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NEW Whitepaper

PREPARING SUPPLY CHAINS FOR A NEW RETAIL LANDSCAPE POST CORONAVIRUS (COVID-19)

WITH INSIGHTS
FROM STRATEGY
DIRECTOR LOUISA
HOSEGOOD



A Whitepaper by Bis Henderson Consulting

The Coronavirus has radically and abruptly changed the way we work and live our lives. How will this alter consumer behaviour and attitudes? And what will this mean for retail and the supply chains that support it?

By Louisa Hosegood, Digital and Strategy Director, Bis Henderson Consulting.

There will still be consumers, retailers and supply chains after Coronavirus (AC). But that is not to say that it will be 'business as usual', and indeed there are many who would say that could be a good thing – a chance to reset, and correct some of the less attractive features of the recent, globalised, high consumption retail economy. Those hopes may not be fulfilled, but nonetheless much will have changed, in global and national economies, and in the desires and behaviours of individual consumers. While the directions of change are open for speculation, change itself is certain, and retailers need to look beyond the current hiatus to consider how their supply chains can achieve the necessary resilience, flexibility and agility to deliver on consumer needs in the brave new world that emerges.

We may not have a crystal ball, but there are some trends and features that are near certainties. Interestingly, many of these are not solely the result of the current crisis – in many cases they are amplifications and accelerations of trends that were already on the horizon.

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FINDING THE NEW NORMAL

As physics students know, 'perturb' any system and it will at first oscillate wildly, even chaotically. Over time the oscillations will decay towards a steady state, which may not be the same as the original state. It may take months, even years, for the shape of the new retail economy to become clear, and firms that reap early profits from an initial return to 'normality' may not necessarily be best positioned for success in the longer term. They will discover that true resilience isn't about bouncing back to business as before; it is about bouncing forward to grasp new opportunities in new conditions.

Governments have of necessity taken control, and to some extent ownership, of large parts of their economies – they may prove reluctant to loosen their grasp. The liberal laissez faire free market philosophy may to some extent be replaced by state support for domestic manufacture in key sectors; the reintroduction of tariff and non-tariff barriers, and domestic preference in public procurement. For retailers there may be new market distortions: for example, effective subsidy for physical High Streets, and new pressures and burdens on online retail, creating disincentives towards adopting new technologies, techniques and business models. On the other hand, government may learn some useful things: for example, the current loosening of Competition law to allow food retailers to share physical assets, workforces and demand data may suggest that there are ways of encouraging supply chain collaboration that are economically beneficial, serve the Green agenda, and do not constitute a conspiracy to disadvantage the consumer.

A further macro-economic uncertainty post-crisis is the effect on international transport. It is conceivable, for example, that travel and tourism may remain at depressed levels for an extended period. This could seriously limit the

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availability of premium 'belly freight' air transport, reducing the attractiveness of long-distance supply chains. Meanwhile, until the new world economy settles down, exchange rates and commodity prices could be volatile, creating extra challenges for sourcing policies.

TAX OR SPEND?

Governments will look to revitalise the economy by boosting retail demand. However, that is not straightforward. Vastly increased state borrowings will have to be financed through increased taxation and consumer booms tend to be inflationary. On the other hand, we may find that consumer demand remains depressed. A typical and often long-lived response to a crisis of the current nature is for consumers to become much more cautious in their expenditure.

Demand may be suppressed by changing consumer attitudes to 'buying stuff', which were already evident and are discussed below. An unknown, but potentially large, number of consumers may be at least temporarily unemployed, with little disposable income. It may be that many of the 'just about managing' will have to make significant reductions in expenditure: they may have spent months on just 80% of basic pay, and have lost opportunities for overtime, or subsidiary incomes in the gig economy. Another, though doubtless smaller group will have retained their full-time income and, having been denied

opportunities to spend, may come out of the crisis relatively cash-rich. The availability of consumer credit AC is another unknown; the government could choose to push credit towards industry rather than consumers.

It may well be that if the government is seen to have failed workers in the 'gig' economy – which includes many casual and part time workers in retail supply chains, from fruit pickers to warehouse staff and delivery drivers – new regulations may be introduced that will impact on retailers' costs and flexibility.

All these factors, individually and in combination, are likely to fluctuate in a fairly random fashion for quite a while before settling down to a new normal.

CONSCIOUS CONSUMERS

Above are some of the macro-economic factors that could challenge retailers. But retail is, of course, the expression of a myriad of individual consumer decisions. What we were noticing, even before the current emergency, was the development of a set of behaviours, concerns and wants that have been characterised as 'the conscious consumer'.

We expect these trends not only to continue, but also to be amplified by the crisis, as individual consumers are forced to reconsider their values. Importantly these concerns do not

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seem to be the reserve of the cash-rich, the middle classes or the young, they represent genuine movements across most or all demographics. Consumers' experiences in the current crisis, and the conclusions they draw, may reinforce these behavioural shifts.

These trends will affect what people buy, where their purchases come from, the quantities they buy, and how they shop. Retail supply and fulfilment operations will have to adapt to meet these new consumer requirements. And while some of the issues may seem a little 'niche', it is worth bearing in mind that retailing works on margins – quite small percentage changes in a market can have major implications for viability. Online, after all, only accounts for around a fifth of retail trade – yet companies and whole sectors have been challenged, even broken, by much smaller moves to online.

The list of issues, beyond price, quality and availability that are increasingly influencing consumer choices is long and familiar, such as: climate change (particularly with regards the carbon impact of transport), plastic packaging waste and pollution. Consumers are also paying more attention to ethical concerns like modern slavery, human rights abuses and animal welfare.

In all these instances, the conscious consumer will expect the retailer to be open, honest and knowledgeable – to accept ownership of and responsibility for the entire supply chain. The growing power of social media to come down hard on perceived lapses should not be underestimated. Nor of course should the possibility of using social media to reinforce positive messages about responsible supply chains.

The demand for information is part of a wider trend that expects retailing to be a service, not just a transaction, which suggests opportunities for physical retailers. A website can readily

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carry a far more detailed tech spec, but it may take a real live shop assistant to explain which aspects of it actually matter.

Another trend, much talked about but which may be made a reality by the current crisis, is a reaction against buying 'disposable' fashion and other items intended for a short or even single-use life. Although this is partly bound in with environmental, resource, and social concerns, there are also demographic factors: the decline in home ownership, and rise in singleton households – the divorced, the elderly – are not just impacting the market for white and brown goods and home furnishings, but are making the ownership of large amounts of 'stuff' generally less attractive. Retail may become less 'fashion-driven', with implications for sourcing, ordering, stockholding and merchandising strategies.

Allied with this, we may see demand grow for goods to be repairable rather than replaceable. There may also be developments in the leasing or rental of consumer durables, as an alternative to outright purchase. If they come to pass, these developments could radically alter the role of retailing in some sectors, and the shape and function of their supply and fulfilment chains. It may be that, for such retailers, the competitive edge, from a logistics point of view, will be found not so much in the initial fulfilment of a consumer purchase, but in the reverse leg of the supply chain – the ability to pull back not just returns, as at present, but leased/rented goods, used goods in part exchange, and so on, and to refurbish, repurpose, resell or recycle

as appropriate.

CHANGING THE RETAIL EXPERIENCE

Finally, there is the question of how and where consumers will do their shopping. As noted, online already accounts for 21% of retail spend. In current conditions, many consumers will be using online for the first time and many more will have come to depend on online ordering and home delivery for most or all of their purchases. Provided experiences are generally positive, and the fulfilment network settles into an efficient and reliable state, many of these consumers may change their mode of shopping permanently.

Visits to physical shops are strictly curtailed in the current crisis, and consumers are urged to minimise their grocery shopping trips. That will tend to boost the 'big weekly shop' model, which until the crisis was tending to decline in favour of a more 'little and often' and convenience store based approach. Which effect will prevail AC is unknown. It may be, that the crisis promotes a resurgence of the 'corner shop'. An interesting finding in current consumer research is a desire for retail and shopping to be in some sense 'community building' – which may mean local service, local employment, local sourcing, use of local contractors and so on. It's easy to see how this may stand in stark contrast to the present high food-mile model. It may be that as High Streets pivot towards a more leisure-based economy, the remaining town centre retailers look to vary their hours, perhaps towards a Continental model of not opening until late morning but remaining open into the mid-evening. If retailers and towns wish to promote this model, local rules on parking, deliveries and the like may have to be reconsidered.

Technology is not just facilitating online

shopping, but also homeworking. If, for many companies and workers, that is successful it may become a permanent feature, with possibly profound effects on where, when and how people shop. Homeworkers can be much more flexible over online delivery slots. On the other hand, homeworkers might find popping to the local shops an attractive way of taking a screen break and dividing up the working day. This may mean fewer workers shopping or browsing in town centre shops in their lunch breaks, putting further pressure on traditional High Street retail.

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FLEXIBLE, AGILE, RESPONSIVE SUPPLY CHAINS

Clearly, the future shape of retail is uncertain – perhaps the only certainty is that change is inevitable. The retailers that survive and prosper will be those with supply, fulfilment and return networks that are flexible, agile and responsive – capable of adapting quickly to changing consumer lifestyles, thinking and demands. But critically, those highly responsive supply chains must be created with the sustainability of the business, and its future profitability, firmly in mind.

In order to embrace the change, retail supply chains will need to adapt and move forward into the new norm.

But what has this situation taught us about our supply chains?

The topics on the agenda will be many and varied. Some will be direct reactions to how the current supply chain has been impacted. Some changes may already be part of a company's strategic thinking or were planned in, but the current situation may have amplified the need for change, accelerated the timing or re-defined its scope. The key will be agile planning and prioritisation, balancing cost and risk - particularly as we enter an uncertain period where many businesses will be purely focused on short-term recovery and survival. Importantly, not everything comes with a big price tag, but creative thinking, fleetness of foot and, to some degree, a leap of faith, will be required.

So, what should companies and supply chains be thinking about?

Firstly, **online**. Businesses that have been forced into taking their first online steps, and those that have seen online sales as a marginal 'nice to have' need to start taking eCommerce seriously. This doesn't just mean making the website fit for purpose. It means ramping up the capability to take and to fulfil orders. It means creating the ability to differentiate customer propositions, while offering an omni-channel experience that is consistent right across the brand. And for those seasoned multi-channel retailers and grocers that are seeing higher volumes, and therefore require reactionary capacity increases – the challenge will be in estimating the level of online demand going forward and ensuring that any service expansion is profitable and sustainable.

Firms also need to rethink their **physical estate**. Certainly in terms of type and location – High Street, convenience store, retail park – but more fundamentally, how the estate is used. This is not a new question; the debate over the future of the high street and shops has been rolling for a while. The current situation is merely forcing retailers to accelerate their deliberations and make some changes. This is not to suggest there should be no stores at all, but rather how does the physical retail world meet the digital, how do the advantages of a customer's physical experience in touching a product and receiving advice from a sales assistant measure up to the convenience of online delivery? For example, should all or perhaps just parts of oversized or redundant stores be repurposed as dark stores for online fulfilment, or as city centre hubs for consolidating deliveries within low-emission zones? How do stores fit into strategies for local delivery, click and collect and returns? Should town centre stores be pure showrooms and sales/advice centres, with fulfilment from elsewhere? How do stores play a role in the new 'community' movement? And 'pure' online players may consider, as some already are, whether business would benefit from a physical showroom presence, whether their own or through partnerships.

Online or physical retail businesses need to give serious consideration to the returns loop. This is not just about the efficient passage of customer returns back in to saleable stock, but potentially it could be about the recovery, reprocessing, recycling of used and end-of-life goods and of packaging materials.

Alongside the recovery mode of dealing with huge swathes of unsold or unseasonal stock, piled high during the lockdown period, retailers will need to review their **sourcing, stocking and inventory** policies. How commercially viable is near-sourcing, multiple suppliers, just in time manufacturing and pull ordering? Many

‘fast fashion’ retailers already operate these more agile, short lead time, responsive supply chain models – how can mainstream retailers implement similar principles, and do so profitably? Collaboration and visibility are likely to be key components.

All the points made so far have implications for the size, type and location of warehousing and distribution centres, and also for the sorts of relationships retailers will need to have with their competitors, suppliers, and logistics partners.

All this of course has to be done while maintaining or improving efficiency and service levels, and maintaining an iron **control over costs**. This is particularly true online. As many firms are currently discovering, an online offer can be expensive to deliver, particularly when speed is prioritised. The key to sustainability will be balancing customer proposition and cost, and creating efficiency at scale. To achieve this retailers need to look inwards to understand their own processes and costs, and outwards to what their customers really want.

Those that succeed in the ‘new normal’ will have invested, not necessarily massively, but wisely, in a number of areas. **Automation** gives opportunities to improve labour resilience, to grow more cost effectively, and to be able to react faster and more robustly to fluctuations, whether those be spikes in demand or labour shortages. Importantly, automation is not just needed in the warehouse – much sourcing, procurement, supplier relations, transport and warehouse management, and the links between them, are ripe for automation. Well-deployed technology would free people to focus on the real value-adding decisions.

Digitisation at some level will be essential to create transparency and visibility, giving retailers more control and a faster flow of decisions and processes. The result will be a

higher level of efficiency and service. This will not just be end-to-end through the supply chain, but also across the retail offer, giving an integrated and detailed view of stock, sales, orders, deliveries, and forecasts over all channels – enabling goods, people and management resource to be reallocated quickly to where they are most needed.

It should go without saying that the key to success in all of this is continued investment in **people**, at all levels. A supply chain is far more than its stock, warehouses, systems and vehicles.

IN THIS TOGETHER, FOREVER?

On their own, retailers may struggle to adapt their supply chains and distribution networks. It is important therefore that some of the positive lessons from the crisis are not forgotten – in particular, the benefits of **collaboration**. There are many parts of the supply chain that do not really form the basis for competition between brands. As far as Competition Laws allow, collaboration, through for example the shared use of vehicles, warehousing and other assets should be continued and refined. It may turn out that in some areas, such as urban ‘last mile’ delivery, collaboration may even become a necessity.

Finally, adversity brings new opportunities. Retailers and their partners must learn to capitalise on some of the ‘quick fix’ and ‘Heath Robinson’ solutions that the crisis has stimulated. Some improbable business models have emerged and, while many of these are likely to be unsustainable or unprofitable in normal times, some may have real merit, and with creativity these could be developed to real advantage. Certainly, retail needs to continue actively seeking out **innovative ideas** for a new normal that will certainly be dynamic, unpredictable, and full of opportunities.

IN CONCLUSION...

In this time of crisis, despite the huge challenges that retailers face, there are likely to be many silver linings that can be turned into opportunities. It will be those enlightened leadership teams that use this time to plan, model and implement new approaches to their supply chain that will create and maintain healthy businesses fit for a post Coronavirus future.

If some of these topics have resonated with you - whether it's short term efficiency, translating new customer demands into reality, profitability analysis, space or transport or fulfilment solutions - our team of supply chain experts can help you to talk through in the context of your own business challenges and together understand how best to support your future success.

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Louisa Hosegood FCMA is Digital and Strategy Director at Bis Henderson Consulting. She has 18 years' experience in retail and eCommerce, fulfilling senior supply chain leadership roles at some of the UK's largest Retailers – Marks & Spencer, John Lewis and Tesco. Until recently she was Head of Logistics Network Development

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Over a ten-year career at John Lewis, Louisa held both the post of Head of Supply Chain Strategy and Head of Commercial Assurance - Operations, roles that encompassed strategy formulation and mobilisation, operational and commercial insight, executive communication and risk management.

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