SPECIAL REPORT

THE "AMAZON EFFECT" AND YOUR SUPPLY CHAIN:

Overcoming Disruption with Innovative Strategies

FLEET LEASING & MAINTENANCE | DEDICATED TRANSPORTATION | SUPPLY CHAIN SOLUTIONS

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The way we shop has changed with how fast our fingertips can press the checkout button. We live in a time when people would much rather shop online from the comfort of their home than go to a brick-and-mortar store. Furthermore, technology advancements over the past 20 years created what we have come to know as the "now economy." It is because of these changes that today's consumers are digitally savvier, less patient, and have near infinite options available to them.

For many, it's rare to go a week and not receive a package at their door. As consumers, we've gone from waiting 7-10 days for an order to sometimes less than two hours. Not too long ago, we simply ordered clothing, children toys, and electronics. Now, we order everything from groceries for that night's dinner to a final addition for a child's science fair project.

Simply, it's the "now economy" driven by the "Amazon Effect." But it's causing challenges across the board.

While demand has increased on retailers, it has skyrocketed exponentially for supply chains. Getting that box to a customer's doorstep is far more complex than it was five years ago, and that complexity is growing at a more rapid pace.

To keep pace with the e-commerce phenomenom supply chain managers are forced to adjust strategies so they won't lose loyal customers – or even worse, their business.

Understanding the Macroeconomics of the "Amazon Effect"

In looking at how the "Amazon Effect" is changing not just retail, but also the supply chain industry, we must first look at the economic trends. Total retail sales in the U.S. grew year-over-year at 3.8% in 2016[1]. During that same time, e-commerce sales grew 15.1%[2]. Online orders still account for only about 8.1%[3] of all retail sales, but with growth disparity like the one in 2016, it's easy to see a time when that portion will be much larger. The fact is, most of that growth is being driven by just one company.

According to Slice Intelligence, Amazon accounted for 53% of all ecommerce growth in 2016. During the 2016 holiday season, the firm noted Amazon had almost 37% market share. To give some perspective, Best Buy was second with just under 4%[4]. Moreover, Amazon is affecting everything in terms of pricing, shipping, and delivery time. It is the standard for what consumers expect.

Think about how many items you receive overnight – or two-hour delivery – at your home that not too long ago you would get in your car and drive to a local store to purchase. And we have to wonder, are the networks of stores that have been a competitive advantage for retailers becoming a disadvantage?

Every year, the list of store closings and bankruptcies lengthens because of the "Amazon Effect." As of early 2017, JCPenney is closing 140 stores (14%), Macy's is closing 100 stores (15%), and Sears is closing 150 stores (15%). Additionally, The Limited is closing all its stores and Kohl's is planning to shrink the size of almost all its stores to reflect lower sales[5]. It is already evident that the ability, as consumers, to "run to the store" for something is being impacted by fewer stores and limited in-store merchandise availability.

TOP 10 ONLINE RETAILERS	2015		2016
Amazon	37.9%	↑	38.0%
Best Buy	3.5%	↑	3.9%
Target	2.6%	↑	2.7%
Walmart	2.8%	↓	2.6%
Macy's	2.5%	↓	2.4%
Apple	1.7%	↑	2.4%
Nordstrom	2.6%	↓	2.3%
Kohl's	1.6%	→	1.6%
Home Depot	1.0%	↑	1.1%
J. Crew	1.0%	↓	0.9%

Nov. 1, 2015 - Dec. 29, 2016. n=1,312,6772 U.S. online shoppers   Source: Slice Intelligence 2016.

[1]National Retail Federation, [2]U.S. Department of Commerce, [3]IBID, [4]Slice Intelligence, [5]Forbes

Supply Chain Complexity Increases

The impact of the "Amazon Effect" doesn't stop at the brick-and-mortar stores. And it is not just exclusive to the retail industry. This is disrupting supply chains that serve multiple sectors including food & beverage, consumer packaged goods, healthcare, automotive, and technology, just to name a few. Think about the warehouse and transportation networks that have been created – all of them are changing.

Historically, supply chains would move pallets of products at a scheduled time, much of which would sit on the shelves at distribution centers or stock rooms at brick-and-mortar stores. Now, shipments are smaller and more frequent – in some cases daily – in order to fulfill consumer demands and keep up with the e-commerce phenomenom.

Everyone at every stage of the supply chain – from manufacturers to suppliers to retailers – is working to keep up. New complexities are causing organizations to shift strategies with a clear focus on continuous improvement. Strategies that worked last year, last month, or even last week can be obsolete tomorrow.

For example, up until a few years ago, a large retailer was performing dock scheduling for each of its 35 distribution centers separately. Too many employees were scheduling deliveries and there wasn't one consistent process. Transit times were reliable and tight, but the process was hampering deliveries and it was too labor intensive. With managers relying on handwritten spreadsheets, the retailer partnered with Ryder which installed web-based software at each distribution center. Now, the software allows managers to dynamically control deliveries at each location, saving the company $2.8 million in the first year and improving visibility.

New strategies, and results, such as the one above, have supply chain managers embracing the same technology customers are using for data mining, analysis, and tracking. In another strategy, competitors are cooperating with each other to improve efficiency and keep shelves stocked.

These strategies allow supply chains to not only keep up with the "Amazon Effect," but also meet customer demands and lower their cost to operate.

Technology Brings End-to-End Visibility

By embracing innovative technology, supply chains can have end-to-end visibility. And the more transparency supply chain managers have into each step of their logistics operation, the better they will be able to use it to succeed in a competitive marketplace.

More companies find they are profitable and growing in this demanding environment with the help of new technology that gives them visibility into their supply chain – the ability to capture key data, create meaningful analytics from the information, track freight, and then build essential actions into their systems.

Having supply chain visibility means having the ability to track parts, components, and products – in transit or at rest – from the manufacturer to final destination. The ideal system captures data through new and flexible technologies, makes useful data readily available to stakeholders and customers, gives a clear view of inventory and supply chain activity, and helps create responsive supply chains.

Implementing this type of system is vital because all stakeholders need to know where their freight is coming from, where it is at specific times, and where it's going. This visibility increases the ability to capture information, share and predict events, and translate data into useful information. This way, a playbook to manage disruptions and store information for reporting and record keeping can be created.

To put the right visibility program in place, many businesses partner with a trusted third party logistics provider (3PL) with engineering, integration and operation teams. They can help execute the five vital steps in system implementation:

- CAPTURE – Use advanced technologies to gain visibility across the supply chain
- ANALYZE – Evaluate where branded and private label products come from
- DESIGN – Set up supply chain routes, material flow and logistics networks to accommodate varying requirements
- SENSE – Use advanced analytics, business process and planning technologies
- STRUCTURE – Develop structured playbooks or scenarios to know how to comply with rules, regulations, exceptions and practices

The Evolution of Shared Assets

Like most forward-thinking concepts in the supply chain industry, the idea of "shared networks," the "Uberization" of freight, and the optimization of the nation's truckload capacity have been discussed at industry conferences and on webcasts, yet there are few real-life examples showing how it works.

In California, Ryder works with two competing grocers who share fleet assets and drivers across their networks. With stores needing to stock their shelves more frequently, while simultaneously needing to maintain lower levels of inventory in the stock room, these grocers were tasked with sending smaller shipments closer to the time of sale. At the time, they were shipping at LTL rates. But through Ryder and its route optimization capabilities, the grocers were able to use the same trucks to ship their goods at preferred rates.

This resulted in improved inventory and product freshness, while cutting down on wasted deliveries. Plus, the shared network runs smoothly, the shippers have full visibility of shipments, and they're ensured products reach the shelves on time. More importantly, customer expectations are met, and the grocers benefit from lower transportation costs, improved on-time delivery, and higher customer service levels.

The good news is that asset sharing — which includes warehouses, trucks, and drivers— is helping companies meet the demands of the "Amazon Effect." With only so much warehouse and transportation space available, companies are looking for ways to collaborate with peers, and even competitors, to drive efficiencies, improve service, and manage costs. Shared networks can quickly lead to improved asset utilization for companies, whether it's warehouses or trucks. By sharing space, they are also sharing costs—which will lower their overall supply chain cost and improve cash-to-cash cycles.

Companies in many industries, face common issues such as a shortage of drivers and capacity fluctuations. They often have fleets traveling similar routes to the same or nearby destinations, making the solution seamless and beneficial to all parties. Ryder also provides multi-client packaging and warehouse facilities. This allows companies to not only share warehouse space, but also save on operating costs. Examples of this can be found in the consumer packaged goods, oil & gas, retail, and healthcare industries.

Partnering for Supply Chain and Business Success

A growing number of businesses are affected by the "Amazon Effect" – it's inescapable. This means, now more than ever, it's important to look at the way you're managing your supply chain.

The e-commerce phenomenom and several other disruptors are making operating a supply chain even more challenging. However, these disruptors have created fertile ground to leverage innovation and opportunities as a competitive advantage.

Outsourcing with a 3PL like Ryder enables companies to be more responsive, expand markets, improve productivity, and cut costs. Our footprint and experience give us the opportunity to cross-pollinate successful best practices with partners in other industries. This enables us to put our experience, knowledge, and relationships to work for our customers, and leads to innovative solutions to turn disruptive trends like the "Amazon Effect" into an opportunity.

About Ryder
Ryder is a FORTUNE 500® commercial fleet management, dedicated transportation, and supply chain solutions company. Ryder's stock (NYSE:R) is a component of the Dow Jones Transportation Average and the Standard & Poor's 500 Index. Ryder has been named among FORTUNE's World's Most Admired Companies, and has been recognized for its industry-leading practices in third-party logistics, environmentally-friendly fleet and supply chain solutions, and world-class safety and security programs. For more information, visit www.ryder.com or call 888-793-3702.

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