

The next big retail challenge

What makes one omni-channel retailer better than another? The answer lies at the heart of the business. Neil Adcock, Consulting Partner at Bis Henderson Consulting explains the challenges ahead for omni-channel retailing and points to ways of creating competitive advantage.

The retail landscape is experiencing profound change – a radical transition from ‘retailing as we have always known it’ to a spectrum of channels, fuelled by advances in information technology, new fulfilment techniques, fast-evolving parcel delivery solutions and, importantly, an empowered consumer connected via mobile technology to a vast ocean of information, from the best market prices to influential social media reviews.

The growth of online sales continues unabated. According to the latest monthly reported sales index produced by IMRG and Capgemini, UK online retail sales grew 18.9% in October 2016 - the highest year-on-year growth since November 2014 - amounting to an estimated spend of £11.39 billion for the month, and resulting in a total estimated spend YTD 2016 of £102.1 billion.

The Centre for Retail Research predicts that by the end of the decade e-commerce will account for 20% of UK retail sales. Presently they are estimated at 15 – 16%.

This change in consumer buying habits has impacted the high street, changed the nature of our shopping experience and triggered a fundamental shift in the structure of the supply chains that serve the retail sector.

The rise of the pure-play online retailer may have undermined the asset value and viability of the traditional bricks & mortar estate, but leading brands have fought back by using their high street presence to stunning effect. Retail outlets may be fewer in number, but their function, form and appeal have been transformed, creating more varied experiences for shoppers. In-store cafes are now commonplace and retail assistants with tablets to hand are becoming more interactive on the sales floor, checking for customers if an item is in stock, and if it is not offering to order it for home delivery or pick-up from store.

No longer are high street retailers compelled to cram pack products into these ‘customer experience’ spaces, mobile technology in combination with slick supply chains, designed to cater for small orders, can now offer customers a vast array of product, available next-day or even same-day. The store has become the place to experience the product, perhaps before ordering in the shop, at home or even on the way home. Fast, low-cost delivery, backed-up by a highly responsive supply chain, has become the enabler for a whole range of possibilities.

In some instances, particularly in the fashion sector, shops are now being used as forward stocking points for fulfilling same-day deliveries, creating competitive advantage through faster response times. A dress ordered online could be in-hand and ready to wear in just a few hours.

In addition, the return of items that may have been ordered online are now commonly accepted at a local store, offering convenience for the consumer and presenting an opportunity for a new sale. The handling of returns, in general, is a hugely important operation to get right; with return rates of 40% common in the fashion sector margins can be easily eroded through poorly thought-out processes.

In the same way as bricks & mortar retailers have adapted, there is now a blurring of what is omni-channel and what is pure play. A number of once pure-play online retailers are now moving onto the high street. Fashion retailer, Misguided, opened its first store in Westfield, West London earlier this year and now have a number of concessions, both here in the UK and internationally. Amazon too, a leading proponent of disruptive behaviour, is about to create a stir in the market with the trial of Amazon Go next year. Shoppers will be able to visit an Amazon Go retail outlet, choose items from the shelves and pay via their smartphone on the way out without all the hassle of long checkout queues.

Customers now expect to interact with a retail brand across multiple channels and, importantly, they demand consistency of service and price. Failure to perform on one channel can have dire consequences for the brand as a whole, so getting it right across all channels is now absolutely critical. Integrating order management across the many facets of a retail organisation has become a primary focus for most omni-channel businesses.

With the wide adoption of smartphones consumers are now capable of researching the market on the go, in store, searching out the best deals. To capture sales, retailers have to be responsive and savvy, enabling staff to offer deals on the sales floor. According to the Centre for Retail Research, "many retailers already report that up to 70-80% of website browsing occurs through consumers using mobile devices, both smartphones and tablets." Interestingly, the same report suggests that in 2015 only 20% of online spending in Europe occurred using mobiles (28.6% in the UK), but that the major growth in online sales is the result of higher sales via mobiles (+88% in Europe) with only 6% of online growth being made using PCs and laptops.

Information has become the new battleground. Big Data analytics is playing an increasingly important role in Omni-channel retailers' plans to acquire a 360-degree view of their customers. Social media listening tools search out trends and predictive analytics are used to best-guess consumers' next big purchases. But all this information needs to be shared across platforms to create a cohesive and accurate view of customers and their buying habits. Clever retailers are tapping into this information to create targeted marketing messages, driving much higher conversion rates.

Part of this messaging is being exploited in the growth of big retail events, such as Black Friday - which has now evolved to cover several days in a bid to take the pressure off of stressed supply

chains. The costs associated with these large spikes in demand have forced many retailers to find ways of cleverly managing demand.

How are retail businesses going to meet the multitude of complex and highly diverse challenges heading their way? Can they keep pace with this rapid rate of change?

As alluded to already, the supply chain is at the heart of this retail revolution – it is the enabler that effects efficient distribution and allows for an agile response to customer demand, in whatever form it takes and through whichever channel it is required. Creating, adapting and evolving a supply chain capable of providing competitive advantage in such a fast moving field should be a continuous process, where strategic elements of network planning and design are considered alongside an on-going operational programme of process improvement. Continually searching for 'better' at lower cost brings results.

But its creative thinking that adds the all-important extra dimension. Finding ways of extending the cut-off for next-day deliveries or removing the need to place returned items back on the shelves only to be picked again soon afterwards are just two examples of where imagination and experience can deliver significant benefits.

Having the right strategy, market knowledge and experience is key. Bis Henderson Consulting has recently been working closely with one of the World's largest toy retailers to help the business understand its future growth expectations and what that looks like in terms of warehousing facilities across Europe. Through using leading-edge scenario planning tools a network design fit for the future was created, ensuring service flexibility and agility while optimising the total cost of supply across the network.

Within the warehouse, Bis Henderson Consulting has helped a large number of retailers maximise the throughput of a facility, removing the immediate need for the business to take on additional warehousing space, all achieved through the application of more efficient picking methodologies, in-depth process analysis and the intelligent redeployment of resources across the operation. Understanding the dynamics of omni-channel fulfilment and store replenishment activities has enabled higher performance across channels and facilitated the stretching of cut-off times for next-day delivery – boosting the retailers' competitive position.

Labour availability issues and rising cost pressures relating to the National Living Wage and the upcoming Apprenticeship Levy have also impacted retailers' distribution centre operations. In the last year there has been a significant rise in the number of businesses looking to mechanise or automate elements of their fulfilment operation and Bis Henderson Consulting have been active in helping organisations make the right choices.

In addition, as Bis Henderson Consulting is part of a group of highly connected, interrelated businesses, the Bis Henderson Group is well positioned to help retail organisations with sourcing the most highly qualified employees through Bis Henderson Recruiting, planning for the Apprenticeship Levy with the Bis Henderson Academy, or solving seasonal peak problems with the resourcefulness of Bis Henderson Space.

Retail is in the midst of unparalleled structural change and the supply chain is at the very heart of it. The winners in this dynamic new landscape will be those businesses that can harness the potential of the supply chain to deliver competitive advantage. For omni-channel retailers the next big challenge is the supply chain.

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