

TRACKING THE TRENDS IN THE RETAIL SUPPLY CHAIN

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Every day, retail supply chain managers are tasked with meeting the rising demands of their customers. Whether its speeding products to market to keep store shelves stocked with the hottest items, eliminating waste, or reducing risk; the end result is always to keep customers happy and loyal. However, as supply chains evolve and new trends come to the forefront, there is one thing supply chain managers will always have to deal with – disruptors. The question is: are managers able to apply innovation to get better control of the disruptors.



Government regulation, talent shortages, shifting consumer behavior, and changing technology are some of the disruptors that keep CEOs up at night. But is disruption always bad? Disruption forces us to change the way we think, behave or even do business. It makes us look at things in a whole new way, often turning challenges into opportunities - and turn business disruption into businesses that disrupt.

In this report, Ryder experts will discuss several trends in the supply chain that are being used to combat the growth of disruption – nearshoring, warehouse strategies, omni-channel fulfillment, M&A activity and sustainability initiatives – while showing how innovation is turning the tide for small and large companies alike.

For a moment, imagine that one of the hottest items in your store is a shirt manufactured in Asia. Right after you place an order for the standard colors, a trend-setting celebrity wears that very shirt in purple. Forget black. Forget blue. You need more purple shirts ASAP.

Because of innovation, your ability to get those purple shirts – or any other suddenly in-demand item – will be enhanced by implementing a nearshoring strategy, which helps to enable merchandise customization further down the supply chain or closer to the final destination. As retailers track supply chain trends through the year, new possibilities abound in everything from warehousing to transparency to fueling.

Sourcing for Success

Port congestion, wage increases in Asia, and improving infrastructure and economic conditions in Mexico have led to increased numbers of retailers considering or executing a nearshoring strategy for their operations. According to a recent RILA survey, U.S. executives expect that nearly half their global manufacturing capacity will be located in North America within the next five years

Manufacturing wages in China have gone up 600 percent since 2001. Coupled with consumer demand driving the need to have products closer to the point of consumption, it is an environment rich for nearshoring.

With increasing responsiveness to customer demand, and reducing inventories at the forefront of retail supply chain trends, nearshoring offers clear advantages in conjunction with sourcing products from Asia and other developing regions.

Retailers want the flexibility to react to different demands of the end consumer, and nearshoring can be one strategy that lets them postpone customization of the merchandise. Let's say a product from a consumer goods manufacturer isn't selling because it doesn't catch the consumer's eye. Or, you need to entice the sale with additional gifts, such as free accessories. Nearshoring gives you the flexibility to react to changing demand. The product is sent in raw form and the manufacturer can then build to order as opposed to build to stock.

For example, a shirt manufactured in Asia or Central America may be dyed different colors in the U.S. to react to demand more quickly. Retailers are also doing a lot of customization in the technology space in terms of packaging. The core unit is the same, but retailers entice consumers with different packaging.

Due to pressure on cost and speed to delivery, there's also a trend to cut "middlemen," such as wholesalers, distributors,



and resellers, out of the supply chain. We're seeing more of our customers, including garment and technology manufacturers, going directly to the retailer. However, the need for "middlemen" is not always specific to the product; it can be specific to the channel or type of retailer being delivered to. For example, if manufacturers need to reach local small businesses and retailers, then the "middlemen" play a key role.

The overall trend is to create a more responsive supply chain that adjusts to meet new consumer expectations.

Retailers need a relationship with their suppliers. They need the capacity within the supply chain to be proactive and flexible. This enables them to customize, change or amplify any order and drive greater demand.





NO OVERHEAD STORAGE ALLOWED

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12 MONTHS

18 MONTHS

Rethinking the Warehouse

Throughout the retail supply chain, providing a seamless, demand-driven customer experience requires integration and collaboration. The effort begins with warehousing and distribution, basic functions of the retail enterprise. Many organizations have been running the same processes and systems in these areas for years, and may not even think about them that much. However, rapid changes in both front-end and back-end retail operations give retailers new reasons to examine their warehousing and distribution models.

“Having visibility into warehousing and distribution is crucial – there’s a lot happening from the retail perspective,” says Scott Nemeth, group director of transportation management at Ryder. “Retailers are moving into omni-channel, with same-day fulfillment and delivery, and more companies are using social data, which is creating noise in the supply chain. Retailers are working hard to fulfill the individual customer experience.”

Further complicating the traditional warehousing and distribution landscape is the proliferation of new vendors and SKUs in the supply chain, which without innovation could lead to product obsolescence. To ensure success, Nemeth sees a trend toward centralized, unified visibility into the entire retail supply chain.

Fortunately, advanced business intelligence solutions can provide retailers with the capability to digest data in the supply chain as it relates to inventory, SKUs, and specific details for every order. Using analytics tools, retailers can interpret this data to turn raw information into time- and location-sensitive insights that guide action.

In addition, Nemeth says now is a great time for retailers to re-evaluate how they work with their suppliers in the warehousing and distribution process.

“Supplier integration has become very important,” he says. “As an example, the automotive supply chain has become the most integrated over the past decade or so, and also one of the most efficient. We expect to see more supplier integration in retail sectors, as well.”

“From a transportation standpoint, retailers need to know what SKUs are available for shipping, as well as what trucks, totes, containers, etc., are available. Demand variability in a same-day fulfillment model is significant. There are a high number of vendors from a transportation standpoint, creating complexity. We see the same thing on the supply side. ”

- *Scott Nemeth,*
Group Director of Transportation Management,
Ryder System, Inc.

Along with retailers seeking out more collaborative suppliers, Nemeth says suppliers will be looking for retailers who are “customers of choice,” meaning they have more effective and efficient ways of doing business and are willing to discuss forecasts and generally work together with their suppliers. Similarly, carriers will seek out “shippers of choice.”

Looking ahead at trends, Nemeth cites increasing regulations in such areas as emissions, asset utilization, hours of service, and even freight brokering.

“A financial security bond is required on companies brokering freight,” says Nemeth. “This means that we are removing capacity during an ongoing driver shortage.”

With spot rate tonnage and activity at an all-time high, Nemeth says contracted rates and spot delivery rates are now virtually identical; in the past, contracted rates have typically been cheaper.

Other major factors are likely to impact warehousing and distribution, which will be disruptive to any retailer, technology vendor, service provider, or regulatory agency.

Bottom line? Control what you can control. And that includes adapting warehouse capabilities to meet omni-channel demands.

Adapting to omni-channel

What may have been regarded as a “back-end” function of the supply chain, is now the “back-bone” for retailers. Everything that goes on in the warehouse happens behind the scenes, out of direct view with the customer.

However, everything that goes on in the warehouse impacts the customer’s experience. And that brings us to omni-channel retailing. This evolution of multi-channel retailing concentrates more on a seamless approach to the consumer experience through all available shopping channels. Omni-channel is changing the nature of warehouse operations and capabilities. Consumers expect immediate access to a retailer’s complete inventory and rapid fulfillment. As Jimmy Fitzpatrick, group retail operations director for Ryder, explains, warehouses now need the capabilities to provide around-the-clock responsiveness.

“On a macro level, retail warehouses must perform more frequent deliveries during a seven-day window as opposed to a traditional five-day window,” Fitzpatrick says. “On-line retailers such as Amazon are continually changing the market.”

Before the advent of omni-channel, a retail warehouse might pick a pallet on Tuesday and then deliver it on Thursday. However, due in large part to the influence of online retailers such as Amazon that is continually raising the bar, the entire transportation management system of a modern omni-channel retailer now operates on a 24/7 delivery basis – a fact that requires both internal culture changes as well as a change in how the network is laid out.

“There isn’t a lot of time to reorganize the enterprise around these changes, either,” Fitzpatrick says. “Making changes rapidly is par for the course for retailers who experience these phenomena. It’s a new game.”

The game-changers often include a new or updated warehouse management system. Retailers must also be sure their warehouse team members have both the attitude and cultural capability to work Saturdays and Sundays on a regular basis, a necessity when faced with the constant rigors of fulfilling omni-channel consumer demand. Furthermore, retailers need to become extremely agile with their warehouse management systems and practices.

“The trend is to build LEAN systems into a retail client’s warehouse management system,” says Fitzpatrick. “We know retailers now need to receive pull signals, as opposed to push signals, all the way through their manufacturers to their sources across the border, in Asia or other overseas locations. Lead time must reduce in the modern omni-channel supply chain. Large, inefficient warehouses are the enemy.”

Retail warehouses must also provide total transparency so that all providers and partners across the supply chain, as well as customers, can see what items are available, where and when.

“You need a glass pipeline with access to the whole supply chain from the source through the manufacturer through the ‘last mile’ to the consumer,” Fitzpatrick says.

To effectively create this type of transparency and capability throughout the supply chain, Fitzpatrick says there’s a trend for retailers to invest in supply chain resource modeling (SCRM) technology, as well as a total resource module and engineering module. Redesigning the layout of the warehouse is another popular solution. Fitzpatrick says using a third-party logistics provider, such as Ryder, can be an asset to retailers trying to manage all this organizational and technological change.

“Retailers should look for a third-party logistics provider who understands the changing environment and has the technology, tools and talent required for simplified success,” Fitzpatrick says.

Feeding the Food and Beverage/CPG Beast

Rethinking supply chain approaches is more than a trend for retailers who sell products in the food and beverage or CPG categories – it’s a constant. They continually contend with issues such as thin profit margins, short product shelf life, and strict product freshness and security regulations. And this year, the consumer marketplace is creating yet another set of complexities.

Paul Lomas, vice president of supply chain solutions at Ryder, says retailers can take steps now to adapt to the challenges.

“There are some unique challenges in the food and beverage/CPG supply chain,” says Lomas. “There are costs up and down the supply chain, and with thin manufacturer and retailer margins, it can be difficult to maintain service levels. In addition, grocery complexity is driven by new sources, destinations, and products.”



“Manufacturers need to coordinate across functions inside the organization, as well as with third-party logistics providers. They need to think outside the box.”

- Paul Lomas,
Vice President of Supply Chain Solutions,
Ryder System, Inc.

The growing popularity of private label, organic, and ethnic grocery items has caused a corresponding explosion in SKU counts. Omni-channel retailing further complicates how grocery products are ordered and fulfilled at the SKU level.

“There is a complexity issue,” Lomas says. “Private label goods have more SKUs and take up more space in the warehouse and on trucks. It’s important to remain flexible throughout the process and the supply chain.”

“For example, you need to give latitude when ordering product,” he added. “There is volatility in where and when products are needed. Manufacturers need to rethink the basic supply

chain design and set up the supply chain in a way that allows consolidation of facilities and operations. They need to reset or change the role of facilities.”

Manufacturers also need to collaborate more on sharing supply chain capacity through activities such as co-loading products from multiple manufacturers in the same trailer to get more productivity from trucks.

Of course, it’s one thing to keep the products moving. It’s another to move them securely in the complex food and beverage/CPG supply chain. Properly tracing and tracking goods from the point of origin to the shelf requires attaching the right level of identification information to shipment case units. Retailers need to work with manufacturers to know where products are being shipped to and from.

Industry-wide issues are also impacting the food and beverage/CPG categories, and will continue to demand attention. The truck driver shortage, combined with congested railroads, makes it harder for manufacturers to move perishable products as quickly as they would like. In addition, a growing focus on sustainability, including the introduction of corporate agility scorecards, is forcing retailers to be much more mindful of the environmental and social impacts of their supply chain activities.



Greening the Supply Chain

Scott Perry, vice president of supply management and global fuel products at Ryder, works with manufacturers, retailers, and influencers throughout the supply chain, helping them to understand the evolution of natural gas as a viable commercial transportation solution – now and in the future.

The conversations have changed recently – the decline in diesel prices has led some to question the value of switching to alternative fuels. Perry says his response to that is simple – even with dropping diesel prices, it’s a good time for natural gas.

“Pricing for natural gas is stable,” he says. “With gas or diesel, there’s always pricing volatility, which makes budgeting for your annual fuel spend a major challenge. There are ways to try to forecast the market shifts, but it’s almost like a guessing game, so you either end up way over budget or way under budget.

“With natural gas, you don’t experience that. The pricing is highly consistent. You can project annual costs with much greater accuracy. At Ryder, for example, we can work with you to project fuel costs over a five-year period, where you can even purchase fuel at a set price for the entire term of use for a vehicle. No one’s ever been able to do that before.”

In addition to pricing stability and better forecasting, Perry says there are many other reasons why now is a good time to add natural gas vehicles to a fleet. Natural gas vehicles meet stricter

emissions regulations that are expected in 2017 and 2021, giving a fuel component that allows you to control costs in your supply chain.

“The best fuel types have been identified, engine platforms have progressed, the fueling infrastructure continues to expand, and natural gas is available in more and more markets,” he says.

While obstacles for companies that want to adopt natural gas vehicles into their fleet are still present, Perry says new developments in fueling infrastructure and maintenance facilities help companies make the jump to cleaner fleet operations.

“No one else is as committed to this platform as we are,” Perry says. “Ryder has made an industry-leading investment in natural gas commercial vehicles and technology for lease customers. We’re investing in the fueling, maintenance, and service infrastructure that drives success.

Looking ahead, Perry sees a positive trend. Natural gas will remain an important part of our energy economy in the US.

“The benefits of natural gas are clear and they aren’t changing,” he says. “It’s domestic, it’s abundant, sustainable, and efficient. Natural gas is here to stay.”



WARNING
VEHICLE COMPONENTS
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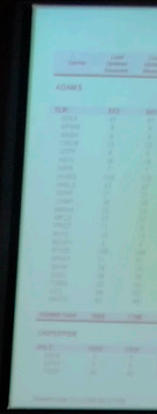
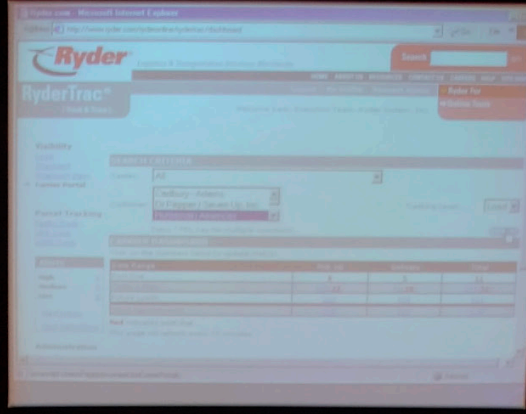
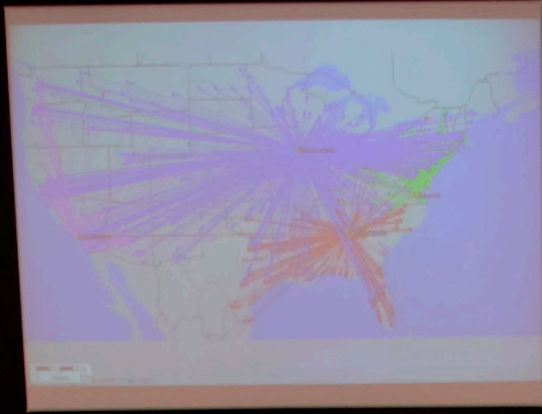
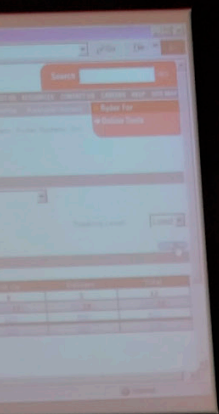
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CAUTION
ENGINE WILL NOT
START IF FILL PANEL
DOOR IS OPEN

For parts and service contact
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MAINTENANCE ONLY ACCESS PANEL
ENSURE SYSTEM IS DE-PRESSURIZED BEFORE PERFORMING MAINTENANCE
WHEN ELECTRICAL WELDING ON VEHICLE, DISCONNECT 3 PIN
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Staying on Track

While the retail supply chain trends may seem disparate – covering everything from warehouse layout to sustainable solutions – two overarching themes are clear: responsiveness and transparency. The demands of omni-channel and 24/7 retailing have changed how retailers fulfill customer orders. Consumers now expect to be able to buy any product they want, at any time, with real-time fulfillment.

On the back-end, this means sourcing products closer to the point of consumption, more frequent deliveries, eliminating supply chain waste, and fully optimizing your warehouse and transportation network.

As trends abound, so too do disruptors. But with innovation, retail supply chains are able to keep up with consumer demand. Hand-in-hand with this need for supply chain responsiveness

is the need for supply chain transparency. “Out of stock” is out of the question. Retailers must be able to fulfill customer demand with product from wherever it is located in the supply chain, including on store shelves, in back rooms, or from distribution partners.

Smart companies are implementing unique and innovative ways to leverage these former “back office functions,” by tapping a third-party logistics provider like Ryder to help them respond quicker to changing consumer demand, expand into new geographies, improve productivity and efficiency, and win in today’s challenging business environment.

Discover how outsourcing with us can improve your fleet management and supply chain performance at [ryder.com](https://www.ryder.com).

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