

Distribution and the New Retail Imperative

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Abstract

The transformation of managing and organizing distribution within the business context's changing conditions is obvious, supply chains needing to master micro segmentation in order to excel in individualization and customization. And as a supply chain can be optimized within an Omni channel business, it is important to consider some relevant issues regarding supply chain planning and execution, Omni channel capabilities, and Omni channel customers' clear advantages within a unified brand experience across channels, but not forgetting both that the chance to experience merchandise firsthand is offered by brick-and-mortar stores, and the new standard for a personalized cross-channel brand experience is brick-and-mobile. Brands are needing to focus more on overall experience, both online and in store, listening and pro-actively adapting to the customer's expectations of fulfillment and delivery options, better understanding the difference between unified commerce and Omni channel, recognizing the need for a holistic customer experience that transcends channels, and creating a single commerce platform for all customer engagement points, and a single customer view across channels and devices, with the help of a two-speed architecture.

Keywords: Distribution; End-to-End Value Chain; Supply Chain Planning and Execution; Omni Channel Experience; Unified Commerce

JEL Classification: L81, L86, M31, Q55

The contemporary distribution landscape, End-to-End Value Chain, and Supply Chain 4.0

It's in the challenging times that smart companies are growing, starting from the old and embracing the new, finding the motivation to get through these challenging times. Companies do know how important is to have an adequate framework for their marketing and supply chain strategy integration, and that coordination is the essence of the supply chain management, the major reason within being the solution of linking distribution channel's members while finding and solving customers' problems better, faster and closer, receiving their preferences and signals as early as possible, customers being an integral part of the supply chain.

Lars-Erik Gadde, from the Department of Industrial Marketing, Chalmers University of Technology, Gothenburg, Sweden, known for his approach of the today's supply network strategies (Gadde, Hakanson, and Persson, 2010) and mainstream perspective on distribution (the inter-organisational coordination of distribution network constellations), (Gadde, 2012) published last year in the reputed IMP Journal (following the first of IMP's workshops – having the theme “Managing in an interactive business world” – preceding the symposium celebrating the IMP's 40 year anniversary) a very well documented paper (based methodologically on previous research), which analyzed three perspectives on managing and organizing distribution (the period preceding channel management, channel management era, today's distribution arrangements), and explained the reason for the transformation from one perspective to the next.

(Gadde, 2016) He concluded, among other aspects that: the principle of channel management was challenged by the business context's changing conditions, and considerable performance improvements were enabled by the evolving relationships having as a prominent attribute extended involvement between the parties, while for the analysis and the understanding of the contemporary distribution landscape (of the prominent attributes of the evolving distribution arrangements) is more useful actually the reinterpretation of concepts like power, conflict and control (concepts considered "confrontational").

Within the same notable context, Gadde together with his colleague Anna Dubois and Luis Araujo from the Manchester Business School, Manchester, UK, (Araujo, Gadde, and Dubois, 2016) showed that the interactive capacity and capability of the buying firm can be expanded over time if is in place a systematic and integrated approach to three interrelated strategic issues: the consideration of what type of interface applies in the firm's relationships with its suppliers, the consideration of the firm's technology strategy in light of its current supplier interfaces and organizing principles, and the alignment of the firm's internal and the external needs, one hand, with what the firm proposes to achieve from its supplier relationships and be congruent with the interfaces deployed to manage the mentioned relationships (considering the complex interplay to handle between type of interface, technology strategy, and organizing principle).

These two approaches made us recall two things (among others):

- the so-called "*Global Upstream Supply Initiative*" (GUSI; End-To-End, Value Chain & Standards, 2016 Briefing Paper) of *The Consumer Goods Forum* (CGF), a global, parity-based industry network driven by its members (400 retailers, manufacturers, service providers, and other stakeholders across 70 countries, having combined sales of EUR 2.5 trillion and directly employing nearly 10 million people, with a further 90 million related jobs estimated along the value chain) to encourage the global adoption of practices and standards that serves the consumer goods industry worldwide; the GUSI project is targeting the development and implementation of a model and message standard (working also on defining a standard approach to the electronic certificate of analysis - eCOA), its focus being on gaining benefits (gaining efficiencies and reducing cost in every link in the upstream supply chains) from electronic communications between manufacturers and their suppliers of direct materials (e.g. ingredients, raw materials and packaging) on a global basis; collaboration benefits brought by this project are in the following areas: service (product availability, lead time); administration (forecasting, order processing, financial settlement, data management); operation (physical receipt, manufacturing, change-over, truck fill-rate,...); financial (working capital, inventory); it is also worth remembering within this framework that GCF's "Consumer Engagement Principles" (My Companion Handbook. The origins and next steps; Capgemini, one of the world's foremost providers of consulting, technology and outsourcing, supported the process throughout and provided necessary industry insights as part of the development process) – agreed by the CGF's Board of Directors on the 26th February, 2015 – are helping to guide and manage interaction with and among stakeholders

across all digital channels, enhancing the industry's reputation now and in the future; it is well-known that: Ruediger Hagedorn, Senior Manager, End-to-End Value Chain, the Consumer Goods Forum (CGF) attended the Academic Partnership 2016 SCM4ECR Conference organized by the SCM-ECR Laboratory, The Faculty of Economic Sciences, Valahia University of Târgoviște – in collaboration with Czestochowa University of Technology (Poland), Romanian Logistics Association – ARILOG, University Politehnica of Bucharest (Faculty of Transports), Bucharest University of Economic Studies (Faculty of Marketing & Faculty of Business and Tourism), and Romanian-American University (Faculty of Management-Marketing); the theme of 2016 SCM 4 ECR Conference was: Future Value Chain – Rethinking Networks through Omni-Channel for Consumer. New challenges of IoT in Supply Chain Management. (CRD, 2016)

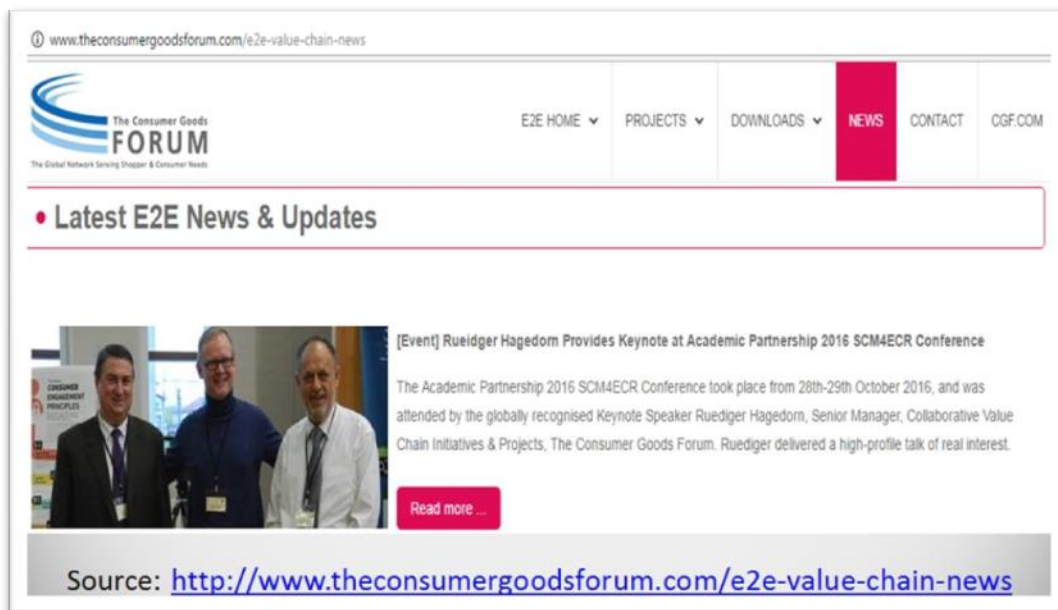


Figure 1: Ruediger Hagedorn between Theodor Purcarea and Virgil Popa

Source: <http://www.crd-aida.ro/2016/12/latest-e2e-news-updates-from-the-consumer-goods-forum-paris/>

- *McKinsey's representatives' approach of Supply Chain 4.0 in consumer goods, in April 2017*, showing, among other aspects: the shift in the focus of the supply-chain management function (well-integrating operations from suppliers through to customers, with decisions on cost, inventory, and customer service made from an end-to-end perspective); the disruption created by digitization which requires companies to rethink the way they design their supply chain, and leads to a Supply Chain 4.0, which becomes faster, more flexible, more granular, more accurate, and more efficient; the evolution of the supply-chain planning, which will benefit tremendously from big data and advanced analytics, as well as from the automation of knowledge work; the huge step forward taken by logistics through better connectivity, advanced analytics, additive

manufacturing, and advanced automation (upending traditional warehousing and inventory-management strategies); the tremendous change of the performance management, which is becoming a truly operational process geared to real-time exception handling and continuous improvement; the improvement of the order management; the next level of collaboration in the supply chain formed by the supply-chain cloud, which is a joint supply-chain platform between customers, the company, and suppliers (providing a shared logistics infrastructure or even joint planning solutions); supply chains need to master micro segmentation in order to excel in individualization and customization; a major lever to increase the operational effectiveness of supply chains is formed by the elimination of today's digital waste and adopting new technologies together; three key enablers are required by the transformation into a digital supply chain: a clear definition, new capabilities, and a supportive environment. (Alicke, Rexhausen, and Seyfert, 2017)

Optimizing the supply chain planning and execution.

Ensuring Omni channel experience

Challenged to keep pace with a changing market and changing customer expectations, more B2B players seek to develop their ecommerce capabilities, and that is why they are looking to big name retailers in B2C retail, using different criteria, but expecting the same levels of customer experience (CX) and convenience. And on the way of digital integration they are building on internal buy in, trying to capitalize on opportunities like Omni channel CX and unified back end data (integrated into a centralized database) informing their business strategy so as to accurately forecast and meet demand. (b2bmarketing.wbresearch.com, 2017) A supply chain can be optimized within an Omni channel business, by optimizing the assortment planning, leveraging data in the supply chain, forecasting product returns, balancing stock between online and stores, and forecasting for different online delivery methods. (Ylinen, 2017) On the other hand, retailers are challenged to obtain a comprehensive customer profile, by linking a customer's in-store behavior with digital data, gaining insights into the entire customer journey and customer activities across channels, giving them the right information at the right time and on the right channel. (Euclid analytics, 2017)

A research conducted by MARTEC International (a specialist retail consulting and training company and the market leader in this type of research, which assists retailers to improve their business performance and helps suppliers to retail to execute their go to market strategies more successfully; its clients include retailers, technology and merchandise vendors, ingredient manufacturers, CPG and FMCG companies, banks, telecommunications companies and venture capitalists), and commissioned by RELEX Solutions – representing the latest annual State of the Retail Supply Chain report, which this year focuses on Europe (covering European retailers with sales in excess of €100 million p.a. (State of the Retail Supply Chain 2017) There were interviewed 80 retailers across France, Germany, Italy, the Nordics, Spain and UK representing a total of €248 billion of sales) – identified *top six issues regarding supply chain*

planning and execution: handling promotions effectively; better collaboration with suppliers; increasing availability without increasing stock holding; managing product introductions; reducing overall stock holding without impacting sales; automating key processes. *Other relevant findings showed that*: space data is not readily accessible in the business, what represents a huge weakness by not systemically coming together to support the right decisions and actions; there is a fair way to go before retailers have full supply chain visibility; the retail industry is moving towards a single stock pool quite quickly (single stock pool for all sales channels); in terms of reporting and analysis, the majority of respondents are unhappy with their current supply chain system, being much in demand with regard to: an accurate forecast of future out of stocks, building supply chain plans based on SKU / store forecast and alerting on future capacity challenges in the DC and stores, redistributing excess stocks to outlets with higher sales.

According to an excerpt from Total Retail's inaugural Top 100 Omnichannel Retailers report, Zumiez (the clothing, footwear, accessories and hard goods retailer for skate and snow enthusiasts) is coming in first place (tied with DSW, UGG and Urban Outfitters), receiving a maximum score of 100 points across the seven criteria (buy online, pick up in-store; search in-store products online; shared cart; loyalty points earned/redeemed across channels; return products across channels; three or more channels available for customer service; and pricing consistency across channels). Total Retail Staff underlines that Zumiez (over 500-plus retail locations in the U.S. turned into fulfillment centers) implemented in 2016 a new platform that provided it with a point-of-sale experience that includes full Omni channel capabilities (stores being an essential part of Zumiez's Omni channel experience), its customers having clear advantages (to reserve/buy online and pick up in-store same day, to ship from any store to any location, to order online from the store, to have customer service ensured across phone, mail and email, and to redeem points both online and in-store thanks to the loyalty program Zumiez Stash with the help of an app with the same name).

Giving customers the best in the Omni channel world.

Unified commerce, the new retail imperative

In May this year, the CEO and Chairman of Alumnify Inc. stated that mobile accessibility is dictating consumer behaviors, and brands are challenged: to deliver answers or experiences on a timeline that works with users; to rethink customer service to support the new immediacy standards with the help of social media platforms, offering relevant, authentic branded content focus and authentic experiences that connect to customers in real time. (Agrawal, 2017) A white paper from FitForCommerce highlights the need of presenting a unified brand experience across channels, of optimizing the use of inventory and giving store associates the tools they need to serve Omni channel customers which are the most valuable customers for retailers in today's world. (FitForCommerce, 2017)

On the other hand, a Euclid Analytics commissioned consumer survey report from June 2017 attracted the attention on the fact that the chance to experience merchandise firsthand is offered by brick-and-mortar stores, this being something shoppers cannot get online, but the smartphone technology will be used by retailers to enhance the brick-and-mortar stores' advantages, and to give their customers the best in the Omni channel world, while differentiating themselves by: using technology to enhance the human connection, focusing on the sensory shopping experience that isn't possible online, and continuing to reward the in-store shopper. While according to the Vice President of Marketing Products & Capabilities of "Know more. Sell more.®" (a leading provider of tailored marketing and loyalty solutions for branded credit; part of the Alliance Data - NYSE: ADS - family of businesses), the new standard (which creates opportunities for retailers to enhance the in-store shopping experience based on what's working well online – see for example NotableSM, launched by Alliance Data) for a personalized cross-channel brand experience is brick-and-mobile, brands needing to focus more on overall experience, both online and in store. (McKenzie, 2017)

Let's recall that:

- two years ago a Deloitte point of view (Deloitte AB, 2015) underlined that the Omni channel customers expect their product delivered whenever and wherever they wish, the barriers between the various channels to meet the increased complexity of orders (coming from bricks-and-mortars, showrooms, online channels, and mobile among others) being broken down by the Omni channel fulfillment; in the current customer's world there is a real need to listen and pro-actively adapt to the customer's expectations of fulfillment and delivery options;
- a month before the above mentioned Deloitte point of view, eMarketer's Yory Wurmser interviewed Ken Morris, partner and co-founder of retail consulting firm Boston Retail Partners (BRP, specialized in technology and business challenges associated with Omni channel retail), who explained the difference between *unified commerce* (where it's all connected in real time: the mobile side, the web side and the store side) and *Omni channel* (multiple channels, but no one piece of software, just many versions of the truth); Morris revealed among other aspects: the importance for retailers to have a mobile solution that's cloud-based, as people are moving toward mobile, retailers needing not only to engage with consumers where they want, any time they want, but also to have a consistent message across the brand; a win for both the retailer, and the customer, is to ensure the expertise of the store associates, and give this selling experience via mobile device to the new associates; (eMarketer, 2015)
- a year later, in 2016, the BRP Special report showed that within the recognized need by the retailers for a holistic customer experience that transcends channels, the importance of offering a true unified commerce (as the goal, the "faux" Omni channel being the reality) environment to retailers' customers is realized, this kind of commerce going beyond Omni channel by putting CX first, breaking down the walls between internal channel silos and leveraging a single

commerce platform (which combines POS, mobile, Web, call center and clienteling) for all customer engagement points, what is becoming the new retail imperative;

- a recent apparel Roadmap Report (EmsembleIQ and Apparel 2017) highlighted that unified commerce leaves no room for disconnects (allowing retailer's operations playing like a symphony orchestra), and this thanks to its core characteristics: *all data is accessible via one platform; key data is available in real time, including information about customers* (orders, loyalty preferences), *products, prices and inventory; data is accessible to all parties who need it* (customers, management, buyers, supply chain, store operations, marketing, planning and allocation etc.).

There is no doubt that there is also a real need of having a system not only to empower marketers to act on customer data across channels and devices in real-time so as to deliver relevant and effective campaigns, but also to measure their performance, all of these in the same platform, as revealed by Zaius, the first CRM built specifically for B2C marketers. (MarketingProfs, 2017) Having a single customer view (one definitive profile for each customer, every one of customers' interactions with a brand across channels and devices) is considered to be key in this respect.

Instead of conclusions

Three month ago we highlighted significant priorities for retailers facing both customers' more pressing expectations and their unmet buyer journey needs (both retailers and their customers instantly connecting and sharing information), showing that retailers are forced to constantly innovate in providing a better shopping experience, faster adopt digital strategies while giving their customers a strong sense of value within the context of trying to choose the best experience of the digital and brick-and-mortar environment. (Purcarea, 2017) While in September 2014 we showed that: the wheel of distribution keeps turning, retail being in a proper position to confirm the trend of increase on competing with each other primarily on the basis of creating great customer experience; a requirement for today's Omni-channel retailers (retail sector being reshaped by the digital interaction, consumers engaging any moment with brands in-store, online, mobile) is the ability to track and manage the customer journey, by intelligently predicting what a consumer is going to do at every step along this journey, considering both, personalization as the future of retail marketing, and customer data and analytics as the lifeblood of retail marketing; the key characteristic of tomorrow's winning retailers will be the "hyper agility" that allows retailers to quickly and effectively respond and transform their operations, by simultaneously focusing on specific areas.

In June this year we noted that, in the opinion of McKinsey's representatives, (Bossert and Laartz, 2017) there is a real need for companies competing in the fast-changing digital world to group processes and systems (as a way to continually improve business capabilities without

fear of disrupting entire systems) into two categories: digital business capabilities (the basis on which to compete in an online world) that are differentiating for the customer experience, and those that support transactional capabilities. This kind of grouping (which helps companies direct their resources appropriately) is called by McKinsey's representatives two-speed architecture, being considered a critical element of the perpetual-evolution model which: emphasizes lightweight connections to improve transmission performance and address the problem of latency (the time it takes for companies to deliver web pages to online customers who demand instant responses at every click); allows companies, among other aspects, to upgrade core applications within CRM, ERP, PLM, and SCM systems (module by module/ service by service without having to make whole-system replacements), and the least but not the last – going on this way – to keep pace with digital-born competitors.

And allow us to end by reiterating that beyond the new operating model chosen, what matters is the supply chain integration, completely integrating all relevant information for organizing principle, technology strategy, and relationships' interface.

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