# Spider retailers:

the growing web of sales channels and supply chain challenges



**advanced**
intelligent supply chain

# Foreword ▷

## Retail sales channels are evolving at pace, providing ever more engaging routes for retailers to connect with consumers and drive sales.

Social media platforms have evolved from places to advertise products to direct selling portals. Online market-places make internet shopping even more convenient, while bricks and mortar stores continue to embrace 'click & collect' and even fully automated shopping.

In recent years, this rapid evolution has given rise to concepts including 'omnichannel' and 'channel agnostic', with emphasis firmly placed on understanding consumer journeys. The ultimate end goal being to stay ahead of changing channels to continuously optimise the sales funnel.

Now, as the impacts of the pandemic and effects of lockdown restrictions reshape consumer purchasing - and potentially for the long-term - there is an opportunity to look at how channels are changing and shift the focus towards what this means for supply chains.

By moving beyond the sales funnel-centric approach, it's possible to better determine the web of stock inventory and supply chain complexities that selling through multiple different outlets creates. This can provide valuable insight about how supply chain challenges impact those all-important consumer buying journeys.

To achieve this, Advanced Supply Chain Group worked with Sapio Research to understand the experiences and opinions of 200 senior retail professionals. This ratified the growth in different sales channels and showed that there's little sign of this trend slowing down. 65% of retailers are now selling through more channels than they did five years ago, with seven in ten (71%) expecting to sell through even more in the next five years.

Findings also identify the diversity of digital platforms, with owned website stores (65%), Facebook (47%), online marketplaces / third party websites (41%) and Instagram (35%) dominating the top five most used sales channels. Bricks and mortar shops (48%) still feature in the top five, providing further indication of the rich mix of different routes to market.

Retailers have increased supply chain capacity to sell through more channels. However, the research also shows this approach alone is not enough. Expanding channels presents more than a volume conundrum, with retailers pinpointing managing stock levels, forecasting, tracking and overselling as just some of the most common issues of moving goods through different points of sale.

**Further insights from the research are shared and analysed in this report to provide a perspective on how retailers can evolve their supply chains to meet the challenges of multiple, and ever expanding, sales channels.**

*Claire Webb*

**Claire Webb**
Managing Director
Advanced Supply Chain Group (ASCG)

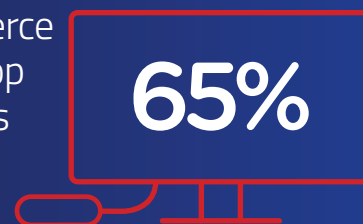Retailers use **5 channels** to connect with consumers and drive sales

**RETAILERS**

£ £ £ £ £

**65%** of retailers sell through more channels than 5 years ago, with **71%** expecting the number to increase further in the next 5 years

5 years **65%** → 5 years **71%** →

Just **2%** of retailers think they'll sell through less channels in the next 5 years

**2%**

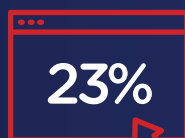Owned ecommerce stores are the top most-used sales channel for **65%** of retailers

**65%**

Top five channels for driving sales growth include:

**43%**
Owned ecommerce store **43%**

**26%**
Bricks and mortar shops **26%**

**23%**
Online marketplaces **23%**
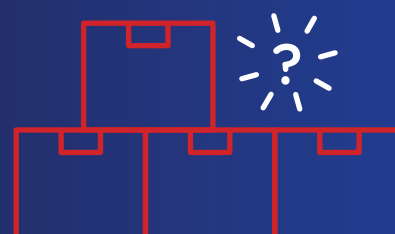
**22%**
Instagram **22%**

**20%**
Facebook **20%**

Selling through more channels creates stock management challenges for **53%** of retailers

IN STOCK
✓
✗
✗

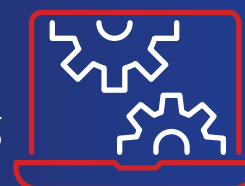**35%** have experienced overselling and out of stock situations

**26%** report stock problems negatively affecting customer service and satisfaction

**50%** plan to invest in supply chain software to solve problems of selling through more channels

# Changing the view on channel agnostic

As digital has boomed and retail has evolved, so too has the importance of taking a less channel-centric view to meeting consumer demand. Now, as retailers sell through increasingly more platforms and outlets, Caroline Ellis, looks at why it's time to reprioritise channels to drive customer satisfaction and repeat sales.

**Caroline Ellis**
Business and Client Development Director
Advanced Supply Chain Group (ASCG)

## Rise of the channel-less retailer

Shoppers expect a consistent and seamless experience. They don't necessarily think in terms of channels, which has encouraged retailers to do the same. It's a logical approach. If satisfaction matters more to your customer than the channels they are using, then it makes sense to effectively prioritise their wants and needs above the place where they are being engaged. Being channel-less is being customer centric.

This underlying sentiment is, perhaps, even more relevant today than 10 to 15 years ago when ecommerce and social media were fast changing the face of retail and putting channels under the microscope. ASCG research shows there's been a 48% jump in the past five years in the average number of retail sales channels.

Retailers now typically utilise five different channels, with owned website stores (43%), bricks and mortar shops (26%), online marketplaces (23%), Instagram (22%) and Facebook (20%) ranking as the top five channels for driving sales growth.

Consumer journeys are spanning each of these different places and as the number of channels continues to grow and becomes more diverse, it's reasonable to assume that being channel agnostic becomes increasingly more important.

A shopper's desire for a positive experience and satisfaction doesn't necessarily waiver when they're switching between enjoying the product choice of an online marketplace, the convenience of social media stores or the post-lockdown experience of getting back out to physical shops.

While this seems to reinforce the validity of being channel agnostic, the changing number and nature of selling points creates a web of complexities for stock inventory and supply chain management. This has the potential to jeopardise levels of customer satisfaction and places new emphasis on the need for retailers to prioritise their focus on channels.

# A growing web of channels and challenges

In response to growing channels, retailers have enhanced the capacity of their supply chains. ASCG research highlights that 47% of retailers have recruited more staff to manage stock, whilst 45% have expanded warehouse and fulfilment space, and four in ten (42%) have increased the number of suppliers they source goods from.

Although scaling up supply chains may go some way to addressing growing channels and sales volumes, it's not a long-term solution for efficiently and effectively servicing different routes to market. This is why selling through more channels causes stock inventory management challenges for 53% of retailers, with a quarter (26%) reporting this negatively impacts customer satisfaction.

When expanding channel footprints, retailers report that stock inventory management and customer service is compromised by issues including managing stock levels (38%), forecasting stock requirements (37%), overselling problems and out of stock situations (35%).

To address these challenges, supply chains need to adapt to the changing nature as well as the increase in sales.

# Channel-led integration

Every channel needs to be integrated into the supply chain management strategy as a stand-alone outlet. It's not enough to simply make a distinction between online and offline platforms, as each of the digital channels and physical shops have sub-levels of functionality. Online marketplaces, for example, involve another vendor layer compared to an owned website store, whereas bricks and mortar may have a blend of traditional in-store sales and click & collect functionality.

Each of these sub-levels mean it's increasingly important for supply chains to have a 'control tower' view of stock. This central coordination requires real-time communication across all channels to ensure that every time a product is sold, stock availability is immediately updated. As well has helping to avoid overselling, it means there's a reliable stream of accurate data, which enables retailers to more quickly respond to trends in demand.

This level of accuracy and control sits at the core of ASCG's web-based supply chain management tool, Vector.  By constantly collating data from different channels, it enables retailers to optimise the flow of stock. This may involve moving products to different locations to reduce delivery lead times and enhance customer service, or forecasting stock levels to satisfy peaks and minimise costly excessive stock.

The effectiveness of the supply chain control tower is further improved with vendor management tools. This enables Vector to seamlessly integrate third party channels such as marketplaces and social media shops. It means that cross-channel communication is maintained, and shoppers aren't kept waiting at checkout as stock availability is checked or delivery times verified. It helps solve issues of abandoned baskets.

Prioritising an appreciation of the different sales channels and an understanding that each is unique is critical to the success of creating a modular supply chain management strategy. This is a transition from being channel agnostic and enables retailers to move beyond the basic premise of boosting supply chain capacity in response to growing sales platforms and outlets. It's a changing perspective that can enhance stock inventory and supply chain management to satisfy consumer demand and expectations - when and wherever customers are shopping.

# Meeting the ominous challenges of omnichannel

The impacts of COVID-19 and Brexit are accelerating growth in sales channels, with retailers seeking more routes to revenue to counter uncertainty and unpredictability. Claire Webb, looks at how retailers can manage the multiple logistical challenges of a multichannel strategy.

**Claire Webb**
Managing Director
Advanced Supply Chain Group (ASCG)

# Changing channel arsenal

In September 2020, as retail rebounded from the first COVID-19 lockdown, ASCG found that 42% of retailers were looking to increase sales by selling through more channels. Fast forward six months, and our most recent data shows this has jumped by almost a third to 71%.

Nine in ten retailers planning to grow their channel footprint are doing so in response to the pandemic and Britain's departure from the EU. However, there's much more to this growth in channels than recent macro factors alone.

There's been an upward trajectory in the number of sales channels used by retailers in the past decade.

Averages have risen from three channels in 2011 to five channels this year, with an acceleration of 48% growth in the past five years.

Growth has been fuelled by an evolution of ecommerce and wider adoption of digital technologies. The online stores owned by retailers are now part of a channel arsenal spanning mobile, social media, online market-places, deal websites and subscription services, as well as physical shops.

This rise in omnichannel has left retailers facing supply chain challenges beyond managing stock levels and forecasting.

# Errors, inefficiencies and margin dilution

A quarter (25%) of retailers have experienced an increase in errors when selling through more channels. This includes issues such as incorrect labelling, picking and packing, sending the wrong goods to customers and not following their preferred delivery options.

These mistakes undermine the effectiveness of Lean Six Sigma theory and processes, making it increasingly difficult for retailers to achieve the desired goal of zero defects.

It's leading to retailers encountering rising inefficiencies from multichannel selling and increasing margin dilution.

Supply chain performance and overall profitability are often needlessly compromised by a combination of factors; an acceptance of inevitability when it comes to growth and mistakes; insufficient supply chain technology and the wrong balance between people and automated processes.

# More people, places and processes

Selling a higher volume of goods through multiple channels generally requires more people, places and processes. Storing, handling and distributing an increasing number of products often involves larger teams, greater warehousing and fulfilment space and expanded supplier networks to keep goods coming into supply chains on time, and at the right costs.

These challenges are intensified by the real-time demands and expectations that tend to grow in parallel with omnichannel strategies. As shopping becomes more seamless and accessible, consumers want products quicker. This shortens lead times and often means that 'capacity' and 'performance' become blurred during supply chain planning.

By large, retailers are, correctly, attempting to solve these problems with investment in supply chain management technology. Half (50%) plan to invest more in software as they increase sales channels. However, this investment is often compromised by the view that inevitable growth problems can be resolved by automation alone.

The premise being that reducing head count helps minimise human errors, while still accommodating growing capacity. This is misguided and focus must shift from capacity to performance.



# Performance first

By focusing on performance, retailers and their supply chain partners will be able to specify a solution that strikes the right balance between people, artificial intelligence and automation. This is increasingly important during times of uncertainty and unpredictability, when human intervention can prove the difference in keeping supply chains agile.

A recent study by Warwick University showed that a once-in-a-generation drop or surge in demand, such as the impacts of COVID-19, would trigger a disproportionate automated response. Fit-for-purpose supply chain management strategies and software solutions must harness the experience of employees, with a design that is bespoke to the operation. This approach can help to continuously optimise the flow of products being sold through multiple channels.

As omnichannel strategies continue to grow and flex in response to changing consumer trends, it's critical that retailers don't let the importance of volume dictate a capacity first approach to supply chain management. Capacity is just one part of the complex omnichannel challenge, and a performance-led focus will prove more effective in driving growth, while maximising efficiencies and minimising margin dilution.

# The importance of supply chain integration to multichannel strategies

The challenges of selling through multiple channels will be made increasingly complex by innovation in shoppable formats, and will require greater holistic, end-to-end visibility of supply chains. With this in mind, Dr Fahian Ansul Huq, looks at the growing importance of supply chain integration.

**Dr Fahian Ansul Huq**
Senior Lecturer in Operations and Supply Chain Management
Alliance Manchester Business School

## Beyond growth

Retail sales channels aren't just growing, they are also becoming more and more sophisticated. Retailers are either harnessing the latest technologies to enhance consumer experiences and their propensity to purchase or are modifying existing channels in response to trends. Lockdowns during the pandemic, for example, have seen the emergence of dark stores, where retailers have turned shuttered shops into micro-fulfilment centres to service local ecommerce demand.

When non-essential retail has reopened, these dark stores have evolved into hybrid shops, meeting both the demands of in-store shoppers and those buying online. This trend has the potential to continue in the long-term, as curbside pickup grows in popularity and retailers look at more localised options for final mile deliveries. Utilising cycle couriers can help beat delays caused by traffic in urbanised areas, while also reducing carbon emissions and appealing to eco-conscious consumers. A network of shops, also acting as fulfilment hubs, makes this a possibility.

There has been an accelerated blending of the physical and the digital worlds, with instances of retailers embracing the latest virtual reality and augmented reality (AR) technologies. Ikea has recently teamed-up with Apple to create an app that enables shoppers to virtually furnish their homes. Using AR, consumers can photograph an item from the Ikea catalogue and then scale and move it to accurately see how it would actually fit in their desired room at home.

The trend of merging digital and physical channels isn't just limited to using technology to optimise more traditional retail formats. Ecommerce-first retailers are investing in real-world showrooms to increase the opportunity for shoppers to interact with products. These showrooms recreate the more social and emotional elements of shopping, which the functionality of online shopping cannot necessarily replicate. It is, perhaps, one of the reasons why retailers still identified bricks and mortar as a prominent channel in the Advanced Supply Chain Group (ASCG) research.

# Channel cannibalisation

By constantly striving to make touchpoints with consumers increasingly shoppable, retailers run the risk of creating inter-channel competition. This can quickly lead to cannibalisation of sales, compromising both the value and volume of sales. It can accelerate the depreciation of stock value and shorten the timeframe for realising optimum selling prices. Supply chain integration strategies can help overcome these challenges by improving transparency throughout the whole chain and the overall exchange of data. Integration involving Vendor Managed Inventory (VMI) is key to this and streamlines order fulfilment across multiple channels through closer collaboration between the retailer and supplier. It's an approach that better empowers the supplier of goods to plan, forecast and replenish inventory on a retailer's behalf, which allows the retailer to place more strategic emphasis on optimising different sales channels and customer service.

For VMI to be effective, retailers need supply chain management software that can seamlessly join up the front and back ends of supply chains. Information needs to quickly and accurately flow from the point of sale back to the source of products. This becomes increasingly challenging as more suppliers have been added to supply chains. The ASCG research shows 42% of retailers have grown their supplier networks to meet the demand of selling through more channels, meaning there's even more reliance on technology and software to collate data and ensure it is communicated to the right places, at the right times and in the right formats.



# Investing in IT skills

The growing connectivity of devices, advances in artificial intelligence and automation all present the opportunity for more seamless supply chain integration. These different technologies all enable the development and operation of data-led supply chains, underpinned by joint inventory managements strategies that can keep pace with changing and growing sales channels. The biggest challenge to realising these more integrated supply chains is finding the right digital skills and expertise.
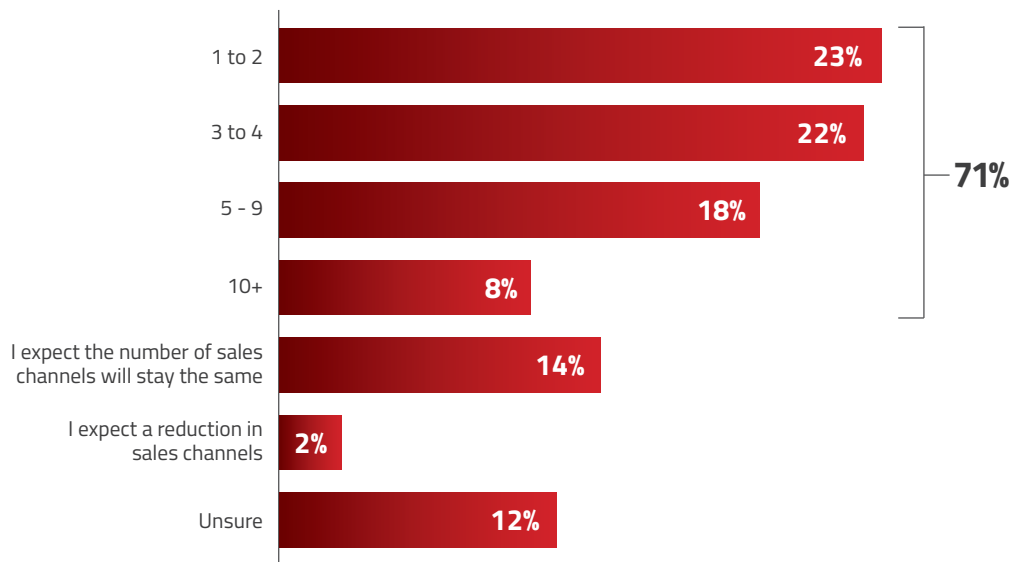


Historically, supply chains have been viewed as manual and relatively low skilled operations, which has limited the progression and appeal of supply chain management as a tech-focused sector. This is changing but is still impeded by a zero-budgeting approach to supply chains, where retailers aim to minimise margins by keeping overheads as low as possible. As a result, capital investment can be restricted, which can feed a reluctance to invest in the innovation that attracts those individuals with the IT skills and vision to harness the ever-evolving possibilities of technology.

Data from the ASCG research shows 38% of retailers are prioritising the recruitment of staff with relevant expertise to solve the problems of growing retail channels. Although this is positive, it still lags behind the investment in supply chain technology. Both factors need to align in terms of investment priorities to truly leverage the opportunities of data-rich supply chains and optimise joint inventory management strategies that efficiently and effectively service multiple channels.
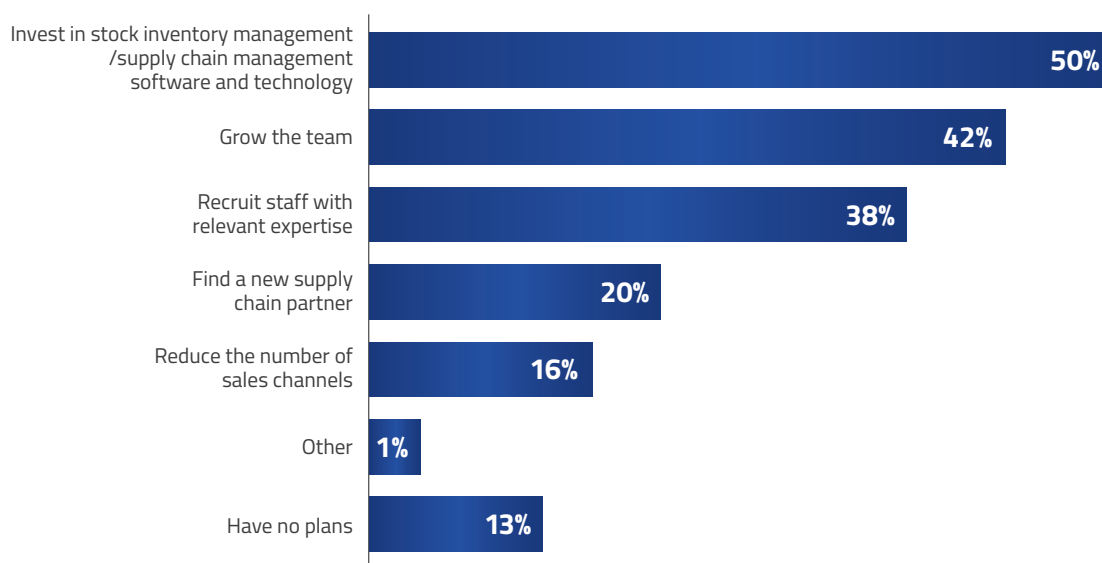
# The growing web of retail sales channels

When asked about their expectations for changes in the number of sales channels in the next five years, the majority of retailers highlighted that the growth trend looks set to continue.

**Average number of additional channels retailers expect to be selling through in the next five years.**

| Category | Percentage |
|---|---|
| 1 to 2 | 23% |
| 3 to 4 | 22% |
| 5 - 9 | 18% |
| 10+ | 8% |
| I expect the number of sales channels will stay the same | 14% |
| I expect a reduction in sales channels | 2% |
| Unsure | 12% |

(1 to 2, 3 to 4, 5 - 9, 10+ grouped = **71%**)

Retailers also pinpointed their intended solutions for addressing the web of stock inventory and supply chain management complexities that increasing channels can present.

| Category | Percentage |
|---|---|
| Invest in stock inventory management /supply chain management software and technology | 50% |
| Grow the team | 42% |
| Recruit staff with relevant expertise | 38% |
| Find a new supply chain partner | 20% |
| Reduce the number of sales channels | 16% |
| Other | 1% |
| Have no plans | 13% |

# advanced
## intelligent supply chain

For further information about Advanced Supply Chain Group's research please contact:

**Caroline Ellis**
**e:** caroline.ellis@asc.group
**t:** +44 (0)1274 470507
**www.advancedsupplychain.com**