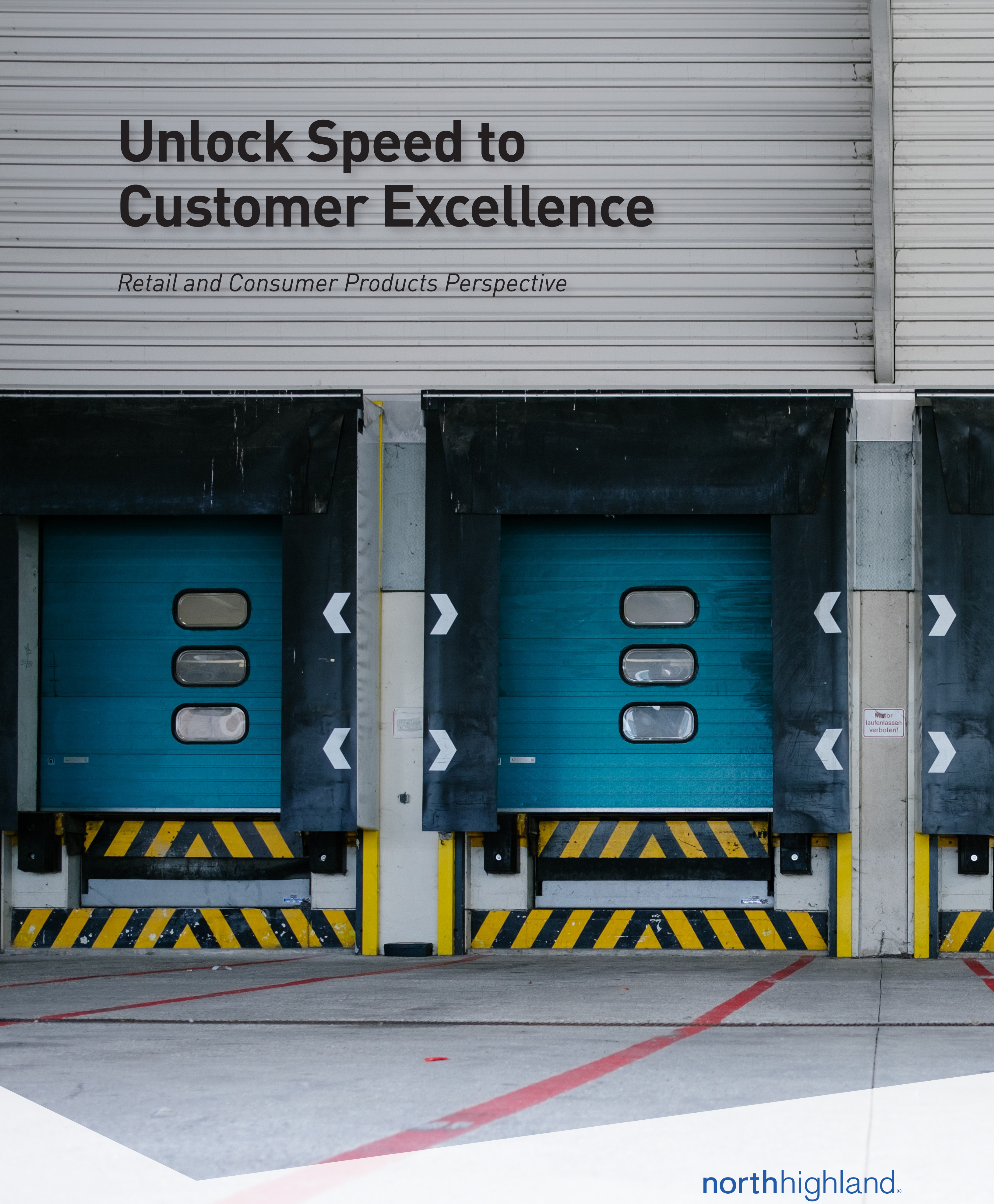
Unlock Speed to Customer Excellence

Retail and Consumer Products Perspective



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EVOLVING CONSUMER EXPECTATIONS ARE PUTTING THE SQUEEZE ON BRANDS TO DELIVER WHAT CONSUMERS WANT, WHEN THEY WANT IT.

New customer demands and industry innovations are driving ever-increasing complexity for retailers and manufacturers, and nowhere is this felt more keenly than in the supply chain. However, 77% of organizations we surveyed ranked supply chain optimization as an attainable priority on their list for 2018.[1] Advancements in manufacturing, ecommerce, and omnichannel retail have increased the supply chain's complexity even as organizations have revolutionized operations.

At the same time, evolving consumer expectations are putting the squeeze on brands to deliver what consumers want, when they want it—87% of online shoppers now identify shipping speed as a key factor in the decision of where to shop,[2] and the fast fashion industry has grown 21% over the past three years, compared to a growth rate of less than 10% for apparel over the same period.[3]

In this environment, organizations that master speed to customer will be the victors. Speed to customer can deliver an increased share of the retail market and position these organizations for growth. An investor report by Goldman Sachs found that fashion brands with shorter supply-chain lead times have distinctly higher like-for-like (LFL) sales growth.[4] British fashion retailer Boohoo, which topped the report, can deliver products from design to customer in less than two weeks and is expected to grow by 50 percent in 2017.[5]

Organizations that excel in speed to customer, like Boohoo and its better-known competitor Zara, are driving growth through a focus on improvements in four key areas: **product development, sourcing, warehousing and distribution, and transportation and delivery.**

TRANSPORTATION & DELIVERY

Cost and speed should be appropriately balanced to meet consumer needs.

New technologies such as Distributed Order Management optimize service while protecting margins.

PRODUCT DEVELOPMENT

Close global partnerships are essential to rapid prototyping and sample approval.

WAREHOUSE & DISTRIBUTION

Options abound for fulfillment structure, inventory management, and packaging.

Each can be adjusted to increase speed.

SOURCING

Production capacity planning, raw material pre-positioned and production-consumption proximity are critical to maximizing supply chain speed and agility.

STREAMLINE PRODUCT DEVELOPMENT

Nearly every consumer product segment is facing a shortened product life cycle. The automotive industry has seen a reduction from seven to five years, and the pace is even more accelerated in apparel, with the traditional two-season structure (spring and fall) having given way to biweekly floorsets for some brands.

Brands looking to compress the traditional product development timeline should consider process and organizational change in three areas:

- **Product line reviews:** Some companies have turned line reviews into internal showcases with pomp and circumstance rivaling that of a Super Bowl halftime show. Streamlining this process can significantly reduce the development timeline.
- **Design-manufacturing collaboration:** Cost savings drove manufacturing offshore decades ago, but a lack of face-to-face dialogue can lead to misinterpreted product specs, and valuable days are wasted shipping samples across the globe. Increasing collaboration between design and manufacturing teams can help minimize these pains.
- **"Waves" of product development:** Stacked deadlines can cause workloads to spike, creating bottlenecks and leading to tension and reduced quality. Enabling teams to work iteratively on smaller waves of products facilitates a smoother, more predictable workflow and fosters cross-functional collaboration.

While these types of changes are rarely transformative, they typically cut the product development cycle by 10 to 20 percent. They can also help increase full-price sell-through and decrease inventory obsolescence.

OPTIMIZE SOURCING

When it comes to key decisions, sourcing teams are often at the mercy of their Far East partners, and poor quality, misinterpreted design production and long lead times are not uncommon. Increasing numbers of sourcing teams are proactively investing in ways to become more efficient reactive organizations, and they are leveraging the following:

- **Available raw materials:** The sourcing organization can support faster lead times by considering raw material pre-positioning (storing raw materials within the supply chain); near-factory sourcing (sourcing raw materials at a mill that is geographically close to the manufacturer); and material exchange ("borrowing" a like-material from an existing production order).
- **Capable manufacturers:** Learn from mature sourcing organizations, which rationalize and categorize their factory base into strategic segments that leverage factories able to produce multiple product categories at multiple price points. This segmentation allows sourcing organizations to transition away from low-performing suppliers and form deeper relationships with more strategic suppliers.
- **Available manufacturing space:** Consider partnering with strategic factories to reserve open manufacturing capacity for in-season production. Strong partnerships have also enabled leading sourcing organizations to quickly swap out pre-planned production styles for top-selling products and determine production speed on a style-by-style basis.

With these changes, organizations can make key sourcing decisions without compromising the integrity of the design and development process—Zara, for example, has grown in part by positioning its sourcing close to its main markets.[6]

INVEST IN WAREHOUSING AND DISTRIBUTION

Maximum control over internal processes and enabling technologies begins when the product reaches the warehouse. Many levers can increase speed to customer at the product level (e.g., seasonal product line) or the order level (e.g., expedited orders), and retailers can make significant changes through warehouse automation and increased product storage space:

- **Automation:** Retailers can increase quality and maintain consistent throughput by using intelligent automation supported by data and analytics. Amazon plans to build a 2.4 million-square-foot robotics fulfillment center that will employ more than 1,500 people and utilize robots built on more than 20 years of technical innovations. With more items on hand, robots will allow Amazon to fulfill customer orders more quickly.
- **Storage:** With transportation costs increasing along with customer demand for rapid fulfillment, product storage is an increasingly important lever. Retailers are expanding their distribution networks beyond standard warehouses and into brick-and-mortar stores. In fact, physical store locations have been cited as a key benefit of several recent acquisitions, including Sainsbury's takeover of Home Retail Group, which is expected to lead to significant cost savings through optimized store locations and a faster delivery network.[7]

Understanding the current state of the distribution network and warehousing capacity is the first step in ensuring that investments in warehousing and distribution are being made in the right places.

CASE STUDY

A leading U.S. automotive parts retailer set aggressive goals to improve supply chain speed and efficiency in the face of increasing competition and stagnating growth. In a market won or lost by order fulfillment speed, the retailer faced challenges in managing inventory for over 500,000 SKUs in a single tier supply chain.

The client developed a SKU segmentation strategy to identify the speed at which various products must be delivered to customers to make a sale (commodities such as oil must be available immediately, while a carburetor for a 1982 Porsche can wait a few days). Based on the speed segmentation output, a multi-tiered supply chain design was developed to enable products to flow on different distribution paths that balanced fulfillment against speed and cost. By optimizing the flow of individual product lines, the retailer identified significant operational benefits:

- 60% average fulfillment speed improvement across all SKUs
- 40% increase in inventory efficiency
- 20% fulfillment labor cost savings

INNOVATE IN TRANSPORTATION AND DELIVERY

As the only element of the supply chain to touch the customer, transportation has a direct impact on overall satisfaction. The optimal strategy depends on the type of product and how quickly customers need it, but retailers can optimize transportation and delivery in two key ways:

- **Balancing trade-offs:** After evaluating the consumer's expectation based on product type, assess trade-offs by considering your specific strengths, weaknesses and needs. Key questions to consider include:
  - **How mature is the supply chain?** Attempts to jump into complex on-trend solutions will fail if there is not a strong, measurable foundation of supply chain activities.
  - **How much complexity can you absorb, and which efforts will increase speed?** While a small, growing company may not be ready for the complexity of Distributed Order Management (DOM), for example, it may be able to use basic reporting to identify problem routes for third-party drivers.
- **Evaluating trends:** How are transportation and delivery innovations likely to affect the organization? Use of cloud-based DOM systems, which allow organizations to source, fulfill and return products to and from any location, is expanding, as is last-mile delivery: Many restaurants are outsourcing delivery to UberEATS, which has leveraged its existing customer base to quickly gain traction in food delivery and grow its number of driver trips by 24X between March 2016 and March 2017.[8]

With many options for innovation, retailers should examine their capabilities and ensure that basic operating functionality is in place.

BALANCE SPEED, RELIABILITY, AND COST

Speed to customer is about trade-offs, and maximizing this capability requires a balance of speed, reliability, and cost. Zara does this with a supply chain expressly designed for agility; its product design, sourcing, warehousing and distribution, and transportation and delivery are optimized for speed to customer, and growing profits reflect the company's success.

Speed to customer is also a journey, and each step of the journey has its own set of levers that can be adjusted to get products into the hands of consumers more quickly. In a highly competitive market being redefined each day, speed to customer will be a key determinant of success.

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1. North Highland Worldwide Consulting surveyed more than 600 top executives in Energy, Financial Services, Healthcare, Retail and Telecomm at companies with 2016 revenues in excess of $1B. Research was conducted by MMR Research Associates, October 2017.

2. "Delivery Time Top Priority for Online Shoppers." Material Handling & Logistics, Sept. 21, 2016. http://www.mhlnews.com/transportation-distribution/delivery-time-top-priority-online-shoppers

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4. "A New Generation of Even Faster Fashion is Leaving H&M and Zara in the Dust." Quartz, April 6, 2017. https://qz.com/951055/a-new-generation-of-even-faster-fashion-is-leaving-hm-and-zara-in-the-dust/

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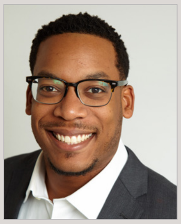

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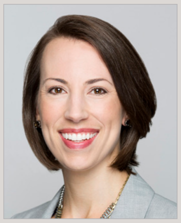
Warren is an experienced management consultant and retail supply chain expert with North Highland. He has deep experience leading large strategic initiatives relating to process globalization, flow optimization and financial analysis. His specific areas of expertise include speed-to-customer, global supply chain and sourcing process improvement and product development design and implementation.



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