Re-engineering the supply chain for the omni-channel of tomorrow

Global consumer goods and retail omni-channel supply chain survey

February 2015
Cracking the omni-channel supply chain code

Omni-channel has rapidly become the engine of growth in consumer goods and retail, but few companies are confident about their ability to execute against it and maintain margins. As the largest driver of cost, supply chain has a critical role to play in delivering profitability.

Companies are struggling to adapt:

- Can omni-channel be profitable?
- Which consumers should be served with what product portfolio?
- What is the role of bricks-and-mortar?
- What are the barriers to omni-channel success?

To gain a clearer understanding of how companies are addressing these issues, EY and the Consumer Goods Forum Supply Chain Committee carried out a survey of 42 senior supply chain executives from the world's largest consumer goods and retail companies. This report presents the findings from the survey, a program of interviews and the views of EY leaders. Together, these outline some of the ways in which we believe companies need to re-engineer the supply chain for the omni-channel of tomorrow.

“Omni-channel has placed supply chain firmly on the front line. With consumers now expecting to browse, purchase and return goods across a variety of channels, the supply chain has to reach beyond the retail store to the consumer’s home and dedicated pick-up points. This requires real-time, channel-agnostic visibility of inventory across the supply chain and a single view of the consumer as they hop from one channel to another.”

John Phillips
SVP Customer Supply Chain & Go-To-Market, PepsiCo, and Co-Chair of The Consumer Goods Forum Supply Chain Committee

“Fulfilling the omni-channel promise will require significant organizational transformation. Building an omni-channel capability cannot be an afterthought. To succeed, we believe companies must embed omni-channel into their strategy, transform their supply chain to be truly agile and responsive, and build robust data and analytics capabilities.”

Andrew Caveney
Global Leader, Supply Chain & Operations
EY
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Andrew Caveney
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Survey participants (companies)

We surveyed 42 senior supply chain executives from the world’s largest consumer goods and retail companies and The Consumer Goods Forum supply chain network. The survey was supplemented with in-depth interviews with select companies who had completed the survey. A number of companies represented in the research are noted alongside.

AB Vassilopoulos
ÆON Co., Ltd.
Cencosud S.A.
GALERIA Kaufhof GmbH
GSK Consumer Healthcare
L’Oréal
Mars, Incorporated
Mondelēz International
Nestlé SA
PepsiCo, Inc.
The Kroger Company
The Procter & Gamble Company
Unilever PLC
Waitrose

To find out more, please click here
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Overview
• Can omni-channel be profitable?
• Which consumers should be served with what product portfolio?
• What is the role of bricks-and-mortar?
• What are the barriers to omni-channel success?

Companies are struggling to adapt:

About The Consumer Goods Forum Supply Chain Committee

The Supply Chain (SC) committee focuses on enabling trading partners to work together bilaterally to increase efficiency and effectiveness in supply chain management, eliminate waste and disruption, and improve the service to consumers and shoppers.

The committee determines the “top-of-mind issues in supply chain” and addresses these issues at the annual Supply Chain Conference, a global event that brings together supply chain and logistics executives in the retail and consumer goods industry.

Specifically, the committee:
• Provides unified leadership for the industry on end-to-end supply chain topics
• Anticipates trends and changes in the global supply chain and discusses ways to respond to them
• Provides the platform for discussion, networking and knowledge transfer
• Identifies inspiring examples for collaboration along the supply chain; defines, where appropriate, leading practices; and helps drive their implementation (e.g., on the future supply chain)
• Drives the standardization of supply chain processes, e.g., by providing input to standardization procedures and support the adoption of GS1 Standards in the supply chain

For more information, please go to http://tcgfsupplychain.com
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Companies are struggling to adapt:
- What is the role of bricks-and-mortar?
- What are the barriers to omni-channel success?
- What are omni-channel companies doing to address these issues, and what might they need to do differently in the future?

To gain a clearer understanding of how companies are addressing these issues, the Consumer Goods Forum Supply Chain Committee carried out a survey of senior supply chain executives from the world's largest consumer goods and retail companies. This report presents the findings from the survey, a program of interviews and the views of EY leaders. Together, these outline some of the ways in which we believe companies need to re-engineer the supply chain for the omni-channel of tomorrow.

Strategic trends are driving the next wave of supply chain evolution, creating different challenges and opportunities in industry sectors and services. With more than 2,400 supply chain and operations professionals across 150 countries, EY has a truly globally integrated supply chain organization addressing clients' most complex supply chain transformational problems and delivering innovative, superior and sustainable results.

For further information, please visit ey.com.
Consumer goods and retail companies must re-engineer the supply chain if omni-channel is to be profitable

Embrace omni-channel as the critical driver of growth

- Bricks-and-mortar will generate 81% of revenues in five years, down from 93% today
- Omni-channel growth risks diluting margins in the sector; only 38% say omni-channel initiatives are margin-accretive

81% believe the supply chain is not fit for purpose for omni-channel

Embed omni-channel supply chain strategy in the corporate strategy

Prioritize agility and responsiveness in omni-channel supply chain design

Collaborate with value chain partners to enable seamless data visibility and actionable insight

Re-engineer the supply chain to deliver omni-channel growth profitably
Omni-channel growth will dilute margins unless the supply chain changes

Omni-channel represents the biggest growth opportunity for the consumer goods and retail industry. Although 74% of senior supply chain professionals surveyed for this report think store-based sales will continue to dominate in the next five years, 88% believe that consumer goods firms can no longer rely on traditional sales channels to drive growth. Annual global store-based growth is forecast to be just 5% between 2014 and 2019, compared to online growth of 15%.¹ In emerging markets, the gap between store-based and online growth will be even greater.

†Source: Euromonitor.com

Key takeaways

- The traditional consumer goods supply chain is not fit for purpose and must be re-engineered.
- Bricks-and-mortar still dominates, but omni-channel is critical for growth.
- Omni-channel growth risks dragging down corporate profits.

Omni-channel is the critical driver for growth

2014-2019 total retail sales by channel CAGR %

<table>
<thead>
<tr>
<th>Channel</th>
<th>Total</th>
<th>Retail</th>
<th>Consumer packaged goods manufacturers (CPG)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>15%</td>
<td>7%</td>
<td>21%</td>
</tr>
<tr>
<td>Store-based</td>
<td>5%</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>

World

France

Germany

UK

US

Brazil

China

India

Nigeria

Developed

Emerging

Frontier

74%

86%

62%

79%

15%

13%

14%

12%

12%

12%

7%

8%

10%

18%

2%

3%

2%

4%

8%

10%

13%

3%

2%

15%

7%

04

†Source: Euromonitor.com

Percentage of respondents who believe:

- Consumer goods firms can no longer rely solely on traditional sales channels to drive future growth.
- Store-based sales will continue to dominate in developed markets in the next five years.

Menu

- Can companies afford omni-channel to be a drag on profits?
- The traditional supply chain is no longer fit for purpose.
Omni-channel growth will dilute margins unless the supply chain changes

Key takeaways

1. The traditional consumer goods supply chain is not fit for purpose and must be re-engineered.

2. Bricks-and-mortar still dominates, but omni-channel is critical for growth.

3. Omni-channel growth risks dragging down corporate profits.

Defining omni-channel

The consumer just wants to shop

An omni-channel strategy is one that provides a seamless and consistent shopping experience across different channels and devices. From a supply chain perspective, this means that there is complete visibility across channels, along with a holistic, unified view of the path to purchase.

Percentage of respondents who believe:

- Consumer goods firms can no longer rely solely on traditional sales channels to drive future growth.
- Store-based sales will continue to dominate in developed markets in the next five years.

World 88% 86% 90%
France 86% 90%
Germany 74%
UK 86%
US 62%
Brazil 6%
China 10%
India 40%
Nigeria 79%

Menu

- Can companies afford omni-channel to be a drag on profits?
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Omni-channel growth will dilute margins unless the supply chain changes

Food and drink is forecasted to be the fastest-growing category via internet retail

Global internet retail market size and growth by category

*Source: Euromonitor*

Forecast growth 2014-2019, CAGR %

- Consumer electronics
- Apparel and footwear
- Media products
- Consumer appliances
- Food and drink
- Homewares and home furnishings
- Beauty and personal care
- Personal accessories and eyewear

Can companies afford omni-channel to be a drag on profits?

The traditional supply chain is no longer fit for purpose.
Omni-channel growth will dilute margins unless the supply chain changes

Omni-channel is the critical driver of growth

Survey respondents confirm that while bricks-and-mortar is still the dominant channel for most, the proportion is falling rapidly. In five years’ time, bricks-and-mortar could account for just 81%. Delegates at the Consumer Goods Forum’s annual supply chain conference felt this shift could accelerate even more quickly.¹

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Percentage of global sales generated from bricks-and-mortar stores

<table>
<thead>
<tr>
<th>% of revenues</th>
<th>in five years</th>
</tr>
</thead>
<tbody>
<tr>
<td>93%</td>
<td>81%</td>
</tr>
</tbody>
</table>

Average annual spend of online and store customers vs. store only²

- 2x

“Omni-channel can have a compounding impact on growth. EY experience and even retail annual reports demonstrate that customers who shop online and in-store spend twice as much as those who only shop in-store.”³

Matthew Burton
EMEIA Omni-channel Leader, Supply Chain & Operations
EY

¹Based on live polling of 115 delegates on 25 September 2014.
²Source: EY analysis from retailer annual reports.
³In the UK, Argos already originates more than 52% of sales from outside the store.
Omni-channel growth will dilute margins unless the supply chain changes

How long can companies afford to invest in omni-channel before expecting to deliver a profit?

In addition to sales growth, omni-channel yields a range of benefits, including improved consumer insight, strengthened consumer loyalty and competitive differentiation. However, only one-third of respondents expect to see increased profits.

Percentage of respondents citing expected benefit from operating an omni-channel strategy:

- 95% Strengthened consumer loyalty
- 90% Created competitive difference
- 84% Improved consumer insight
- 79% Increased sales
- 76% Expanded/differentiated consumer base
- 73% Increased cross-category sales
- 33% Increased profit

EY in collaboration with The CGF: Re-engineering the supply chain for the omni-channel of tomorrow
Omni-channel growth will dilute margins unless the supply chain changes

Can companies afford for omni-channel to be a drag on profits?

Only 38% of survey respondents say their omni-channel initiatives are margin-accretive; the remainder say the effect is either dilutive or neutral. “If omni-channel is driving growth but isn’t profitable, the sector risks years of margin dilution,” says Andrew Cosgrove, Global Lead Analyst, Consumer Goods & Retail at EY. “It is imperative that companies transform their operating models to make omni-channel work both for the consumer, but also for financial performance.”

Impact on margins of respondents’ omni-channel initiatives

There are various reasons why companies struggle to make omni-channel profitable. “The sheer pace of change and mad dash to sell products online has resulted in ill-considered and irrational behavior,” says a consumer goods global supply chain leader. “Many companies have accepted poor terms, with little or no visibility of how products are sold and limited collaboration between manufacturers and retailers.”

In their rush to develop e-commerce capabilities, companies have often bolted on systems and processes without fully considering integration with traditional store fulfillment. As a result, supply chains are inefficient and there is a lack of visibility across different channels.

*Note: Excludes store sales
Omni-channel growth will dilute margins unless the supply chain changes

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**Impact on margins of respondents’ omni-channel initiatives**

- **Accretive**: 26%
- **Neutral**: 36%
- **Dilutive**: 38%

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**Key barriers**

Respondents highlighted five key barriers preventing companies from maximizing the benefits of an omni-channel supply chain strategy:

1. Lack of dedicated resources and capabilities
2. Level of investment required to succeed
3. Challenge of supply chain complexity
4. Limitations of siloed organizational structures
5. Lack of senior leadership support

*Note: Excludes store sales*
The traditional supply chain is no longer fit for purpose

The supply chain faces significant pressure. Most consumer goods supply chains were traditionally seen as a cost center built for one purpose— to deliver goods to stores. But, in an omni-channel world, the supply chain has become the consumer-facing front office and a key determinate of whether shoppers have a good or bad experience. Get fulfillment right across the full range of channels, and consumers will be satisfied; get it wrong and they will look elsewhere.

Many companies are struggling to re-engineer their supply chain. Among our respondents, 81% believe their supply chain is not fit for purpose for omni-channel, and 76% think that supply chain transformation, rather than incremental change, will be required to succeed.

“The traditional supply chain is about shifting large brown boxes to big boxes.”
David Jones
Supply Chain Director
Waitrose

81% believe their supply chain is not fit for purpose.

Percentage of respondents who believe:

Current supply chains are not fit for purpose to deliver a successful omni-channel offering.

- 81%
- 86%
- 76%

Significant supply chain transformation rather than incremental change is required to succeed in an omni-channel world.

- 76%
- 81%
- 71%
What's needed to fulfill the omni-channel promise?

Key enablers

To achieve a successful omni-channel supply chain strategy, the leaders surveyed for our report identified three key enablers:

1. Omni-channel being embedded in the overall company strategy: 34%
2. Having a responsive, combined omni and traditional supply chain infrastructure: 24%
3. IT systems and capabilities that enable seamless visibility and fulfillment to end consumers: 26%

Only a minority of respondents believe they are currently effective at these enablers.

For example, 24% think they are effective or very effective at having a responsive, combined omni and traditional supply chain infrastructure, and 26% having in place the IT systems and capabilities to enable seamless visibility and fulfillment.

Most companies have a long way to go before their omni-channel strategy and execution are mature and established. The next section outlines the steps we believe companies need to take.
Embracing omni-channel and embedding it in strategy

Key takeaways

Omni-channel is critical, but only 40% of respondents think their current execution is effective.

A consumer-centric end-to-end approach to omni-channel is vital.

Strong leadership is required to manage the transition, but many companies consider this to be lacking.

Omni-channel cannot be an afterthought

Executing an omni-channel strategy is highly challenging. Companies can no longer afford to manage their channel strategies in silos or bolt on new channels without integrating them. To succeed, companies must embrace omni-channel and ensure that it is fully embedded in their overall corporate strategy and organizational culture.

97% of respondents in developed markets say it is important to have an omni-channel strategy.

40% believe their omni-channel execution is effective.

# Questions for management

- What does the consumer really want (products/service/channels)?
- Is omni-channel a strategic imperative rather than a ‘me too’ strategy?
- Are we really thinking end-to-end with one view of the consumer?
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97% believe omni-channel is important

Percentage of respondents who think it is important or very important to have an omni-channel strategy in developed markets

- Total: 80% Very important, 17% Important
- Retail: 80% Very important, 15% Important
- CPG: 81% Very important, 19% Important

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Manufacturers are more confident than retailers in their omni-channel execution

Percentage of respondents who believe their developed market omni-channel execution is effective

- Total: 40%
- Retail: 32%
- CPG: 48%

Questions for management

- What does the consumer really want (products/service/channels)?
- Is omni-channel a strategic imperative rather than a ‘me too’ strategy?
- Are we really thinking end-to-end with one view of the consumer?
Omni-channel strategy must be consumer-centric

Successful omni-channel strategy must start with understanding what consumers want and how their needs and expectations are changing. This means being clear about what consumers really value, compared with what the company thinks is valuable – e.g., offering time slots and an accurate view of delivery times may be more important than offering same- or next-day delivery.

For most companies, omni-channel initiatives are still in the early stages or in process. Just 5% of respondents describe their omni-channel strategy as established. Given the rapid pace of omni-channel’s evolution, this lack of maturity is not surprising. Manufacturers and retailers must consider the needs of different channels and what drives consumer choices. Designing processes to satisfy those requirements will entail a fundamental reconfiguration of the business and supply chain.

“\n\nWe are at the early stage of a journey that’s going to be as revolutionary as the introduction of supermarkets 60 years ago. I have to convince the rest of the organization what is required by omni-channel, which means spending a lot of time with manufacturing, packaging and procurement teams.\n\n\nChris Tyas
Group Head of Supply Chain
Nestlé
\n\n"
Company leadership must commit to change

Strong leadership is critical to manage the transition to omni-channel because the change is so far-reaching. However, more than a third of respondents cite lack of senior leadership support as a key barrier.

Existing channel silos must be dismantled, key performance indicators (KPIs) replaced, new processes and technologies implemented, and P&Ls and functions aligned. Not everyone in the organization will welcome these changes, so leadership must create the impetus for change, resolve conflict and overcome organizational inertia.

“Getting omni-channel right is about fundamental cultural change,” says David Jones, Supply Chain Director at Waitrose. “You need to break the mindset that you’re losing sales when shoppers buy online.”

Cross-functional collaboration is vital. Many existing supply chain capabilities are still relevant but must be blended with new capabilities. Companies should create teams that mix people with more ‘disruptive’ capabilities and those who are more aligned with the existing model.

Setting the right KPIs is crucial to ensure ongoing commitment.

“Companies must connect the KPIs of the existing organization to the new initiatives. A key challenge is sales attribution. If a shopper orders a product online and picks it up in a store, which channel is responsible for that sale? Companies need to work through these issues and ensure that channel teams work together, rather than competing with each other.”

Andrew Cosgrove
Global Lead Analyst, Consumer Products & Retail
EY

37% of companies say a lack of senior leadership support for omni-channel is a key barrier.
End-to-end thinking must be embedded

Companies need to take an end-to-end approach to their omni-channel strategy and execution

This starts with strategic choices about where the company can add value and the creation of a business model and value proposition that aligns with the needs of the consumer. Everything must be looked at through an omni-channel lens, from the product and packaging design, through promotional planning, operating model design and supply chain.

Mastering complexity can become a source of competitive advantage. “There is an absolute difference between good complexity and bad complexity,” says Chris Tyas, Group Head of Supply Chain at Nestlé. “One of the key questions we need to answer is whether the consumer values the complexity we add. For example, consumers might value the complexity of packaging designed for online that takes up less space when delivered to the home. If not, we have to take it out.”

By putting omni-channel at the heart of strategic decision-making, companies will be better placed to fulfill the omni-channel promise of seamless integration across channels.

EY’s global perspective on the importance of “design principles”

We often find that companies find it difficult to visualize what omni-channel will mean for their business. As they make the transition to an omni-channel world, they need to step back and establish some clear “design principles” about their omni-channel strategy. This involves looking five years ahead to consider how the environment and consumer behavior might change, and ensuring that the strategy can evolve accordingly.

With a clear destination in mind, companies can put in place the building blocks to reach that end state. This takes tenacity and determination. Each of these building blocks will require investment and change management and may mean that margins are diluted in the short term. Business leaders need to be able to communicate a clear rationale for these decisions and ensure that the organization as a whole is prepared to follow them, but also be willing to flex the approach as the environment changes.

Joost Vreeswijk
Operating Model Effectiveness Leader
Europe, Middle East, India and Africa
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## EY's global perspective on the importance of "design principles"

Joost Vreeswijk
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**Visibility**

**Agility**

**Strategy**

**Welcome**

**Contact**

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### Dedicated SKUs for online?

Although emerging models such as Amazon's Prime Pantry ship the same types of center store products as sold in a grocery store, some companies believe that online retailed products should have dedicated SKUs. “One of the challenges is that products are either designed to be stocked on a shelf or shipped,” says Chris Tyas, Group Head of Supply Chain at Nestlé. “It’s difficult to design packaging that will fulfill the needs of both online and bricks-and-mortar channels. I am convinced that the right thing to do is have a certain number of dot-com SKUs. For volumes where a large enough portion is being sold online, you should have a specific SKU for that channel.”

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**Dedicated SKUs for online?**

Learn more

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EY in collaboration with The CGF: Re-engineering the supply chain for the omni-channel of tomorrow
Creating the agile and responsive omni-channel supply chain

Key takeaways

- A segmented supply chain and inventory model helps to strike the balance between agility and efficiency.
- Compete for the requirements of tomorrow, not today.
- Careful analysis of the assortment by channel is critical to success.

Supply chain must become even more responsive

In recent years, many companies have sought to maximize their supply chain efficiency by stripping out redundancy and reducing costs where they can. However, the transition to omni-channel challenges this single-minded focus on efficiency and requires a new level of responsiveness.

Questions for management

- Which customers should be served with which product?
- Where must we provide supply chain efficiency vs. agility?
- How will the supply chain network design need to adapt with increasing omni-channel fulfillment?
Balance supply chain agility and efficiency

Companies must strike the right balance

Efficiency comes at a price - it can mean that supply chains are less flexible and adaptable to a changing external environment. Companies must also ensure they can respond to, and anticipate, shrinking product cycles, volatile demand and changing consumer behavior. This relies on good planning, end-to-end visibility and clear communication across channels and functional areas.

Equally, the extent to which consumers expect efficiency over agility will vary. “You can get click-and-collect next day,” says a retail operations leader, “but 40% of consumers don’t want it next day. It is better to fulfill an order the right way, not just the quickest way.”

In some cases, cost will be the defining factor, which demands efficiency, whereas in others, speed of delivery will be paramount, which requires agility.

40%

“40% of consumers don’t want click-and-collect next day.”

“The more you know your customer, the better you are able to predict demand and know how to serve them. Our customer intelligence is a big source of competitive advantage that is helping us to put that knowledge to work.”

Frank Bruni
VP Supply Chain
The Kroger Company
Balance supply chain agility and efficiency

Retailers are taking one of two broad approaches to online fulfillment

One is to leverage the existing store network and start with fulfilling from stores, then expand as demand grows into dark stores and beyond. The second is to use the existing warehouse network or create dedicated centralized warehouse facilities at the outset.

Each has significant pros and cons that must be considered. There is no single right model: the right answer and mix of each approach requires assessment of likely demand, customer needs, existing footprint and investment case.

The store-based approach requires limited capital, is scalable, and can lead to greater delivery density and transport efficiency. As demand grows, fulfillment can be shifted to dark stores; an approach Tesco has taken in dense urban areas. Dark stores can be laid out just like a normal store, but in cheaper locations. Over time, companies can transform dark stores into professional warehouse operations by changing layout and adding automation.

Dedicated warehouses, on the other hand, are more costly from a capital perspective, but offer greater consistency of range and customer service. They also have far more scope for extending the range of products offered.

“In some cases, there is convergence between the two models. Companies with centralized dedicated facilities are increasingly investing in more regional sites closer to the customer, while those that started with in-store picking are increasingly creating dark stores that are more like regional dedicated warehouses. Leading companies have a more segmented view with long tail items in more centralized warehouses and fast movers being supplied locally.”

Matthew Burton
EMEIA Omni-channel Leader, Supply Chain & Operations
EY
What stock to hold, where and in what depth?

Depending on the fulfillment approach, the next challenge is deciding on what inventory to stock where

The survey responses highlight how difficult this can be. Less than half are able to meet demand uplift from marketing incentives across different channels and maintain customer service KPIs. And 40% have no mechanism to fulfill out-of-stocks across sales channels until that channel is back in stock.

Again, the store-based and warehouse-based models have their pros and cons. The centralized shared facility offers simplicity because there is only one stock base. But companies must take decisions about the level of stock that is sent to stores versus being held back for online availability. By contrast, store-based fulfillment can be highly complex – the inventory must cover both traditional store demand and online fulfillment. There is significant scope for companies to get this wrong, which will immediately result in many disappointed customers. Any stock-keeping errors only compound this.

49% are able to meet demand uplift across channels.

40% have no mechanism to fulfill out-of-stocks.

EY’s global perspective on the right assortment for the right channel

When retailers first set up their e-commerce channels, many assumed that, freed from the constraints of the physical store, they could offer just about everything. This led to high obsolescence costs and write-offs with several high-profile retailers shutting dedicated e-commerce sites. The assortment choice is, in reality, highly complex. Some products may simply not be suitable for offering online – either because the consumers that frequent that channel will not buy it, or because the fulfillment challenges will erode margins beyond an acceptable point.

Many retailers are starting to realize that they need to think much more strategically about the right assortment for the right channel. This means looking at each product and assessing the potential growth, margin potential and fit with the company strategy. They can then map the most appropriate products to the right channel and fulfillment approach and either strip out those that are not profitable or find the right supply chain response to ranging them at little cost – e.g., for extended range items holding zero stock and back-to-back ordering products from suppliers.

Matthew Burton
EMEIA Omni-channel Leader, Supply Chain & Operations
EY
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The survey responses highlight how difficult this can be. Less than half are able to meet demand uplift from marketing incentives across different channels and maintain customer service KPIs. And 40% have no mechanism to fulfill out-of-stocks across sales channels until that channel is back in stock.

Addressing ‘out-of-stock’

“Omni-channel out-of-stock is poorly defined” says Dhivant Patel, Global eCommerce Supply Chain Manager at Unilever. “It can mean that demand is at critically low levels, something is not available in one store, across the entire supply chain, or it could be that pickers simply cannot find the product. We need to look at shelf packaging and labelling and work with the retailer to ensure that this is as clear as possible. This is challenging, however, because you need store-specific data to understand what the issue is.”

49% are able to meet demand uplift across channels.

40% have no mechanism to fulfill out-of-stocks.
Over the next five years the omni-channel mix will shift, with emerging channels, like click and collect, growing in popularity. Companies will need to adapt their supply chain infrastructure to keep pace with these trends, ensuring that they have the agility to respond to highly complex consumer behavior.

In reconfiguring the supply chain, companies must focus on the needs of the future. Shortening lead times further increases the need for responsiveness. Many companies are now offering some form of same-day delivery services. “Amazon is defining the delivery standards to which every company will have to aspire,” says one retail supply chain leader. “Quite simply, we are living in an Amazon world.”

Among our respondents, 42% say that they offer lead times of 12 to 24 hours, while 16% offer 12 hours or less.

Spending effort to achieve next-day delivery when industry leaders are already focused on same-day and predictive delivery risks leaving companies still behind the curve. To stay one step ahead, companies should also explore emerging models, such as predictive fulfillment, which involves forecasting the rate at which consumers use everyday products and delivering them without the need to place an order.
Providing seamless data visibility and actionable insight

**Key takeaways**

- Close collaboration between manufacturers and retailers is critical.
- Exploit big data to make a step change in forecasting and demand-sensing outcomes.
- Integrate IT to provide a single view of the customer and to provide seamless fulfillment.

**Effective omni-channel cannot be achieved by either retailers or manufacturers alone**

It requires close collaboration between the two, and the constant sharing of information. At the moment, this seamless visibility is missing. Andrew Caveney, Global Leader, Supply Chain & Operations at EY, says that retailers need more information from manufacturers than ever before. “Retailers want more unstructured information, such as written copy for marketing or product images. They need this in a format they can easily leverage for digital channels.”

**Questions for management**

- Are you collaborating with key suppliers and customers to share forecast and sales data?
- Is the data available being properly exploited to provide real consumer insights and purchasing preferences and to enhance forecasts?
- Is the data and IT being combined to provide a single view of the consumer and provide seamless fulfillment?
Data sharing is critical to forecasting and demand sensing

Standardization and synchronization will have an important role to play in improving supply chain efficiency

“You need collaboration to close the loop between manufacturer and retailer,” states Chris Tyas, Group Head of Supply Chain at Nestlé. “On a day-to-day basis, this could be letting retailers know when they’re continuing to order lines that are discontinued. Taking it to the next level, collaboration means working with the retailer. In an online environment, this means manufacturers and retailers reviewing on a weekly basis the products that have changed to make sure they are correct on the retailers’ systems.”

“Manufacturers need to make sure they have good relationships with the right people to get the intelligence they need. If retailers fail to give manufacturers more clarity, they themselves will suffer from a problem with supply readiness.”

Andrew Caveney
Global Leader, Supply Chain & Operations
EY

Seamless visibility is missing

Just 45% of manufacturers have access to end-consumer sales, split by channel.

74% say mistakes in price elasticity/promotions drive significant cost and complexity into fulfillment.

49% are able to meet demand uplift from marketing incentives across different channels and maintain customer service KPIs.

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Big data must be exploited

Traditional approaches to forecasting relied on historical data. However, the increasingly challenging nature of predicting which channel consumers will utilize is prompting some supply chain leaders to ask if forecasting is still relevant.

“It is very difficult to forecast when we are responding to a market that is so dynamic,” notes one retailer. “The question becomes, how responsive can we be to changes in demand?”

With the advent of big data and predictive analytics, companies are able to make a step change in their demand sensing. As consumers migrate towards digital channels, they are yielding increasingly rich data about their purchasing behavior and preferences. Companies that can capitalize on this data will derive significant benefits.

Consumers now leave a trail of information that can be hugely valuable. They also expect companies to be joined up and know what they have purchased in every channel. Analyzing this data effectively enables companies to ensure that they have a single view of the customer, the right level of inventory in the right place, and that they can respond quickly to changing patterns of consumer demand.

Companies are combining this consumer data with other information in real time.

For example, some retailers are analyzing historical sales data alongside meteorological information to see if the weather influences purchasing behavior. They can then predict future demand for product lines more accurately by factoring the weather forecast into their inventory decisions.

For now, these more advanced capabilities are rare, with just 26% of companies surveyed saying that they have effective IT systems and capabilities to enable seamless visibility and fulfillment to end consumers.

EY’s global perspective on using shopper preference data for strategic advantage

Gone are the days of simply relying on traditional marketing strategies to drive sales. The use of advanced analytics for how consumers shop online and in-store will increasingly provide critical visibility to enable companies to sense real-time shifts in demand, personalize the shopping experience and identify those products that will be of highest value to the consumer.

Next-generation marketing campaigns that align with shopper preferences and transaction history will predict shopping behaviors, recommend where inventory must be available and suggest products that may fit consumer needs. Leaders will be able to sense and shape demand by pushing product marketing notifications in real time to the shopper as they browse online or are in-store.

Ross Brubaker
Supply Chain Consultant
EY
Traditional approaches to forecasting relied on historical data. However, the increasing complexity of how consumers shop—whether online or in-store—has led supply chain leaders to ask if forecasting is still relevant.

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"Big data must be exploited," says Dhivant Patel, Global eCommerce Supply Chain Manager at Unilever. “A mature omni-channel player should have a clear strategy for capturing - and responding to - online ratings and reviews,” says Dhivant Patel, Global eCommerce Supply Chain Manager at Unilever. “If online ratings decline within a number of weeks, it should flag that there is a temporary issue with a product. This must correlate with what comes in via call centers and the feedback passed to the category and market teams.”

Utilizing social media for insight

Social media can be a vital source of insight. “A mature omni-channel player should have a clear strategy for capturing - and responding to - online ratings and reviews,” says Dhivant Patel, Global eCommerce Supply Chain Manager at Unilever. “If online ratings decline within a number of weeks, it should flag that there is a temporary issue with a product. This must correlate with what comes in via call centers and the feedback passed to the category and market teams.”
Integrate IT and SC to provide seamless fulfillment

Better integration between IT and the supply chain lies at the heart of omni-channel success

With lead times constantly shortening, and consumers expecting the same level of inventory and service irrespective of the channel, companies must put in place an IT infrastructure that enables cross-channel visibility and the free flow of information across functional boundaries. Information silos must be eroded so that there is a clear line of sight between product development, demand planning, logistics and marketing.

David Jones, Supply Chain Director at Waitrose highlights the importance of IT systems that support the supply chain. “In omni-channel, you need to be agile, but that has systems implications. You can’t be agile if your ordering systems, for example, don’t allow it. You need IT systems that support areas such as real-time predictive analytics, stock counting, and ordering. At John Lewis, if you make an order the night before, you can get it the next day. Grocery needs to move the same way and you need the technology to make that happen.”
What do you need to do to succeed?

Strategy
- Focus on the real needs of the consumer and don’t over engineer the omni-channel offer
- Dedicate resources to prioritize omni-channel and collaborate across channels to remove silo behavior
- Embed a continuous improvement mindset to keep up with fast-changing technology platforms and behaviors
- Design products and packaging for the requirements of omni-channel

Agility
- Plan for supply chain needs of the future, not today, or you will always be behind
- Segment the supply chain to meet the different product and channel demands
- Sweat existing assets in a creative way to support the omni-channel need
- Get click and collect right as a priority over home delivery

Visibility
- Incentivize data sharing to get an end-to-end view of the value chain
- Move beyond traditional sales forecasting to sense and shape demand
- Use your data to create a single view of the customer across all channels including returns
- Leverage advanced analytics platforms to drive granular detail on cost to serve in order to understand real profit drivers

“All re-engineering the omni-channel supply chain must be a priority for consumer goods companies and retailers if they are going to remain relevant to both the consumer and their shareholders. All three enablers (strategy, agility, and visibility) will determine a new configuration, shifting from very linear supply chains to more networked configurations with alternative paths to support the needs of omni-channel fulfillment. However, companies cannot be complacent. The ongoing rapid evolution of omni-channel makes change management a critical capability.”

Andrew Caveney
Global Leader, Supply Chain & Operations
EY
Interested in learning more?

We have selected some leading industry and issue-based reports and additional information sources to provide supplementary insights.

www.ey.com/cp-omnichannel
www.theconsumergoodsforum.com

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About this report: For this study, EY worked with the Consumer Goods Forum to survey 42 senior executives of large organizations in the consumer goods and retail sectors. The respondent distribution is shown below. The survey was supplemented with in-depth interviews with select companies who had completed the survey.

Base: all respondents (42)

Subsector of respondents

- Food and beverage: 24%
- Home and personal care: 26%
- Grocery retail: 43%
- Other retail: 7%

Function of respondents

- Supply chain/operations: 67%
- IT: 19%
- Marketing: 6%
- Sales: 6%
- Other: 3%

Location in which respondents were based

- Asia: 12%
- EMEA: 56%
- Americas: 32%
About The Consumer Goods Forum

The Consumer Goods Forum is a global, parity-based industry network that is driven by its members.

It brings together the CEOs and senior management of some 400 retailers, manufacturers, service providers and other stakeholders across 70 countries, and it reflects the diversity of the industry in geography, size, product category and format. Its member companies have combined sales of €2.5 trillion and directly employ nearly 10 million people, with a further 90 million related jobs estimated along the value chain. It is governed by its Board of Directors, which comprises 50 manufacturer and retailer CEOs.

The CGF’s mission is, “Bringing together consumer goods manufacturers and retailers in pursuit of business practices for efficiency and positive change across our industry benefiting shoppers, consumers and the world without impeding competition.” It provides a unique global platform for the development of global industry processes and standards as well as sharing best practices. Its activities are organized around sustainability, product safety, health and wellness, and end-to-end value chain and standards, each of which is central to better serving consumers. The Forum’s success is driven by the active participation of its members who together develop and lead the implementation of best practices along the value chain. With its headquarters in Paris and its regional offices in Washington, DC, and Tokyo, The Forum serves its members throughout the world.

For more information, please visit www.thecustomergoodsforum.com
The Consumer Goods Forum
Supply Chain Committee

Delighting the consumer. Acting as one.

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How EY’s global consumer products team can help your business

Consumer products companies are operating in a brand-new order, a challenging environment of spiraling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behavior and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. Our worldwide network of more than 17,500 consumer products-focused assurance, tax, transaction and advisory professionals shares powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can assist you in making more informed, strategic choices and help you execute better and faster.

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