

Retail Supply Chains in the 'New Normal'

Evolving from Disruption
to Delivering Excellence

A background image of a clothing store interior. A metal rack with wooden hangers holds various items of clothing. On the left, a pair of dark trousers with thin white vertical stripes is visible. In the center, a white and dark blue horizontally striped sweater hangs. On the right, a light blue button-down shirt is partially visible. A semi-transparent red rectangular box is overlaid in the center, containing white text. The text is enclosed in large, stylized quotation marks.

“Coronavirus has highlighted the fragility of global supply chains. Though retailers were already evolving their supply chain models to serve a multichannel digital strategy, coronavirus has accelerated this shift and amplified the challenges”

Foreword

Disruption caused by COVID-19 has resulted in seismic shifts in retail supply chain strategies. Companies have had to rethink how they move and manage stock to mitigate risks which are increasingly unpredictable and show little sign of becoming any less challenging.

Having had to adapt almost overnight to the impact of national lockdown in the UK and countries globally, retailers – at the time of writing – are now contending with the impacts of local lockdowns, widespread unemployment and what appears to be long-term economic uncertainty. These are all factors that can significantly affect retail supply and demand and put already tight margins under increasing pressure.

Working closely with many retailers right across the globe, Advanced Supply Chain Group has been heavily involved in addressing the business disruption caused by the pandemic. This has provided us with first-hand experience of how retailers are evolving their stock management and supply chain models and spurred the research and trends covered in this report.

The research shows that four in five (82%) retailers are now changing their approach to stock management



Irrelevant of the goods they were moving and selling, whether it was cosmetics and personal healthcare, home furnishings or fashion, we were seeing reoccurring trends amongst retailers in how they were protecting stock availability, operating costs and profit margins against the effects of the pandemic.

With this in mind, we decided to broaden our supply chain conversations beyond our client base to gain an even more representative view of how retail supply chains could look in the so-called new normal following the outbreak of coronavirus.

We worked with specialist research company SAPIO to survey 200 senior retail professionals directly involved in buying, stock inventory management and supply chain management to pinpoint the key trends reshaping their supply chain strategies.

The research shows that four in five (82%) retailers are now changing their approach to stock management, with optimising stock availability, performance and inventory management ranking as the top three areas for change. This is driving a series of key trends, which affect lead times, lean stock management practices, contingencies to protect availability of goods, stock monitoring and stock optimisation.

These trends are all shared and analysed in this report to provide insight about how retail supply chains have addressed, and continue to tackle COVID-19 disruption, to deliver excellent levels of availability and satisfaction to consumers, which help protect margins and profitability during these uncertain times.



Claire Webb

Claire Webb

Managing Director
Advanced Supply Chain Group



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Retail Supply Chain Trends Coming Out of COVID-19

Research of 200 senior retail professionals involved in buying, stock inventory management and supply chain management showed five key trends that are shaping supply chain strategies in the wake of the global business disruption caused by coronavirus.

1 Time for Change

With the COVID-19 pandemic starting in China - a major hub for global production and sourcing - along with a series of national lockdowns internationally slowing supply chains or bringing them to a temporary halt, it's to be expected that one of the key trends emerging from the pandemic involves retailers reviewing lead times.

Operators are considering timings both at the end of the chain during the final mile, as well at the very beginning when they are bringing goods into their businesses. Allowing longer lead times on stock ordered was the top ranking change (41%) amongst retailers who have made changes to their supply chains following COVID-19. The second highest change has seen four in ten (40%) retailers extend the delivery times provided to customers.

Effectively managing timings throughout the supply chain has become even more critical to maintaining customer loyalty and trust. Consumers want to know when they'll get their products and expect brands to deliver on time, every time. Retailers need to be able to commit to realistic timings to ensure they build and retain consumer confidence, which is extremely valuable during times of economic uncertainty.

2 Localising Stock

Supply chain disruption during the pandemic saw two thirds (66%) of retailers receive stock late, while a similar number (63%) experienced shortages in the availability of goods. This is seeing retailers prioritise investment in stock availability (57%), which includes building more localised levels of stock to minimise the risk of availability issues.

Retailers are either outsourcing by increasing locally held stock in fulfilment centres or are expanding their own warehousing footprint, ensuring they have hubs of goods that are close to their target markets. This trend will see retailers evolve from tying-up capital in local stock to better mobilising supply chains. They will want to maximise availability of products, while minimising the risk of stock depreciation and obsolescence.

This shift in behaviour has the potential to completely change the long-practiced and much relied on lean stock management technique of Just in Time (JIT). Although supply chain technology and international transportation mean JIT is still theoretically possible, just a quarter (25%) of retailers believe it is feasible or highly feasible while the pandemic remains ongoing. They don't want to risk stock not arriving in time and this negatively impacting consumer satisfaction.

3 Real Time Visibility

Accurately tracking the movement of goods and inventory management has been a trend gathering pace in recent years. This has been driven by consumer desire for shorter and more accurate delivery slots, as well as lean management techniques to avoid costly stock piling and out-of-stock situations. This trend has been accelerated by COVID-19 disruption.

The research shows retailers rank balancing stock flow versus stock piling as the biggest supply chain challenge following the pandemic. They want to avoid not being able to satisfy customer demand because of unavailable stock, but equally don't want to tie-up too much capital in stock at risk of depreciation.

40% of retailers are investing in improving the accuracy of inventory management, whilst a third (33%) pinpointed smart, connected technology that improves the accuracy and visibility of stock as the most effective method of strengthening supply chain resilience. Changing stock inventory management to make stock movement and levels more visible was also a high ranking priority for 37% of retailers.

4 Stock Optimisation

Unpredictable levels of customer demand and uncertainty around supply have seen retailers hone-in on the performance of the goods they're selling. The impact of the pandemic has led to 41% of retailers investing in auditing their stock to improve profitability.

Stock reviews have resulted in a third (33%) of retailers diversifying the stock they sell, while the same amount have changed strategies to better focus on selling and stocking their most profitable goods. The importance of optimised stock performance will become even more critical as retailers focus on expanding their reach and tapping into new markets. Two in five (42%) retailers are aiming to grow sales by selling through more channels.

Retailers regularly contend with margin dilution and have turbo-charged this as a strategic priority to create a bigger buffer against escalating costs, and to also ensure they are maximising returns on increasingly hard-fought sales.

5 Diligence Against Disruption

'Unprecedented times' became something of an unwanted catchphrase during the early stages of the coronavirus outbreak and national lockdowns. Unfortunately, it was a term that rang true for many retailers and has encouraged them to reconsider exactly what their Plan B is. While it would have been near impossible to plan for the disruption caused by COVID-19, there's a willingness to learn from what's happened during recent months and to strengthen resilience as economic uncertainty continues to loom.

33% of retailers are developing contingencies to protect against supply chain disruption. This involves tactics such as increasing the number of suppliers they source goods from, working with a larger number of logistics providers to spread risk and also increasing overall stock levels.

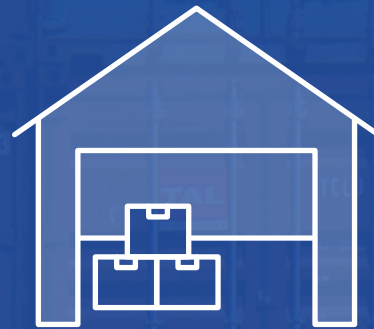
There's an acceptance that the pandemic will continue to cause disruption and that another similar virus outbreak could prove even more economically damaging in the future. Retailers want to be as prepared as possible, with due diligence and contingency planning firmly on their list of key operational priorities.

Research summary



Ups and downs

83% of retailers saw increases in demand for some of their products during lockdown. **75%** also experienced decreases in demand.



Limited stock

COVID-19 caused stock shortages for **63%** of retailers.

Time for change

4 in 5 retailers are changing their approach to stock management following COVID-19.



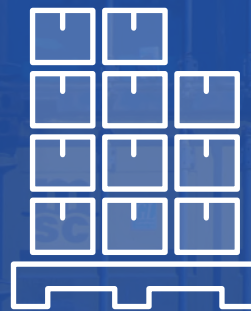
Bouncing back

69% of retailers are now likely to invest more capital in stock management technology.



Always available

57% of retailers are prioritising investment to optimise stock availability.

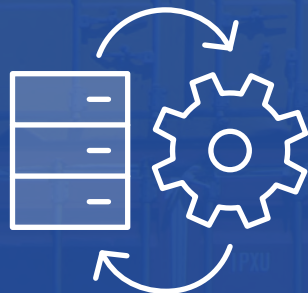


Balancing act

Managing stock flow to avoid stock piling and shortages is the biggest challenge for **30%** of retailers.

Stay smart

33% of retailers rank smart, connected technologies as the most important thing for strengthening supply chain resilience.



Multi-platform

42% of retailers plan to increase sales by selling through more channels.



Dealing with disruption to deliver excellence

The research and trends show how retailers have responded to the effects of COVID-19. Advanced Supply Chain Group's commercial director Ben Balfour has been heavily involved in supporting retailers to keep supply chain's moving during the pandemic. In this article, he takes a deeper look at the strategies and tactics used to deal with disruption.

A two-pronged approach

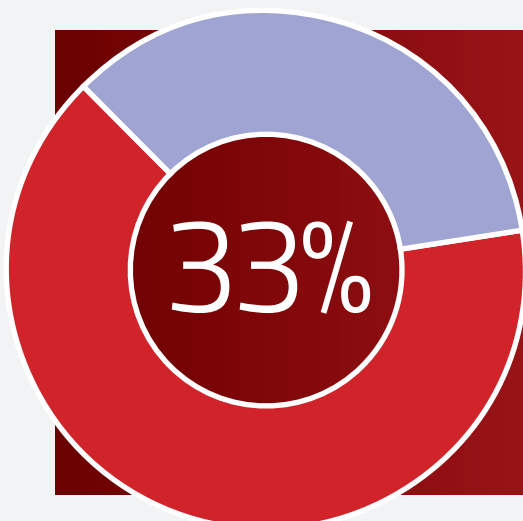
The retailer response to coronavirus can be separated into two different areas. The first was the immediate response that dealt with the 'here and now'. National lockdowns led to staffing issues, unpredictable market demand and bottlenecks at borders and throughout supply chains. There was an urgency to deal with these challenges to try and capitalise on what sales opportunities were available to protect cashflow and the bottom line.

This first area involved a number of the 'quick fixes' that were evident in the research, such as adjusting lead times, delivery times and increasing levels of stock held.

The second focus area has seen retailers taking more of a medium-term view of stock, which could actually change inventory management in the long-term. A third of retailers (33%) have taken the time to audit the performance of the goods they're selling to focus on the most profitable items.

Retailers are essentially optimising the value of the goods that pass through their operations to ensure that every sale - which is increasingly unpredictable and hard-fought - delivers a noticeable return.

This auditing of stock performance has also led to retailers changing what they sell. 33% have since diversified the type of stock held. Businesses want to give shoppers more choice and reasons to increase how many items they are putting in their baskets. They also want to provide shoppers with alternatives to help maintain consumer satisfaction and loyalty in the eventuality of out-of-stock scenarios.



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A clearer view

Optimising stock performance has also involved retailers focusing more on supply chain visibility. 37% of retailers have already changed stock inventory management practices to improve the transparency of stock movement and levels – a factor that ranks highly for future investment.

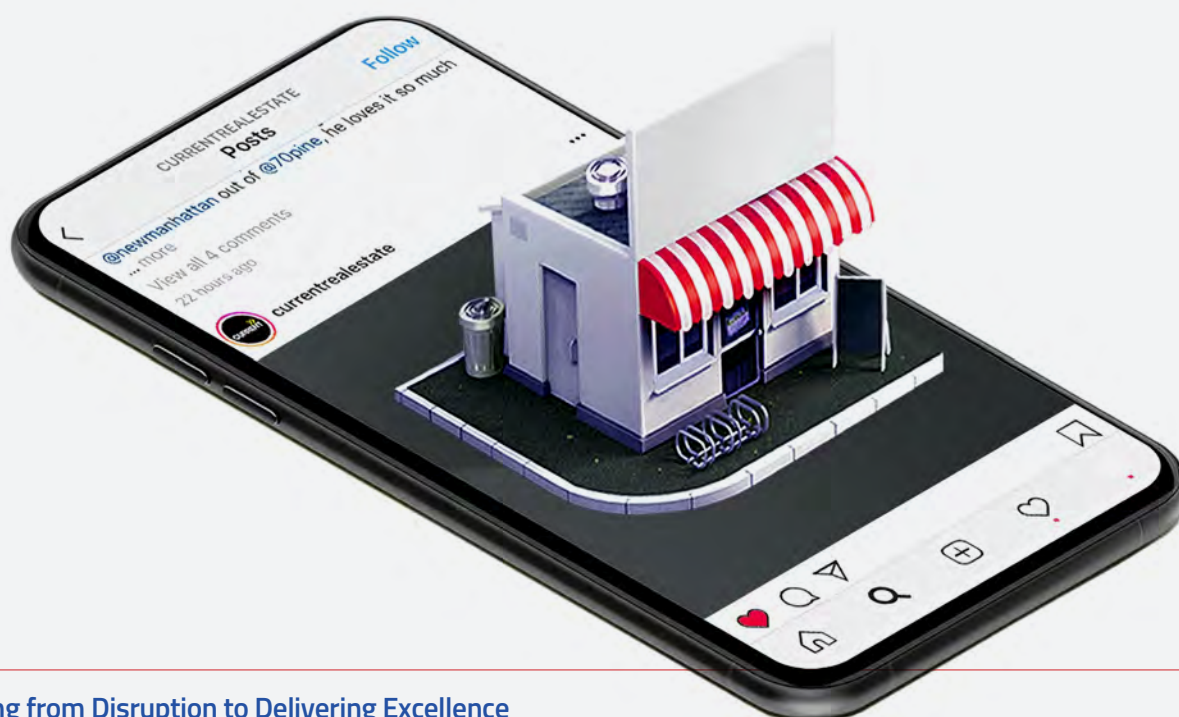
Four in ten retailers plan to invest in improving the accuracy of their inventory management. Having a real-time view of the status of stock will enable retailers to remain agile and respond more quickly during periods of uncertainty. At the press of a button, they can access critical data about the age of stock, changes in its value and determine rates of depreciation to pinpoint when to discount retail prices and run other promotions that maximise sales opportunities and margins.

Accurate, real-time stock inventory management is also being prioritised by retailers as they aim to grow sales. 42% are planning to do this by selling through new channels. To fully maximise the reach of multiple platforms, it's essential that retailers are constantly getting the right products to the many different places at the right time. There's really no margin for error, as just one chink in the chain can cause a domino effect that quickly causes widespread delays and jeopardises customers satisfaction and brand loyalty.

The pandemic has left many consumers frustrated by how long it takes for them to receive refunds and also disappointed by unavailable goods they thought they'd bought. Retailers can strengthen consumer trust and loyalty by managing their expectations about what goods are in stock and delivering these to shoppers on-time. This requires a connected, constantly updating supply chain management system that can quickly process data from different channels.

Retailers are dealing with the disruption and ongoing economic uncertainty of COVID-19 by making their stock work harder for their bottom lines. They appreciate that ongoing uncertainty about employment and lockdowns affects sales and that every customer transaction carries even more significance. By improving stock performance and accuracy, they are able to extract maximum value from every sale and boost the chances of repeat purchasing across an ever growing number of channels.

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A new era for supply chains

Countering COVID-19; a new era of changes and contingencies in retail supply chains

This isn't to say that retailers did not plan for supply chain disruptions or disregarded risk prior to the pandemic, but that the vast majority of their attention was so focused on perfecting Plan A, that it significantly detracted from how much time, resource and capital was invested in back-up plans.

Claire Webb - Managing Director



Advanced Supply Chain Group's managing director Claire Webb has more than 13 years' senior experience in retail, spanning both high street and ecommerce. Here, she takes a look at how retail supply chains are adapting to the so-called 'new normal'.

One of the most prominent trends identified by the research is 'Diligence Against Disruption'. On first glance, it's perhaps not really surprising that retailers are increasingly focused on risk management and creating contingencies, given the challenges of keeping goods moving during recent months. However, this trend is particularly noteworthy because it shows a real change in strategic thinking.

Striving for perfection

Retail, and especially FMCG, has for many years widely embraced the mindset of 'get it right first time, every time'. It's a highly effective notion stemming from the principles of Six Sigma - the method designed to improve performance capabilities. The aim being to achieve zero defects, while optimising quality and efficiencies to ensure that standard operating procedure is the most effective and profitable route to market.

This approach has overshadowed the urgency and importance of having a robust Plan B. It's worth highlighting here that this isn't to say that retailers did not plan for supply chain disruptions or disregarded risk prior to the pandemic, but that the vast majority of their attention was so focused on perfecting Plan A, that it significantly detracted from how much time, resource and capital was invested in back-up plans.

COVID-19 has proved a stark reminder that developing a Plan B requires careful due diligence.

Taking stock

The research really crystallised the widespread effects of coronavirus. It showed that it affected stock management amongst nine out of ten retailers.

This meant lost opportunity for retailers on two fronts. The first being lost sales. 83% of retailers saw an increase in demand for their products during lockdown, but around a third (34%) of these businesses were unable to meet this demand because they ran out of stock and were unable to quickly replenish levels.

The second type of lost opportunity was being unable to address dips in demand for products. Of those that saw a decline in demand during national lockdown, 31% experienced significant depreciation of more than half the retail value of stock, while 15% had to completely write-off stock.

Such an impact is now seeing retailers prioritise creating contingencies to protect against similar supply chain disruption in the future. They want to be a position where they can quickly respond to spikes in demand and also be able move stock to other channels to be able to extract value before goods become worthless.

This involves the creation of contingencies including retailers increasing the number of suppliers they source from and also the number of logistics partners they work with to move goods through supply chains. These can seem like quite straight-forward steps, but they can actually prove quite complex as they require the alignment of different systems and processes to avoid compromising the accuracy and efficiency of stock inventory management.

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Open supply chain software

Smart, connected and bespoke technologies will prove crucial to retailers in addressing the challenge of harmonising supply chains that accommodate increasing numbers of third parties. As well as leading to heightened investment in end-to-end supply chain software, we can expect to see more collaboration and integration similar to what's happened in the finance sector with 'open banking'.

'Open' software will mean that supply chains continue to effectively share stocky inventory data, irrelevant of who is handling the goods and any changes in suppliers. This will prove particularly important during a period of disruption, for example, when a back-up supplier is called upon to suddenly add their products to the supply chain to avoid stock shortages.

A new lean

Beyond more sophisticated advances in software, our research has shown a trend of retailers adjusting timeframes to address COVID-19 disruption. Retailers have allowed longer lead times on stock ordered (41%) and also extended customer delivery times (40%). We can expect these changes to be relatively short-lived and replaced by a longer-term trend of evolving lean stock inventory management practices.

Consumer patience with longer delivery times will be quickly replaced by an expectation that retailers need to adapt to new ways of working.

The pandemic showed how lean many supply chain models are. They are designed to get the right products to places, at the right time, with supply closely matching demand to avoid margin dilution. This leanness was quickly affected by lockdown and this is likely to significantly change lean practices like 'Just in Time' because they are less able to cope with increasing unpredictability - they quickly become 'just out of time'. Supply chains will evolve as retailers aim to better mobilise stock, keeping it more agile to sweat its value across multiple routes to market.

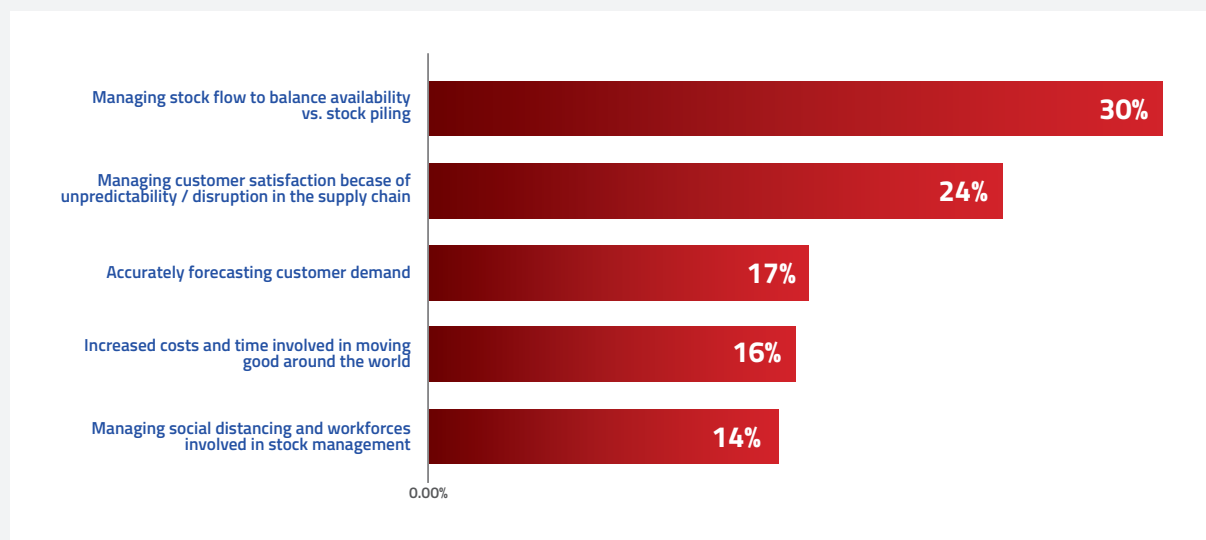
Undoubtedly, supply chains will continue to evolve in the coming months as Governments, businesses, consumers and economies still feel the effects of COVID-19. This is prompting more and more retailers to prioritise those 'what if' strategies and to invest more in due diligence to strengthen the resilience of their supply chains.



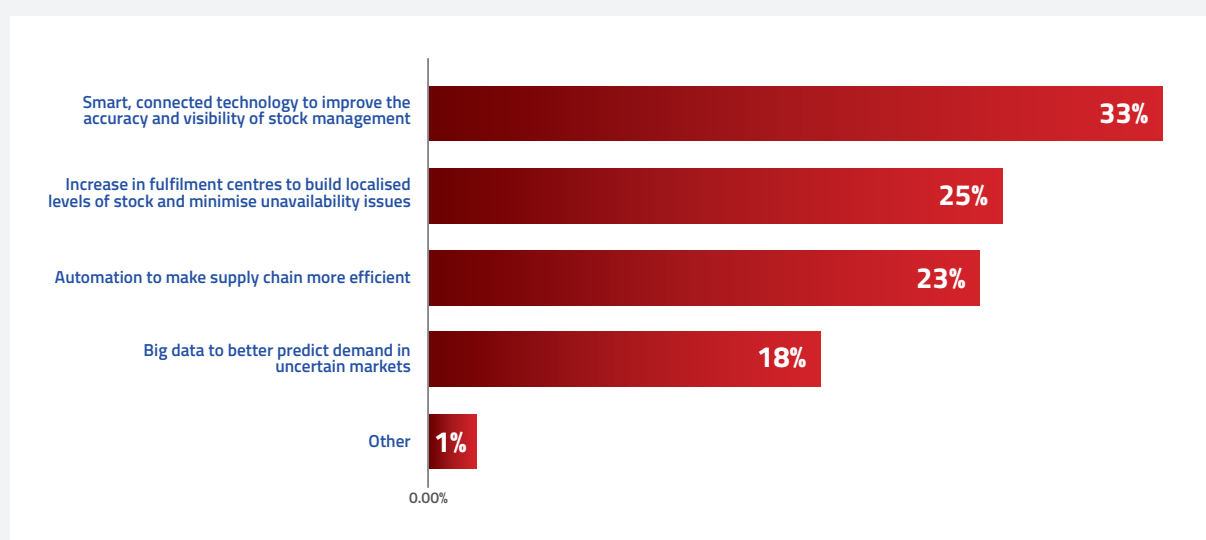
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Looking ahead; supply chains and stock management following COVID-19

As the far-reaching impacts of the pandemic continue to be felt internationally, retailers shared their concerns about the biggest stock management challenges they are now facing.



The research also highlighted how retailers plan to meet these challenges. Technology, software and data will all enable retailers to optimise availability to address uncertainty and supply chain disruption.





For further information about the trends and research featured in this report, please contact:

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