range. Larger retailers indicated that their contracts limit the negative impact of the pricing change. However, some apparel retailers and retailers with limited buying power expressed concerns about DIM weight pricing. The deliver from store method is particularly vulnerable as personnel may not understand the DIM weight pricing challenge and they have fewer packaging options compared to DCs. Potential solutions include using regional carriers, order consolidation, and higher order minimums.

### Key Takeaways

Retailers are pursuing last-mile capabilities that will allow them to deliver from multiple locations – DCs, stores, and vendors. The effort is made difficult by the growing realization that split shipments and fast, free deliveries generate more red ink than profit-conscious retailers can handle. Thus, supply chain executives must use caution when reviewing “innovative” delivery options touted by the media. A sober evaluation of strategic options will balance capabilities, costs, and customer requirements. This will lead to sensible last-mile policies and practices that are competitive and protect margins.

# Capability 2: Transportation Agility

Proactively Managing the Ever Present Freight Challenges

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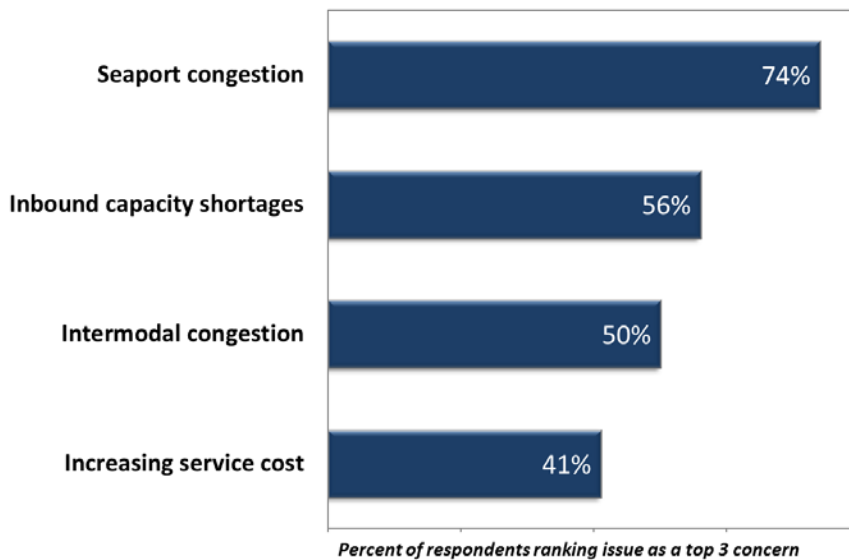
*"It's a transportation perfect storm. You've got the hours of service regulations, driver and equipment shortages, and infrastructure issues but there's not enough money to build incremental capacity. Our ability to move product and grow the economy will really be challenged."*

## The Key Issues

If inventory is the life blood of retail supply chains, then transportation is the pumping heart that moves products throughout the system. Effective product movement is essential for omnichannel retailing success. Transportation topics have been routinely listed in previous SRSC reports, but this year several issues were raised by executives that point to a growing concern about the consistency of product flows.

Based on the frequency of comments heard in the interviews we asked survey participants to rank the importance of multiple transportation issues. Figure 7 summarizes the top four challenges.

*Figure 7: Current Transportation Challenges*



Seaport congestion was easily the most pressing transportation issue. This ranking was elevated because the recent labor unrest at west coast ports was fresh in the minds of survey participants. Although many people are breathing a sigh of relief about the contract resolution, there are still critical port challenges – drayage capacity, availability of chassis, and ocean alliances. A chief logistics officer noted: *"The alliances that the steamship lines have right now has created a real mess because they haven't figured out how to operationalize container flows once they hit the port."* Another port-related issue, intermodal congestion, ranked as the third largest challenge. These issues and potential resolutions are detailed in this section.

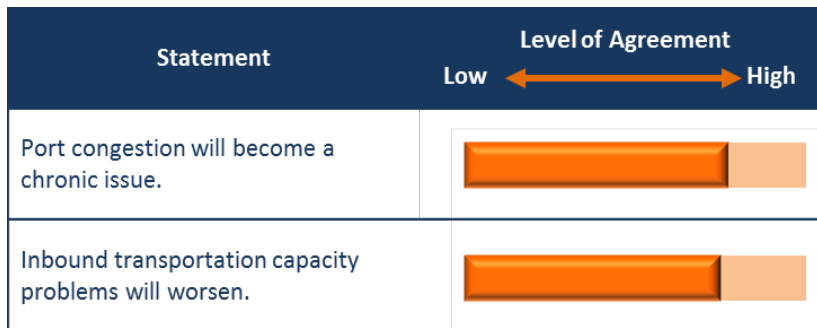
*“Ocean transportation will continue to be an issue, especially with the unions asserting their influence every three to six years.”*

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## The Challenges

Inbound transportation capacity shortages and bottlenecks create significant supply chain disruptions and delays. As Figure 8 shows, retailers strongly believe that these issues are not temporary. Recovery from these challenges can be difficult and costly for retailers who lack the volume and clout to garner carrier attention. West coast port congestion is a particularly acute challenge as approximately 70 percent of U.S. imports flow through these gateways.<sup>4</sup> Any delays at these major facilities, particularly Los Angeles and Long Beach, can easily hinder retail supply chains.

*Figure 8: Inbound Transportation Challenges*



### Port Labor Problems

Union labor stoppages and slowdowns related to contract negotiations hamper the flow of imported goods. Disruptions in September 2002 (11 days) and May 2008 (1 day) were problematic, but the 2014-15 labor dispute affected 29 West Coast ports, from Tacoma to Long Beach that handle an estimated \$1 trillion in goods annually.<sup>5</sup> Labor slowdowns and several days of operation suspension by the Pacific Maritime Association created a backlog of work that will take months to clear.

Any labor action that interrupts the flow of goods through these ports significantly impacts the ability of many retailers to keep shelves stocked. From a supply chain planning standpoint, the possibility of a potential labor disruption can often be seen months in advance as contract negotiations drag on or hit an impasse.

### Large Ship Processing

Containership size continues to grow dramatically and we are seeing 19,000 TEU capacity ships entering the world's fleet.<sup>6</sup> Though ocean carriers can leverage larger ships to reduce their costs, throughput nightmares for ports and ultimately retailers are created. Ports must upgrade their capabilities (e.g., dredging channels and installing larger cranes) to support these larger vessels.



*“The existing infrastructure of the ports being able to handle these large ships will certainly come more into play.”*

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In response, the port of Los Angeles has recently embarked on a five-year, \$1.1 billion capital improvement program to address these ocean transportation changes.<sup>7</sup> However, the ability to berth and unload larger ships is only a starting point. Larger ships equal more containers to be moved through ports, stressing already tight chassis availability and outbound loading of both rail and truck.

### Lagging Technology

Like any business, ports utilize emerging technologies to improve productivity and enhance efficiency. Asian ports have invested heavily in technologies to reduce ship turnaround time. China has made sweeping changes in port operations over the past decade with the result being turnaround time improvement shrinking from almost six days to under a day. Currently, South Korea (.68), Taiwan (.71), and Hong Kong (.72) all boast container vessel turnaround times of less than one day.<sup>8</sup> U.S. ports remain competitive with average turn times of just over a day, but west coast ports lag that figure and tend to have lower productivity.

Despite the implementation of some new technologies, such as the truck appointment systems and the new chassis control systems and process in the Port of Los Angeles,<sup>9</sup> retailers are concerned that it may not be enough. *“The bottom line is there has not been as much use of technology and automation at the port over the last 10 years as you would think...especially when you look at other ports around the world like Singapore, Hong Kong, and Rotterdam,”* said a supply chain executive.

### Trucking Capacity Shortages

The concern about trucking capacity is not a surprise issue. Back in 2012, the Council of Supply Chain Professional annual *State of Logistics* report gave voice to the issue stating “capacity in the trucking industry is at a tenuous equilibrium state.”<sup>10</sup> More recently, a SRSC interviewee stated: *“Carrier capacity is going to bite everybody. We’re going to find that transportation assets and availability is a challenge.”*

The average age of U.S. truck drivers is 55 or higher, and the industry has struggled to attract a new generation to take the place of drivers nearing retirement.<sup>11</sup> Also, trucking companies have left the business by the thousands annually in recent years and it is estimated that over 8,000 fewer trucks were available on any given day in 2012 compared to one year earlier.<sup>12</sup> These trends continue to worsen.

### Intermodal Congestion

The use of intermodal transportation has expanded thanks to its cost advantages, improved performance levels, and ability to offset driver shortage problems in the trucking industry. However, the growing popularity has caused the infrastructure to become stressed despite the best efforts of the rail industry. The increased volume, combined with major capacity improvement projects, has negatively affected container flows. For example, Seattle- Chicago transit times increased from 72 hours to more than 120 hours during 2014.<sup>13</sup> How long these transit time headaches will last is unknown.

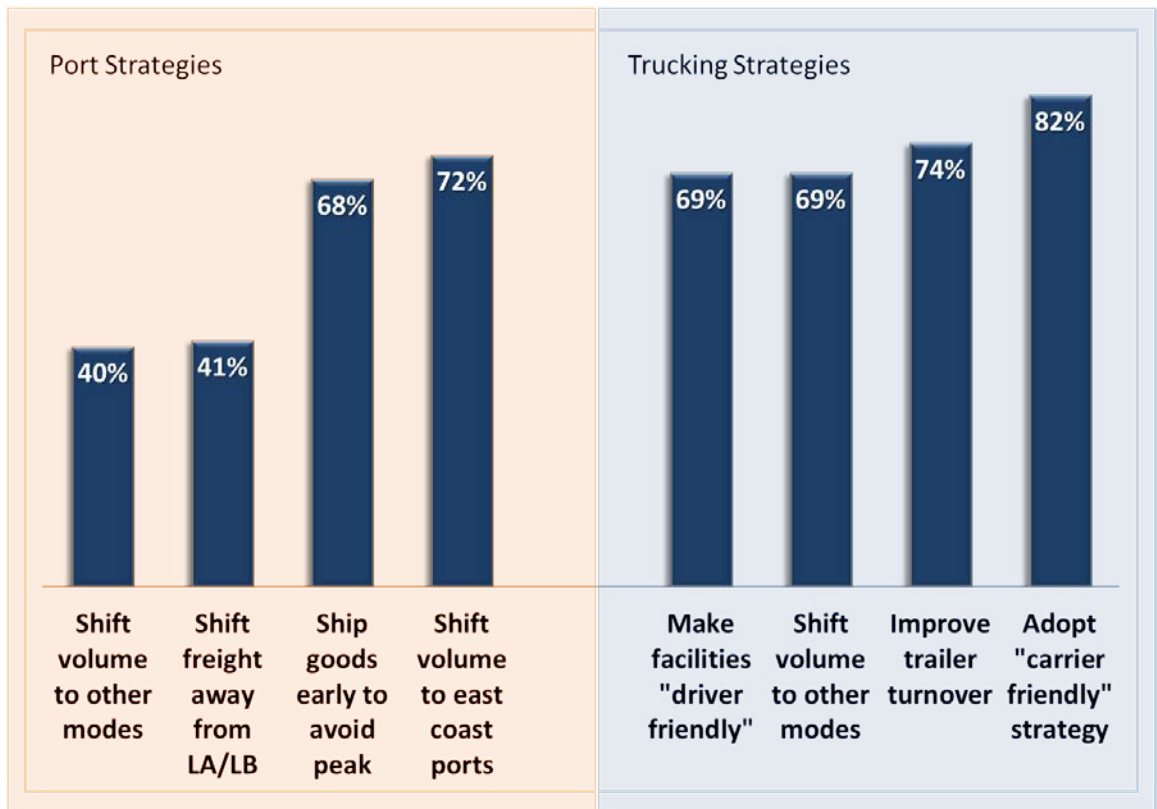
*"If you're not a good partner and not understanding a carrier's needs or if there isn't a good fit, then you're just not going to get capacity."*

Congestion is also a problem at major west coast ports located in major metropolitan areas. This precludes the cost-efficient expansion of dockside intermodal transfer operations. The larger volume of containers being unloaded from increasingly larger ships creates severe congestion issues, impeding the ability of ports and landside operators to quickly move containers into the rail system.

### Responses to the Transportation "Perfect Storm"

Clearly retail supply chain executives face myriad transportation-related challenges in 2015 and beyond. Study participants identified several strategic options for responding to these challenges. Figure 9 highlights the highest rated strategic actions under consideration to prevent and mitigate port and trucking headaches.

Figure 9: Retailer Responses to Transportation Challenges



*“We’re shifting to east coast ports right now. I guarantee that we’re not the only ones to come up with that brilliant idea.”*

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### Minimizing Port Congestion

To reduce the challenges of Southern California ports, study participants are moving business to ports along the east coast and the Gulf coast. Several executives mentioned moving to smaller west coast ports including shipping through Canadian ports. While the major east coast ports have grown their capacity, they are extremely busy and may not be able to absorb a significant uptick in volume. Also, this strategy requires longer ocean transit times, higher container rates, and Panama Canal transit fees which have tripled in recent years.

Another logical strategy is to move freight prior to peak season challenges that occur in late summer and fall each year. While this creates a time buffer to combat congestion, it also creates complications. First, by shipping earlier the retailer is making the decision to hold inventory for a longer period of time. Given the financial impact and risk of obsolescence, collaboration with merchants and the C-suite is needed. Also, the strategy must be implemented very early to give suppliers adequate time to produce the goods. Finally, storage of this additional product has to be considered. Unless the retailer’s distribution network has available capacity, third party storage will be needed which is an added cost.

### Securing Transportation Capacity

Without question, retailers realize that they are in a tenuous position with transportation providers. Gone are the days of “beating up the carrier” to achieve incremental savings and obtain improved service benefits. Figure 9 highlighted strategies that retailers use to adopt more collaborative relationships with their transportation providers.

Becoming more attractive to trucking companies and drivers has become a priority for retailers. Executives identified several ways retailers are addressing this issue. First, they help carriers achieve better equipment utilization. *“From the carrier’s perspective, a friendly shipper is one that they can get two to three turns a week on their equipment,”* said a transportation director. Reducing wait time for drivers is another essential requirement. This is important as drivers only generate revenue when they are actually moving freight. Faster turnaround can be provided at distribution facilities by providing unitized or palletized freight that’s easier and quicker to load and unload, and allowing a wider window for delivery appointments. Also, linking directly with carrier systems can eliminate paperwork snafus that cause delays, enable rapid payment for services, and provide visibility of loads to improve the chance of lane matching for backhauls.

### Summary

Retailers expect to deal with a variety of transportation issues in 2015, and perhaps well into the future. Unfortunately many of the challenges outlined above are rooted in broad demographic and economic trends and are beyond the control of retail supply chain executives. The best performing retailers will those with strong contingency planning abilities and the agility to mitigate disruptions.

# Capability 3: Omnichannel Evolution

## Capabilities Emerge Through Multiple Stages of Maturity

*“Direct-to-guest is growing dramatically. We need to have the capacity to handle it and make sure that we don’t crush our profit and loss statement.”*

### The Key Issues

Omnichannel retailing. It’s a term that been front of mind for retail supply chain executives for multiple years. Significant time, effort, and funding have gone into planning, designing, implementing, revising, and redeploying solutions to support the needs of the modern generation of shop anywhere, ship anywhere consumers.

In past studies, we reviewed multi-channel fulfillment options (Year 3), omnichannel inventory strategies (Year 4), and last-mile delivery solutions (this year). Our coverage has expanded as executives’ thinking has advanced on the subject. This section will outline the directions that we see retailers taking to further develop their omnichannel capabilities.

### Retailers’ Perceptions of Industry Capabilities

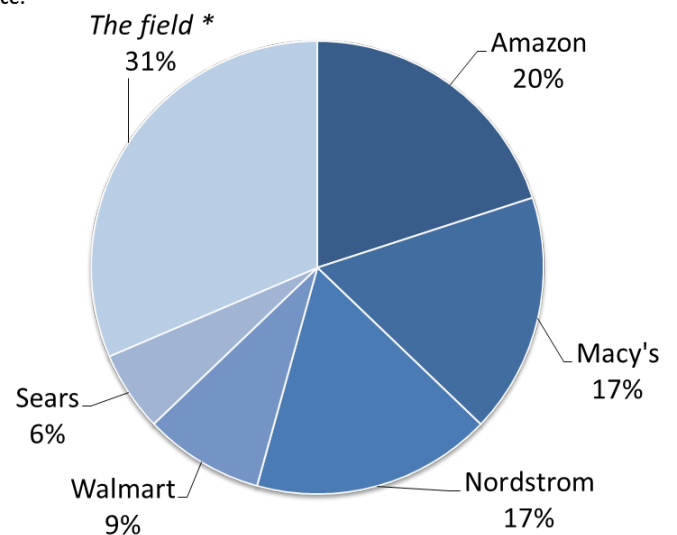
The omnichannel area is changing rapidly and no retailer believes they have the area completely figured out. In fact, when we asked study participants to identify the retailer with the strongest omnichannel capabilities we received an extensive list of responses, as shown in Figure 10. Interestingly the four traditional retailers receiving multiple mentions – setting aside Amazon for the moment – are all large footprint, broad SKU merchants.

Amazon is a bit of a different animal having begun as a pure play e-tailer. Its inclusion at the top of this list is somewhat surprising since the company does not have retail stores or a broad omnichannel network. Amazon’s appearance is clearly a result of the amount of time retail executives have spent in pursuit of the capabilities and customer loyalty that Amazon has established in the direct to consumer retail marketplace. The results also highlight the tremendous impact of Amazon on today’s retail world.

*Figure 10: Strongest Omnichannel Retailers*

\* Retailers mentioned once:

- Apple
- Brooks Brothers
- Cabela’s
- Dick’s Sporting Goods
- Home Depot
- J Crew
- JC Penney
- Limited Brands
- Neiman Marcus
- Staples
- Under Armour



*“In the future, we want to reach our customer base from either a store or a DC with order fulfillment and delivery within 48 hours.”*

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## An Evolving Operating Model

The research team has conducted over 70 interviews with senior supply chain executives over the past three years. Retailers have spent that time learning about consumers’ needs, piloting operating and customer service concepts, and rolling out new omnichannel capabilities that are often replaced with a better option in short order. These supply chain operations, systems, and processes have morphed rapidly as retailers have search for better ways to efficiently accommodate consumer needs. Figure 11 summarizes our view regarding how omnichannel operating models are evolving, based on the dimensions of fulfillment operations and inventory access.

*Figure 11: Omnichannel Evolution*

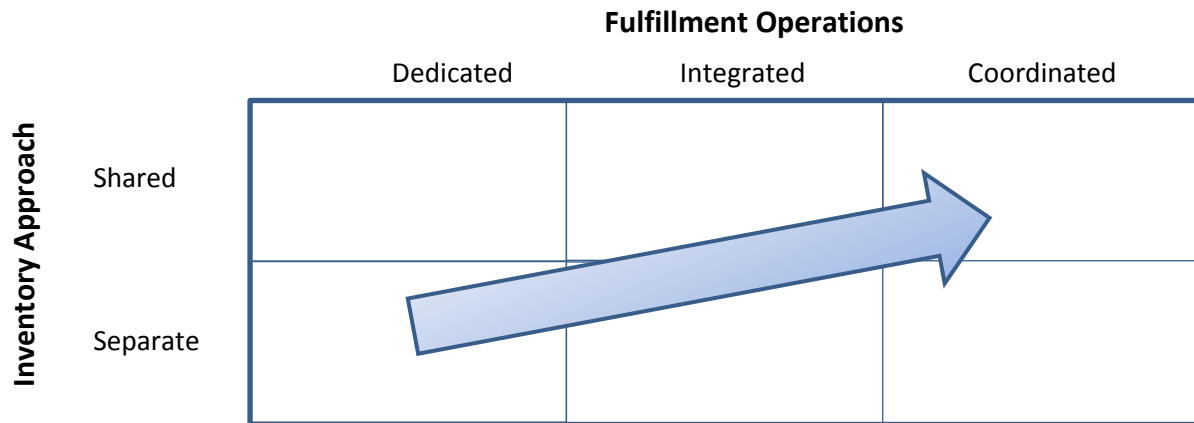


Figure 11 does not suggest there is one way to achieve omnichannel excellence or a specific series of steps that must be followed – every retailer’s development in the area is unique and the winning path for one might be highly impractical for another. However, retailers are generally evolving toward the shared inventory, coordinated operations approach as they gain omnichannel traction and expertise.

## Omnichannel Engagement: *Maturation Cycle*

With the inclusion of the omnichannel delivery dimension in this year’s study we have expanded on Figure 11 and merged all three dimensions into an omnichannel maturation model that is revealed in Table 3. Retailers move through these maturation stages at differing rates and the capabilities displayed at any stage may differ based on the unique characteristics of the retailer’s SKU mix, market coverage, and customer needs.

*“You have to make investments that allow you to meet demands from multiple sources. It’s just so difficult to do it without automation and sequencing.”*

Table 3: Omnichannel Maturation Stages

Maturation Stages	Inventory	Fulfillment	Delivery			
			Vendor to customer	DC to Customer	DC to store	Store to customer
<b>Initiation</b>	Deferred	Vendor / 3PL	✓			
<b>Engagement</b>	Dedicated	Separate DCs	✓	✓		
<b>Commitment</b>	Integrated	Singular DCs	✓	✓	✓	
<b>Competitive</b>	Coordinated	Enterprise	✓	✓	✓	✓

Stage 1: *Initiation*

*“Being new to this game, we’ve got vendors that will ship direct from their factory, they’ll warehouse it for us, and we don’t even have to own it.”*

The initial stage of omnichannel engagement is driven by a retailer’s limited exposure to sales channels outside the traditional store environment. The starting point may be a simple website presence used primarily for marketing, sharing product information, and making a limited assortment of product for sale.

A retailer’s in-house fulfillment capabilities for the online channel at this stage are frequently minimal. Orders received from online customers are directed to vendors or to a third-party fulfillment operation. The orders are filled and shipped directly to customers, without accessing any inventory held in the retailer’s facilities. In this stage the retailer’s engagement is limited to identifying product assortment for online sales, pricing and branding related decisions.

Stage 2: *Engagement*

*“We organized around the customer segment. We, by design, had segmented the brick and mortar and created two physical infrastructures: one for brick and mortar, one for online.”*

As online sales increase, retailers often opt to bring direct-to-customer operations in-house, keeping it separated from store replenishment activities. Direct engagement in multiple channels is the first step toward a true omnichannel strategy. Handling fulfillment internally, through facilities and inventory dedicated to each channel, provides retailers the opportunity to achieve economies of scale. Online orders are managed through distribution operations and stores are not utilized.

*“All stores can pick an online order and have it ready at the front for guests when they come in, but only a selected number of stores handle ship-from-store.”*

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The key operational challenge for most retailers at this stage is creating the systems and processes to support picking and delivery of small orders. Effective change management is critical for success during this stage as supply chain managers expand their understanding beyond routine store replenishment activities.

Strategic relationships must be developed with parcel/package carriers, perhaps for the first time. A robust and direct reverse logistics process also must be implemented to support product returns from customers. The goal is to keep the returns outside the store network to maintain inventory segregation and avoid complexity during this stage.

### Stage 3: *Commitment*

*“We developed this capability where it has been an efficient DC process. We automate picking with shipping. It is well identified for the store, pull it off to the side, and hold it for customer pickup.”*

In Stage 3, retailers seek synergies across their fulfillment operations. The supply chain strategy begins to evolve from a multi-channel focus to an omnichannel focus. The goal becomes integration of inventory management, order processing, and delivery for both online and store replenishment orders. Pooling the previously separate inventories lowers safety stocks and improves turns. Stores become more involved in supporting omnichannel requirements. Online orders are delivered to the stores alongside store replenishment inventory for pickup by customers. This avoids costly home delivery charges for the retailer.

The best-in-class capabilities at this stage involve linking case and pallet picking with single item picking. This may require a significant investment in systems and facility reconfiguration, and the specific pick-pack-ship solution will likely differ significantly across retailers based on their specific product and customer requirements. A greater challenge for some retailers may be managing the single pool of inventory used to support both order streams as each SKU has to be managed in multiple storage quantities, typically cases and eaches.

### Stage 4: *Competitive*

Stores take a larger role in the final stage of the omnichannel maturation cycle as store inventories are leveraged to support online order fulfillment. The optimal model includes order fulfillment from both omnichannel capable DCs and stores.

The biggest realignment at this stage happens with store management and processes. While all stores may engage in order fulfillment, it is often a core group of stores that takes on the order fulfillment role. Using analytical methods, the retailer identifies the stores' requirements for product assortment modification, inventory level adjustment, delivery frequency increases, and associate training to support in-store fulfillment activities. These key stores are then merchandised to serve all assigned demand streams.



*“A fundamental capability here is visibility and accuracy at the store level in regards to balance on hand, inventory, where it sits, and how fast we access it.”*

Using technology-assisted processes, such as distributed order management, store stocking levels are adjusted to reflect SKU popularity, promotions, and product offerings in multiple sales channels. In addition to enterprise-wide visibility of inventory, near-perfect inventory accuracy is also required at the store level to support omnichannel fulfillment.

Lack of available product at a fulfillment node can be catastrophic at this stage, underscoring the critical nature of technological and analytical capabilities in driving effective coordinated order management. The capability to fill orders from anywhere in the supply chain is leveraged through an acute awareness of the cost to serve customers from all available options. Understanding cost to serve and directing orders to the optimal fulfillment point creates a best-in-class capability that differentiates retailers.

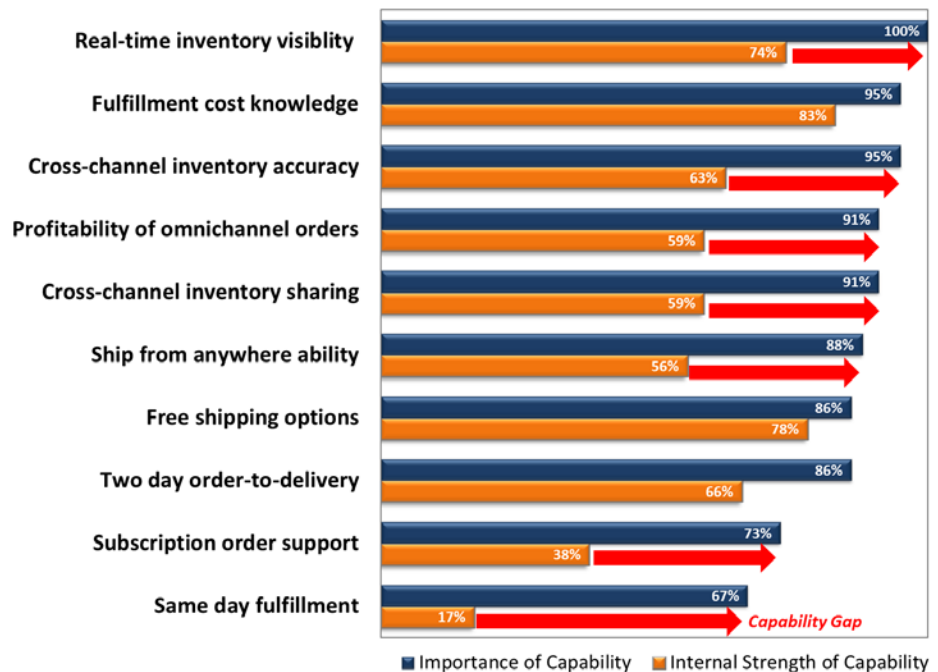
How are retailers doing to-date?

In this year’s study retailers were asked about the essential capabilities of omnichannel retailers. Figure 12 provides an overview of the capabilities judged to be the most important and how retailers score their own progress in each area. It is worthwhile to note that while many retailers acknowledge the great importance of these best-in-class capabilities, they also recognize an internal need for significant improvement in most of the areas listed.

### Key Takeaways

This discussion offers a roadmap for retailers as they pursue omnichannel progress. The maturity model presents a broad view of the evolutionary process that we have observed. Each retailer’s progress will be impacted by unique factors and circumstances. Figure 12 clearly indicates that multiple capabilities are needed to succeed in the omnichannel world and that most retailers have broad opportunities to improve these capabilities in the coming years.

Figure 12: Best-In-Class Capabilities









# On the Horizon

## A Look Back and a Look Forward at Issues, Opportunities, and Challenges

One of the most enjoyable aspects of the SRSC research each year is taking a shot at predicting the future of retail SCM. The candid interview responses, particularly to our questions regarding “*What keeps you up at night?*” and “*What are the burning supply chain issues in retailing?*” give us insight into the perennial and intermittent challenges for supply chain executives. We then try to amalgamate their responses into a handful of annual predictions. Before jumping into our Year 5 forecast, we decided to take a look back on our prior projections and decide if they were hits, misses, or if the jury is still out.

### Assessing Our Year 1 Predictions


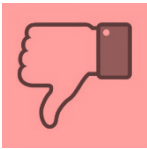



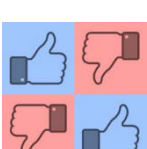
Our initial report was released nearly six years ago at the tail end of the economic upheaval. Sales were in the tank and most retailers were struggling mightily. A handful of national retailers did not survive. Hence, our predictions largely focused on managing supply chain expenses.

Original Prediction	Evaluation	Commentary
Cutting inventory levels while maintaining strong in-stock availability will be a key priority in a difficult economy.		<b>HIT</b> – The right call for lean times. Retailers later increased their investment in response to an improving economy and growing online sales. However, they are now challenged to optimize inventories across channels while serving demand.
Retailers will be challenged to reduce transportation expenses in a time of unprecedented fuel price volatility.		<b>HIT</b> – Rising fuel costs forced retailers to prioritize efficient loading and routing of freight and consider alternate modes. A few chains added DCs to reduce distance to stores. The cost focus is now driven by last-mile delivery rather than fuel.
Total cost to serve knowledge will lead to greater control and improved performance.		<b>HIT</b> – SCM executives have prioritized this KPI and have a solid read on their end-to-end costs for brick-and-mortar flows. The wide variety of omnichannel flows does create new challenges for retailers to segment costs by fulfillment method.
Speed to the store shelf will be a critical success factor for retailers.		<b>JURY IS OUT</b> – Lean inventory levels led to a focus on in-store flows. Despite this SCM effort, many retailers are not fully adept at rapid in-store replenishment and an opportunity remains to optimize the last 50 yards from dock to shelf.

*Year 2 – “Economic challenges are forcing retailers to remain lean. At the same time, they have to figure out how to be agile.”*

## Analyzing Our Year 2 Predictions







Amidst the on-again/off-again recovery, supply chain executives recognized the importance of balancing cost and service. Their concerns regarding a still uncertain landscape shaped our predictions.

Original Prediction	Evaluation	Commentary
Sustainability will become a centerpiece of supply chain strategy and retailers will strive to articulate the cost benefits.		<b>JURY IS OUT</b> – Though some retailers like Walmart have publicly embraced efforts to create more sustainable supply chains, sustainability has not risen to the level of a top strategic priority for others.
The use of alternative fuels will rise in response to expensive diesel prices.		<b>MISS</b> – Despite some high profile efforts to adopt LNG or CNG tractors, there has not been a massive effort to convert fleets to alternative fuels. The refueling station infrastructure will be a key requirement for a broader rollout.
Retailers must understand and proactively influence proposed regulation that will impact SCM strategy and operations.		<b>HIT</b> – Supply chain executives are actively voicing their opinions regarding regulatory initiatives deemed detrimental to cost and service. They have banded together to battle hot button issues such as hours of service, micro-unions, and tax inequality.
Obtaining high quality, timely ocean service at a reasonable cost will be a major challenge for retailers.		<b>MISS</b> – Ocean carriers made broad moves to remove capacity, adopt slow steaming techniques, and raise rates. The benefits were short-lived as carriers had contracts to buy mega-containerships. The capacity growth caused prices to remain flat.
Supply chains must evolve to support multi-channel retailing via integrated fulfillment capabilities that leverage inventory and assets.		<b>HIT</b> – Our prediction served as a precursor to the soon-to-emerge omnichannel retail concept. As sales and the number of fulfillment options increased, supply chain executives dedicated time and resources to strengthening integrated capabilities.
To meet their wide range of future challenges, retail executives must exploit technology to a greater extent.		<b>JURY IS OUT</b> – The use of tried and true execution systems is widespread, but it has been challenging to capture promised benefits of demand planning tools, RFID tags and distributed order management. Time will tell how broad their use will be.

*Year 3 – “Supply chains are becoming more complex as retailers seek out opportunities; you need to be capable of handling demand in multiple forms.”*

**Reflecting on Our Year 3 Predictions**






As the economy recovered, retailers began to focus less on immediate survival and more on long term growth opportunities. Thus, our predictions covered a wide swath of supply chain issues.

Original Prediction	Evaluation	Commentary
Executives will adopt business analytics tools to address complex supply chain issues.		<b>JURY IS OUT</b> – The desire to leverage “big data” is a common theme in our executive interviews each year. While retailers have terabytes of unstructured data, they are in the early stages of converting the data into knowledge for decision support.
The business case for fulfillment center automation will be actively pursued by high-volume retailers.		<b>JURY IS OUT</b> – Automation gained traction among grocery retailers to address labor cost and availability issues. It will be interesting to see how other retailers will use automation to pursue omnichannel speed and accuracy requirements.
Supply chain executives must establish talent management plans to reduce the risk of a dangerous talent void.		<b>HIT</b> – SCM executives realize that complex omnichannel operations require stronger talent. Top retailers are responding with rotational programs, individual development plans, and internships to attract, develop, and retain top talent.
Contingency plans involving 3PL capacity will be used to mitigate volume surges and unexpected events.		<b>MISS</b> – Though retailers regularly evaluate the landscape for potential issues, their reliance on 3PLs has not been as strong as anticipated. However, retailers are closely engaging with suppliers to mitigate risk.
SC executives will take a lead role in understanding total company expenses and protecting margins.		<b>JURY IS OUT</b> – In this year’s study, the executives indicated moderate to strong fulfillment cost knowledge and they are committed to protecting margins. Still, it is difficult to effectively balance cost and service in the omnichannel environment.
Speed to market initiatives must encompass more than faster transportation processes.		<b>JURY IS OUT</b> – Upstream changes are needed to achieve faster speed to market. Apparel retailers are pursuing faster product development, rapid supplier replenishment, and nearshoring but implementation is not widespread.

*Year 4 – “Nobody wants to wake up in 4 years and say, ‘We thought we were great but we’re getting our clock cleaned.’ Being appropriately paranoid is important.”*

## Gauging Our Year 4 Predictions

With the digital age in full-on mode, retailers began to re-assess traditional strategies and practices. Not surprisingly, our 2014 predictions centered mainly on omnichannel issues.

Original Prediction	Evaluation	Commentary
Retailers must remain attentive to new capabilities deployed by Amazon and other pure-play e-commerce retailers.		<b>HIT</b> – Retailers closely track Amazon’s strategies and announcements. Some of these pursuits may warrant a competitive response (same day delivery and subscription based services) but others produce little concern (drone delivery).
Regulatory agencies will continue to ramp up enforcement efforts to drive revenue enhancement for the government.		<b>MISS</b> – Though some supply chain leaders remain concerned about the true intentions of regulatory agency activity, we have not seen widespread agency obstruction of supply chain operations.
Retailers will develop creative solutions to address issues of an aging labor force, the work preferences of Millennials, and the Affordable Care Act provisions.		<b>HIT</b> – Retailers are taking these labor issues seriously as they do not want to get caught short in peak seasons. Some have expanded the use of half-time employees while others have boosted investment in automation to reduce labor requirements.
Smaller store footprints with a narrower mix of high velocity goods will supplant the large format strategy.		<b>JURY IS OUT</b> – It is clearly too soon to tell if this type of dramatic shift will catch a tailwind. Though most efforts to date can be best characterized as experimental, Walmart and Best Buy are clearly moving forward with smaller-box concept.
eGroceries 2.0 is on the horizon and retailers will pursue the grocery segment again.		<b>HIT</b> – Though the initial foray did not gain traction, the second eGrocery initiative is flourishing, Major retailers (Kroger, H-E-B, Safeway, etc.) now offer shop online, pickup in store or home delivery. Ahold USA hopes to triple online sales by 2016.

## The Tally

Like most forecasters, our accuracy was less than 100 percent. For the record, our self-assessment revealed 9 hits, 4 misses, and 8 “too soon to tell” evaluations. Not bad for a bunch of professors!

93 percent of the survey respondents agreed with the statement: *Our omnichannel fulfillment processes will significantly change over the next five years.*

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## The Next Five Years – Issues on the Horizon

Though the unresolved “jury is still out” issues from the third and fourth reports provide a full plate of opportunities for retailers, we would be remiss if we didn’t add a few new opportunities!

### Change Management

The continued evolution of retailing from brick-and-mortar to omnichannel creates a tremendous amount of tension and uncertainty that requires effective change management. Often, the changes are made upstream in the organization but the supply chain is at the epicenter of the process modifications. Hence, supply chain executives must ensure that they have the right processes and people in place to prepare for the change, manage the implementation, and assure the key outcomes. This will require a continued focus on talent acquisition, development, and retention to ensure that supply chain professionals have the skills to flourish in a highly integrated, omnichannel world. One SCM executive explained: *“We’re trying to build a talented team. So we’re investing a lot in internal development as well as our internship program and external hires to really bring the talent in...but it is getting tougher.”*

### In-Store Supply Chains

As store-based fulfillment methods mature, the lines between SCM and store operations will blur. Rather than engage in turf battles, supply chain professionals and store leaders must collaborate to bring best-in-class strategies, technologies, and processes to the micro-fulfillment centers being created inside stores. An early opportunity is to improve inventory accuracy and visibility so that buy online, pickup in store orders can be perfectly filled without the risk of an embarrassing “sorry we can’t find it” apology when a customer arrives to retrieve a pre-paid order. Perhaps this is the RFID 2.0 opportunity to leverage its inventory accuracy and location capabilities for omnichannel order picking inside the store. *“You’ve got people complementing a traditional retail experience with online demand and really looking at the store as an extension of the supply chain”* said a supply chain leader.

### Omnichannel ROI Requirements

The drive to build omnichannel capabilities through infrastructure and technology investment is in high gear. Retailers are spending significant amounts of money to establish operational capabilities. In the very near future, senior executives will be asking the difficult questions regarding the return on investment of these promising projects. Supply chain executives will have to justify their expenditures and demonstrate how they support efficient process integration, execution, and margin growth. In short, cost management will become the priority and omnichannel supply chains will have to *“execute at scale with economies of scale”* as one executive put it.

# Summary

## Final Remarks from the Fifth Annual SRSC Report

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The story of 2014 centered on a major strategy and a migraine headache: omnichannel fulfillment and transportation disruptions. As consumer engagement in online and mobile shopping provides the growth engine for retailers, their omnichannel fulfillment capabilities and cost efficiencies must expand. Blindly chasing the experiments of Amazon is great for PR but not necessarily beneficial for the bottom line. As one senior supply chain executive stated: *"We want to be best in class for our category. We're not trying to out-Amazon Amazon on products that overlap in our assortments."*

Though the port labor-related disruptions are clearing up, retailers cannot assume that transportation flows will be problem-free in the future. Capacity shortages, labor crunches, and price increases are constant threats. Retailers must develop strong contingency plans for potential disruptions, work closely with carriers to be priority customers, and be savvy negotiators on DIM weight pricing and fuel surcharge expenses. Likewise, last-mile costs must be managed effectively to ensure that customers "pay the freight or wait" for free delivery.

As we look forward to 2015, the popular supply chain strategy of balancing service and cost is the right recipe for success. Retail supply chain executives need to pursue further alignment between online and in-store inventories, educate store personnel about omnichannel fulfillment best practices, and drive efficient fulfill-from-anywhere capabilities. These goals will require further investment in processes, people, and technology to ensure that agile fulfillment capabilities are established.

Without question, the first five SRSC study cycles have occurred during the most dynamic time in retailing history. We have watched retailers shift from full-on survival mode to creation of new channel options that are the industry's growth engine. Supply chain capabilities have often led the way in both scenarios and we are confident that our study participants will continue to drive value regardless of future economic conditions or retail industry developments. We look forward to the next five years of interacting with the people who make it happen and analyzing the state of the retail supply chain.

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# The Research Team

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**Brian J. Gibson, Ph.D., Wilson Family Professor of SCM  
Auburn University**

Throughout his career, Dr. Gibson has been recognized as an innovative supply chain educator. He has published dozens of SCM research studies and is co-author multiple textbooks. Dr. Gibson's academic career was preceded by nine years in retail distribution management. He stays connected to industry through corporate training, practical research, and service to the supply chain profession. Currently, Dr. Gibson is a member of the RILA Logistics Steering Committee, the CSCMP Professional Certification Committee, and is Education Advisor for NASSTRAC.



**C. Clifford Defee, Ph.D., EBSCO Associate Professor of SCM  
Auburn University**

Dr. Defee has co-authored the SRSC study since its inception and recently co-authored *The Definitive Guide to Integrated Supply Chain Management*. His work has won multiple awards from national organizations including best article awards from the *Journal of Business Logistics* and *Transportation Journal*. Dr. Defee enjoyed a 20 year career prior to joining academia including stints as Chief Operating Officer for PSFweb and as a consultant with Accenture. He has worked with over 100 retail companies during his career.



**Rafay Ishfaq, Ph.D., Assistant Professor of SCM  
Auburn University**

Dr. Ishfaq conducts research on omnichannel fulfillment and logistics processes. His research work has been published in multiple academic journals, as well as covered by TV and print media. Prior to academia, Dr. Ishfaq worked in industry for close to a decade, holding management positions in Production Operations and Supply Management. He is actively engaged with supply chain practitioners through multiple research projects, serving on corporate advisory boards and consulting for retail and wholesale-distribution firms.



# About the Organizations

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## Auburn University SCM Program

Ranked #8 nationally by Gartner, the Supply Chain Management program brings the unchanging values of Auburn University – practical education and research, honesty, and hard work – to a changing world. We actively collaborate with supply chain professionals to ensure that our research, academic degree programs, and industry outreach effectively reflect current supply chain strategy and application. Auburn SCM graduates are well-prepared for the classroom-to-workplace transition and our alumni enjoy successful supply chain careers with retail, manufacturing, 3PL, transportation, and service firms. For additional information, visit [harbert.auburn.edu](http://harbert.auburn.edu).



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RILA is the home of the world's largest and most successful retail companies, whose executives participate in RILA for its unique educational forums, its effective public policy advocacy, and its advancement of the retail industry. RILA membership includes more than 200 member companies - from Abercrombie & Fitch to Walmart - representing more than \$1.5 trillion in sales. Through its board of directors, Leaders Councils, committees and working groups, RILA members determine the issues and focus areas for public policy, educational offerings and research. Visit [www.rila.org](http://www.rila.org).



## Checkpoint Systems

Checkpoint Systems ([www.checkpointsystems.com](http://www.checkpointsystems.com)) is a global leader in merchandise availability solutions for the retail industry, encompassing loss prevention and merchandise visibility. Checkpoint provides end-to-end solutions enabling retailers to achieve accurate real-time inventory, accelerate the replenishment cycle, prevent out-of-stocks and reduce theft, thus improving merchandise availability and the shoppers' experience. Checkpoint's solutions are built upon 45 years of radio frequency technology expertise, innovative high-theft and loss-prevention solutions, market leading RFID hardware, software and comprehensive labeling capabilities, to brand, secure and track merchandise from source to shelf. Checkpoint's customers benefit from increased sales and profits by implementing merchandise availability solutions, to ensure the right merchandise is available at the right place and time when shoppers are ready to buy.





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