

VISIBILITY: THE KEY TO MANAGING YOUR INBOUND RETAIL SUPPLY CHAIN

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This report will cover the demands being placed on the inbound retail supply chain logistics providers, and the key capabilities that Best-in-Class companies have in place to address these needs and satisfy compliance requirements. The impact of supporting omni-channel on the inbound side will also be factored in to address “direct-to-customer” and “direct-to-store” options from suppliers.



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Retailers are under tremendous pressure to add services in support of omnichannel demands, while satisfying import compliance requirements and offsetting the resulting cost increases. The need for real-time visibility, flexibility, and timely flow of cost information has increased dramatically to support these new retail requirements.

These demands have put a premium on visibility, improved process speed, and timely reporting from upstream retail logistics providers. Having better visibility is the key to unlocking data certainty, improved responsiveness, and greater agility when making upstream decisions.

Retail Challenges Impacting Inbound Logistics

To support omni-channel, the variety and volume of *direct-to-customer* freight flows are increasing. More challenging and complex fulfillment requirements to support eCommerce and multi-channel or cross-channel demand have been reported by 87% of companies.

In our recent North American Retail Survey in May 2016, Best-in-Class retailers showed a 47% higher capacity utilization, and were

Best-in-Class Performance:

- Percentage of perfect orders (complete and on time) received
 - Best-in-Class: 95%
 - All Others: 86%
- Percentage of perfect orders (complete and on time) delivered to customers
 - Best-in-Class: 96%
 - All Others: 85%
- Percentage decrease in the frequency of out-of-stock inventory in the past year
 - Best-in-Class: -7.7%
 - All Others: +.9%
- Percentage change in Total Landed Costs per unit of import/export handled
 - Best-in-Class: -.5%
 - All Others: +8.5%

73%

of Best-in-Class companies have online visibility into international order / supplier event status.

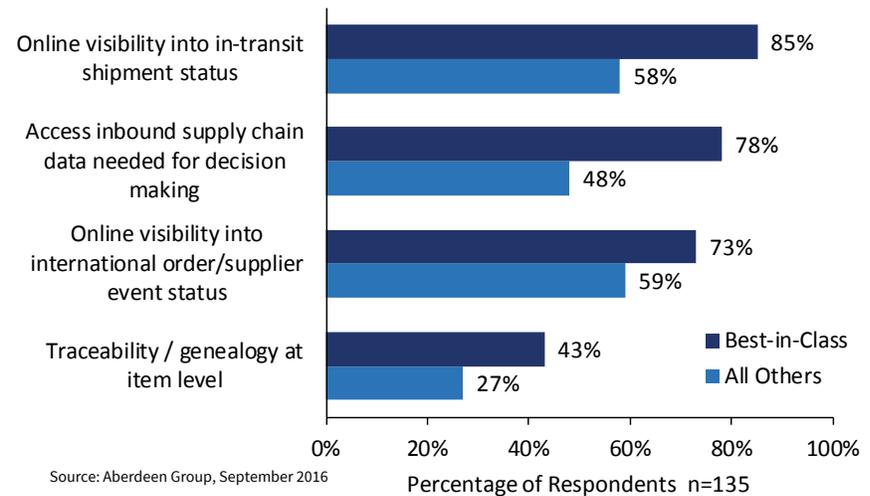
17%-23% more likely to use a partner network of 3PL's, drop ship vendors, and dark stores in their fulfillment network. The Best-in-Class were also 35% more likely to increase their use of dark stores as part of their strategic actions.

The research also indicates that there is an increase in direct-to-store shipments, as 65% of companies have shipment flows that bypass their own DCs and ship direct-to-store via suppliers, 3PLs, or break-bulk. This highlights the need for better visibility to inbound shipment information at the product level and flexibility to make commitments on direct-to-store and direct-to-customer shipments.

Best-in-Class Visibility

One of the most effective ways to minimize freight costs in this complex fulfillment environment is to have the upstream visibility with service providers. This allows informed decisions on routing and the flow of products to be made, eliminating any unnecessary shipment legs for the product. Figure 1 shows the inbound visibility capabilities for the Best-in-Class compared to All Others.

Figure 1: Inbound Supply Chain Visibility



Having visibility and access to information that allows for upstream decision making is a *must-have*, in order to make informed service based decisions, but whether these decisions are always cost effective will remain a challenge until cost visibility improves and is readily available as supply chain costs are incurred.

Bullwhip Effect:

The bullwhip effect is the phenomenon that, simply stated, arises when variability occurs in demand within a supply chain, the magnitude of the variability increases on dependent demand signals, as the distance/time moves further away from the source of the change.

In practical terms, as demand for finished goods changes, the further upstream that one goes, the greater the swing in requirements occurs. The long tail suppliers see the greatest variability of all.

The largest percentage of inbound retail shipments are still bulk-direct to the retail distribution center (DC), but the expanded fulfillment network now includes the dark stores, 3PL's, and supplier/manufacturer direct to store. The visibility needed is not only for product and availability, but also the cost associated with each option in order to make profitable service decisions.

The first capability in Figure 1 indicates that the Best-in-Class are 47% (85%/58% $\hat{=}$ 100%=47%) more likely to have visibility into in-transit shipment status. This represents a significant advantage by providing access to order details, shipment status, and timing.

The second capability shows that the Best-in-Class are 63% more likely to be able to access supply chain data needed for decision making. This refers to the SKU and quantity data within a shipment, which is critical in an *"available-to-promise"* scenario. This data access can also be used for any rerouting of product to support fulfillment efforts. This level of visibility would extend to the supplier as well, so that changes could be implemented at the time of shipment. The granularity provided allows more time to resolve issues on upstream product movements.

International shipments are just as critical, if not more so, considering the additional compliance requirements and documentation that must accompany each shipment, plus the fact that international suppliers are often the longest tail in the supply chain due to the lead time required. This puts them in danger of experiencing the bullwhip effect (see sidebar), which magnifies the degree of variability. From the point of shipment through ports and while in-transit, many conditions will change that may affect the flow of material upon arrival. Minimizing delays and maximizing compliance will streamline the flow of material as much as possible, while any delays will certainly exacerbate the problem.

Since many retail products, such as fashion, do come from overseas suppliers at a lower cost, having visibility into these

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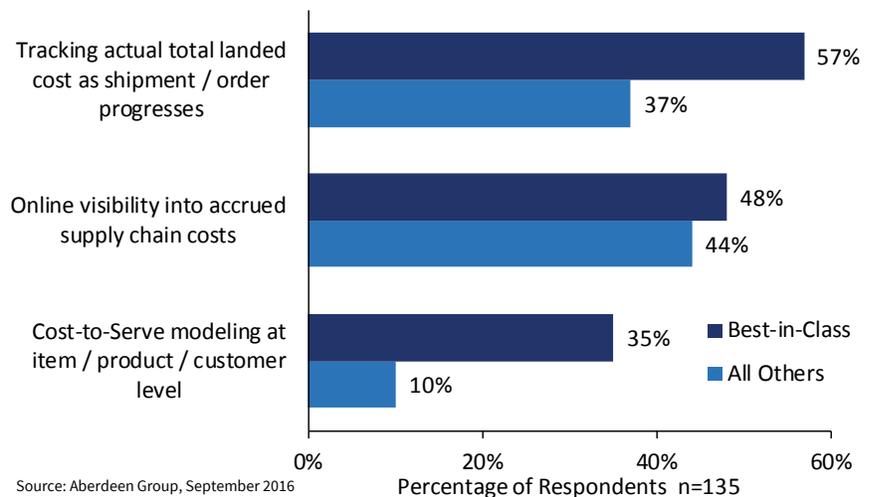
shipments and events as they occur is essential to creating flexibility for upstream decisions. The Best-in-Class are 24% more likely to have this access compared their competition.

These international shipments also increase exposure to “country of origin” questions and issues that must be satisfied, which is why product identification and tracking have become increasingly important for products that require source and “lot control” integrity information for regulatory and safety compliance. It is also valuable for quality assurance and traceability on components that are part of a larger assembled product. The Best-in-Class are 59% more likely to have this in place as a means of *best practice* and defense, so that any potential issue can be isolated and the impact minimized.

Visibility into Costs

Making informed decisions implies that the financial impact of those decisions are known. Figure 2 provides the cost tracking capabilities of the Best-in-Class vs. All Others.

Figure 2: Cost Visibility



The Best-in-Class are 54% more likely to track the total landed costs as the shipment progresses. All Others are only at 37%

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adoption, which points to a major challenge for the majority of retailers who do not have a good handle on their true costs.

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The cost-to-serve percentages really highlight the sizeable gap in understanding true cost to-serve at all levels of maturity, but particularly for All Others at 10%.

Having visibility and access to information that allows for upstream decision making is a must-have, in order to make informed service-based decisions. But whether these decisions are always cost effective will remain a challenge until cost visibility improves and is readily available as supply chain costs are incurred.

International Import Trade Capabilities

With import shipments being an important factor in upstream visibility, Table 1 provides some key performance advantages for the Best-in-Class vs. All Others.

Table 1: International Trade

Measurement	Best-in-Class	All Others
Percentage of perfect orders (complete and on time) received from international suppliers	97%	76%
Percentage of international orders executed with trade compliance errors	2.8%	10.5%
Percentage of international shipments with incorrect duty paid	5.8%	15.6%

On-time order delivery percentage is 28% higher for the Best-in-Class vs. All Others. A 76% on-time performance for All Others is not reliable enough to make commitment decisions, which

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means additional buffer inventory must be kept on hand to offset delays due to inconsistent deliveries — *yet another cost*.

Trade compliance is an indicator of how well the global trade management function is working within the organization. The competition has 3.7 times the number of international orders with trade compliance errors, compared to the Best-in-Class. Lack of compliance can delay a shipment at any customs point for lack of appropriate documentation, which certainly contributes to the weaker delivery performance. Because of the bullwhip effect, the greater the delay is, the greater the change will likely be once product arrives. More changes equal more costs. Improving compliance can reduce the number and magnitude of the changes and associated costs required. The Best-in-Class are significantly ahead in their compliance efforts.

All Others are 2.7 times as likely to pay the incorrect duty on a shipment, which is an added cost compared to the Best-in-Class. Delays and delivery performance are also affected due to corrections made late in the game.

Summary and Key Takeaways

Visibility into the upstream supply chain is critical for retailers to make informed decisions in support of their increasingly complex customer fulfillment requirements. Getting the quantity right and having it on time to support operations is still essential, but the location and mix of how much goes where has added another dimension of variability to upstream supply chain decisions.

Having visibility into product movements and timing for both domestic and import shipments is a big advantage for Best-in-Class companies. While they are also much more likely to know the costs associated with upstream decisions, all companies need to improve in this area. The Best-in-Class also hold the lead in trade compliance and on-time delivery for imports, which

makes a big difference in minimizing the variability in changes for upstream decisions.

For retailers, inbound visibility to shipment, product, and cost information is a must-have requirement in order to compete effectively. Following the lead of the Best-in-Class will lead to improvements in the inbound logistics process and should serve as a blueprint for success.

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