

# Retail Vendor

## PERFORMANCE MANAGEMENT BULLETIN

### Building the Retail Supply Chain Network of the Future

By Dan Gilmore, Editor, Supply Chain Digest

The retail landscape continues to change literally right before our eyes, roiled by ecommerce generally and Amazon specifically, while consumer behavior continues to rapidly evolve – with more changes sure to come as a result of the coronavirus crisis.

To thrive in this challenging and dynamic market, retailers must transform in many ways, notably in terms of their supply chain networks, according to a recent article by several consultants at McKinsey.

The article notes that while apparel trails industries such as electronics and sporting goods in ecommerce penetration, the number of people shopping for clothes and shoes online is rising

rapidly - up 18.5% in 2018 alone, to more than one-third of all apparel sales that year.

Of course, ecommerce fulfillment is much more complex than traditional brick-and-mortar or wholesaler fulfillment.

McKinsey says an on-line order's cost per unit can easily be four to five times higher than traditional brick-and-mortar replenishment and ten times higher than wholesale fulfillment - all while customers demand a seamless omnichannel journey.

With that backdrop, McKinsey offers a number of key "building blocks" retailers should consider when crafting new supply chain networks, summarized on Page 2:

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### Industry News Round Up

#### US Apparel Retailers Stopping Orders to Vendors

Apparel retailers are postponing and canceling clothing orders, putting at risk millions of jobs in Asia just as China appears to be returning to normalcy after its coronavirus crisis.

As consumer demand plummets, *The Wall Street Journal* says the first to be hit by the consumer shutdown in the West are suppliers to the world's "fast-fashion" retailers, such as H&M. Because their business models depend on being able to get orders from factory floors to retail outlets in just a few weeks, those retailers are now pausing or canceling factory orders.

But those woes are likely to move to other retailers and thus their suppliers soon enough.

For example, both Primark, a retailer with stores across Europe, and Peacocks Stores, a UK retailer, have suspended or canceled orders, according to public statements and notices to suppliers viewed by *The Wall Street Journal*.

Mostafiz Uddin, who owns a Bangladeshi jeans manufacturer, said his factory made around 14,500 jeans for Peacocks only to receive a letter saying that the retailer wouldn't accept the order.

UK retailer Marks & Spencer recently sent a note to suppliers suspending new purchase orders.

H&M said it is also evaluating "potential changes on recently placed orders." The company buys from around 1,400 factories

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### Traverse Systems Corner:

#### The Foundations of Successful ASN Programs

By Dr. Brian Gibson,  
Auburn University

**traverse**  
SYSTEMS

When deployed effectively, advanced shipping notification (ASN) programs facilitate shipment visibility, inventory control, and cycle time reduction. Retailers and suppliers collaborate for improvement because they both stand to benefit from ready access to accurate ASN information. Strong programs facilitate rapid replenishment and in-stock availability to drive revenues higher.

In contrast, ineffective ASN programs fail to elicit desired outcomes. Punitive, chargeback-based initiatives serve as wakeup calls for suppliers but don't necessarily alter behaviors or produce lasting improvement. Furthermore, an acrimonious relationship can emerge where the penalties overshadow the goals of insight and carton content accuracy. As a result, nobody wins.

From my on-going research on ASNs, it has become apparent to me that there are right ways and wrong ways to managing ASN programs. After asking a number of retailer and supplier experts about their wish lists for ASN and inventory accuracy improvements, a foundational set of guidelines emerged.

Clarity is the base layer of the foundation. Retailers want to know how suppliers are delivering on the promise of information and inventory integrity. Suppliers simply need to share their ASN plans and pursue a logical path to error reduction. "Tell us what

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## Segmenting Collaboration Models (continued from page 1)

- Put the customer's needs first:** While McKinsey says that companies need to adopt a granular perspective of what the customer really wants, today and in the future, it acknowledges that there are many unknowns.


"As such, serving the customer of the future requires unprecedented agility, quickly adapting to changing customer expectations," McKinsey adds.
- Forget one size fits all:** A deep understanding of customer desires should be the foundation of defining the strategy and building various customer segments based on preferences, product categories, and locations.

"This segmentation recognizes that a one-size-fits-all approach is a waste of resources," McKinsey argues. It says this will help retailers avoid mistakes such as "offering convenience at a premium to customers that care more about price or building offerings that quickly become outdated."
- Be fast and collaborative:** Traditionally, supply chain network design has been a quantitative-focused exercise that can take a long time. That approach may not work today.

McKinsey says one best practice is to develop the future supply-chain network in a workshop-based environment. "In practice, this means determining the fulfillment options suitable for each

customer, product, and location segment and defining the required product flow," it says. Once a solution for each segment in each location is defined, it must all be combined into one comprehensive service network.

- Seek partnerships and share resources:** McKinsey says that leading retailers are actively seeking partnerships, not only along their own value chain but also with players from other industries. For instance, a player operating department stores may offer in-store pickup services to ecommerce companies, and ecommerce companies can offer online order fulfillment to department stores.
- Look for innovative fulfillment options:** Retailers should consider that products can also be shipped directly from the production facility or dark stores - non-customer-facing mini-warehouses usually within a city, where products are stored, picked, and shipped directly to consumers. Pop-up nodes are another option, McKinsey says. For example, a container placed at a major sports event or a truck, van, or bike driving around a city holding inventory and delivering products to customers who order via an app.

"Enabling a truly end-to-end omnichannel experience requires a new way of supply chain thinking," the article concludes. 

## Traverse Systems Corner: The Foundations of Successful ASN Programs (continued)

procedures are in place to guarantee accuracy of your picks and ASNs before shipping," one retail executive suggested.

Suppliers can only establish desired ASN capabilities if retailers clearly document and publish their ASN requirements. Retailers must also communicate ASN rules adjustments well before implementation. A supplier representative requested: "Provide more lead time on ASN mapping changes. We really have to act quickly, or we'll have a flawed EDI document."

Attention to detail is the middle layer of the foundation. Retailers need their suppliers to execute flawlessly which necessitates meticulous order fulfillment. One retailer begged: "Check one more time for 860 order changes before an order goes out. You could alleviate a lot of the ASN penalties."


Details are essential for understanding the nature and source of ASN inaccuracies. Unfortunately, many chargeback notifications lack specific insights to help the supplier make appropriate adjustments. Sometimes all it takes is a quick click on a mobile phone. "Give supporting photos and

documentation of errors to help us get to the root causes," one supplier requested.

The top layer of the foundation is sensibility. Suppliers must complete a reasonable level of shipment inspections to truly know their level of ASN accuracy and inventory integrity. One retail executive wanted to know: "How much auditing are they really doing? It's hard to get them to answer this question honestly."

From a supplier's perspective, chargeback penalties must be rational and fair. The retailer's goal should be to grab attention and stimulate corrective actions, not to decimate the supplier's bottom line. Avoid being overzealous with penalties, a supplier recommended: "Is it a critical requirement to warrant that amount of chargeback? Sometimes, I think that it goes too far."

Capabilities of Top Suppliers	Retailer Agreement
Have dedicated teams that focus on ASN's and inventory accuracy	56.3%
Use scan-and-pack techniques	56.3%
Create ASNs AFTER the fulfillment of an order	65.6%

The foundations of a successful ASN program are not overly complicated. Retailers and suppliers both have an obligation to pursue clarity, attention to detail, and sensibility in all matters related to ASNs. Doing so will pave the way for greater inventory integrity and enhanced product availability. 

## Industry News Round Up (continued)

globally, with clothing production concentrated in China and Bangladesh.

Ulrika Isaksson, an H&M spokeswoman, said “our long-term commitment to suppliers will remain intact, but in this extreme situation we need to respond fast.”

In an emotional video address to clothing brands, Rubana Huq, president of the Bangladesh Garment Manufacturers and Exporters Association, called on retailers to at least pay for the goods they had already ordered.

Retail experts say the slowdown looks to be significantly worse than the financial crisis of 2008, because now thousands of stores have literally closed their doors, precluding selling of retail inventories at bargain prices as happened then.



*“Jim Barnes [CEO of consulting firm enVista] said one result of the [COVID-19] reset will be “a great deal of channel compression or contraction” as manufacturers and brands that have been staying on the sidelines fully embrace direct-to-consumer commerce, especially those in consumer packaged goods.”*

Overall, he said, supply chains have to become more compressed.

“Manufacturers and distributors will look more like retailers and compress time from the top down, while retailers will look more like manufacturers and distributors,” Barnes added. “I see supply chain compression, channel compression coming. As a retailer, I’m going direct to manufacturers and eliminate agents or distributors. It’s ultimately about time compression. If I can compress time, I can provide agility in the network to respond quicker when I need to.”

Barnes said there will also be an even greater shift to BOPIS and curbside pickup - which had already been growing, and is now accelerating during the coronavirus pandemic.

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## Retail Supply Chain Changes from the Coronavirus Crisis

*Multi-Channel Merchant* magazine asked several experts their thoughts on the likely impacts of the coronavirus crisis on the retail supply chain. That includes insights from Jim Barnes, CEO of consulting firm enVista.

Barnes said one result of the reset will be “a great deal of channel compression or contraction” as manufacturers and brands that have been staying on the sidelines fully embrace direct-to-consumer commerce, especially those in consumer packaged goods.

“Now they’re throwing their gloves off and boom, going into DTC if they can,” Barnes said. “If I’m Nestle or Kellogg, I’m re-evaluating channels that have typically used linear distribution, from manufacturer to distributor and to retail. They need to figure out a way to bypass all that and go as direct as possible.”

Barnes said manufacturers and brands, especially those with enough recognition and awareness, need to push past concerns about channel conflict when looking at adding DTC.

“At NRF this year, I spoke with a newly appointed executive that runs digital for a major chocolate manufacturer who wished she could get leadership to wake up to digital and DTC,” he said. “They’re all afraid of channel conflict, she told me. I said, you have an incredible brand today. Have you heard about Nike? Do you think they’re concerned about channel conflict? They have enough brand awareness.”

For smaller manufacturers and brands, Barnes suggested leveraging marketplaces like Amazon, Walmart.com, Wayfair.com and others.

“Those companies that have those platforms in place today will succeed,” he said. “Stores won’t go away; they’ll just look different. We’ll have a lot more dark stores and MFCs, operating BOPIS and ship from store location to minimize human interaction. They’ll stock shelves at night, with a light crew to pick orders for pickup at the curb or a locker. We’re already starting to see that.”

Barnes also predicts store footprints in metro areas will continue to shrink, with more of them flipping to same- and next-day fulfillment centers for the area. He also said, adoption of collaborative robots will grow as fulfillment center workforces shrink and human interaction is reduced.


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## Walmart, Unilever Taking Moves to Protect Suppliers

Walmart is making changes to its supply chain financing program to help qualified suppliers get payments faster. The retailer is adding dedicated resources to speed up its on-boarding process and eliminate an eligibility requirement. It has also added a third banking partner JPMorgan Chase, joining Citibank and Wells Fargo.



“More than two-thirds of our 18,000 suppliers are small and medium sized businesses who could benefit from this newly enhanced program,” the company said.

Meanwhile, CPG giant Unilever unveiled a 500 million euro (\$543.25 million) relief program to help its “most vulnerable” small- and medium-sized suppliers as well as provide credit to select small-scale retailers. 

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