WHEN RETAIL AND LOGISTICS CONVERGE

Opportunities and Trends for Omnichannel Sales and Distribution

Honeywell

TABLE OF CONTENTS

INTRODUCTION

The retail landscape has changed drastically in 2020 due to the global health crisis, creating a shift in consumer behavior that has sent waves through every sector — from manufacturers and importers, through warehouse and transportation and logistics (T&L) infrastructure, to in-store retail.

Ecommerce has been the bright spot for many retail chains who've had to rely on online sales during the global health crisis. With worldwide online sales expected to reach $3.914 trillion in 2020,[1] e-commerce will only continue to affect how products are distributed and sold.

Retailers who understand the impact of the current situation and the complexity of ecommerce, and adapt to this changing reality will develop new business models that offer opportunities for leveraging both online and brick-and-mortar sales. The key to success is found in empowering the mobile enterprise with the skills and tools they need to offer a reimagined customer experience that seamlessly and instantaneously blends sales, service, and distribution.

SHIFTING SANDS

Retailers deemed as essential businesses have reduced their hours to accommodate additional cleaning protocols, while non-essential retailers have had to close their brick and mortar locations temporarily.

As retailers welcome their customers back to their stores they've had to adapt to new safety protocols mandated by the World Health Organization (WHO) and U.S. Centers for Disease Control and Prevention (CDC). Even though retailer doors are open, many are apprehensive to return to an in-store environment, showcasing the impact of the global health crisis on the "online shopping effect". Retailers are seeing a surge in click and collect, curbside pick-up and home delivery. Brick and mortar stores are being utilized as a fulfilment center.

This ecommerce phenomenon has been particularly evident in categories such as DIY, electronic, home appliances, and a segment of retail that traditionally hasn't seen it — grocery. According to Nielsen, just 4% of grocery sales came online in 2019.

---

1. https://content-na1.emarketer.com/
   global-ecommerce-2020

Retailers are evaluating and implementing technology solutions that address social distancing and new cleaning procedures. These solutions still need to drive associate productivity in areas of order fulfilment, shelf replenishment, and checkout, as retailers look to deliver a reimagined shopping experience. The changing economy means that retailers need to keep up with emerging e-commerce trends. Online shoppers are already conditioned to demand limitless variety, personalization, and convenience. Retailers will need to take that a step further as the competition increases. Each point of customer interaction must be immediately accessible, highly personalized, and backed by great customer service.

"A wide variety of our requests are made with very little warning and are expected to be fulfilled quickly, in small units, to a number of different locations. This is the idea that I want my stuff now and fast, and oh by the way, I don't want to pay much for it."[2]

– **JENNIFER PAZOUR,** ASSOCIATE PROFESSOR OF INDUSTRIAL & SYSTEMS ENGINEERING, RENSSELAER POLYTECHNIC

Those perceptions have started to spill into what customers expect in-store, too, all the while conducting their own online competitive price checks and inventory searches. Is the high street, or downtown, location then doomed to disappear?

"[Many sellers believe] they have to follow the Amazon model using fulfillment centers. They'll never catch up with Amazon using Amazon's model. They need to learn to leverage their stores."[3]

– **SATISH JINDEL,** FOUNDER & PRESIDENT, SHIPMATRIX

Surveying the landscape of the creative, effective — and most importantly, customer-engaging — trends offers much room for optimism.

But the store needs to be "so much more," today and tomorrow.

Retailers now have the opportunity to respond and leap forward by integrating online and storefront sales with an enhanced warehouse/distribution network. The right approaches and mobile technologies will transform legacy systems and physical assets into an efficient, responsive, and customer-oriented network.

2. www.supplychaindive.com/news/444254/

3. www.supplychaindive.com/news/444139/

CONVERGENCE OF
RETAIL AND T&L

In the aftermath of organizations rapidly adapting to shifts in consumer buying during the pandemic, the traditional approach to analyzing these markets as if they are two separate entities no longer applies.

While the importance of online channels to retail strategy has long been a focus, now more than ever the organizations without an omnichannel strategy are being left behind — with many shutting their doors for good. An omnichannel retail enterprise can only be properly understood — and made more agile and profitable — by looking at the full supply chain all the way from point of manufacture to the hands of the customer.

In practice, this is an extremely complex exercise. There are a number of gray areas where workflow and responsibilities overlap.

For example, online product fulfillment can take place at a store's backroom; a delivery driver can be an extension of the retailer's customer experience; or an online purchase might lead to impulse purchases at a click-and-collect location.

All of these scenarios are happening right now, because the consumer is rewarding those retailers who can deliver on their expectations. In such an environment, successful retailers must find fluid, reliable technologies and processes to be able to introduce efficiencies unimagined a few years or even a few months ago. To thrive in times of change, their leaders will need to implement end-to-end mobile solutions, where either "end" might be unknown at present.

WIDESPREAD SHIFTS IN THE CONSUMER LANDSCAPE [4]

15 – 30%

GROWTH IN CONSUMERS WHO PURCHASE ONLINE

77%

OF STORES ARE SEEING DEMAND FOR SAME-DAY DELIVERY

48%

OF CONSUMERS TRIED A NEW BRAND BECAUSE OF PRODUCT AVAILABILITY

OMNICHANNEL RETAIL diagram — WEBSITE, BRICK AND MORTAR STORES, MOBILE AND TABLET, CATALOGS, CALL CENTER, FLASH SALES, RETAIL DCs, KIOSK, E-COMMERCE DCs, POP-UP STORES, OUTLET LOCATIONS. Center: CONSUMER, ORDER FROM ANYWHERE, FULLFILL FROM ANYWHERE.

4. www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-great-consumer-shift-ten-charts-that-show-how-us-shopping-behavior-is-changing

SUPPLY CHAIN? DEMAND CHAIN, RATHER

The consumer is pulling the chain, not being led by it, which is increasingly true for all methods of omnichannel sales. Inherent in the e-commerce effect is an acquired expectation of quick answers, limitless variety, SKUs, and options that accommodate consumer lifestyles. No area is immune.

CONSUMER REQUEST	RETAIL RESPONSE
I like this pattern of sweater, but you don't seem to carry my size.	**2010:** We're expecting a shipment next month. **2020:** We have two in stock at our suburban outlet.
I can't find the matching pillowcases for this sheet.	**2010:** Try the Bed Store. They have everything. **2020:** We can have that at your home tomorrow.
This watch is nice. I'm actually looking for the up-market version for a gift.	**2010:** If you can wait, I'll see if anyone picks up the phone at the central warehouse. **2020:** I can have two styles here this afternoon.
Seriously? The postage costs more than the bottle of wine!	**2010:** I'm sorry, sir. Would you like to look at our catalog again? **2020:** For no extra charge, it will be at a locker near your office tomorrow.

Recent data on customer attitudes confirm that local stores are still solidly in demand, even if their roles will expand. In general, online shoppers prefer convenience over speed of delivery. That is an easy promise to keep at a neighborhood location with a front door.

AT YOUR CONVENIENCE

~14%

OF TOTAL RETAIL SALES ARE FORECAST TO BE MADE ONLINE IN 2020[5]

↑60.4%

FORECASTED GROWTH IN US CLICK-AND-COLLECT SALES IN 2020[6]

---

5. www.emarketer.com/content/global-ecommerce-2020

6. www.emarketer.com/content/frictionless-commerce-2020

STORES AS MINI-DISTRIBUTION CENTERS

Brick-and-mortar stores are proving their value as part of the evolving retail enterprise. Store associates are increasingly doing more logistics-related tasks, such as picking and packing. Associates, as well as customers, will benefit from easy-to-use tools to help transition between online fulfillment and in-person sales.

Several advantages can result from including order fulfillment and distribution within an existing retail network:

Leverage Existing Inventory and Team — Whether in the front or back of the store, the resources are typically available

Already Part of Transport Routes — Many in-house and third-party logistics (3PL) branches are hauling containers at close to 100% capacity

Provide Incentives for Local Pickup — Loyalty and rewards program bonuses engage and motivate the buyer, while lowering the seller's packaging and delivery costs

Additional Foot Traffic — One study found that 40% of in-store pickups led to additional in-store purchases[7]

Closer to Consumer than Regional Hubs — For consumers expecting same-day or same-hour delivery, distributed locations offer a head start, especially for the higher-income urban demographics who tend to shop online more

Mix of Browser and Browsing — Employee-picked groceries, for example, tend to be non-perishable, and the busy customer will often choose the meat and produce at pickup

Relieve DCs — Centers are expanding, especially in cities and near ports; real estate is becoming more expensive and jobs harder to fill[8]

An innovative approach to achieve these same goals, especially for smaller retailers, is to partner with other brands for underutilized warehousing and delivery vehicles. Services such as Parcelly even allow retailers to rent their own redundant space as "platform-agnostic storage," which many stores have to spare after seasonal clearance .

CONTINENTAL SHIFTS

Historically click-and-collect purchases are most advanced in Europe, however due to the global health crisis, Adobe Analytics is reporting that US click-and-collect orders (both curbside and in-store) have surged 308% between April 1st and April 20th compared to a year ago.[9] U.S.- based Target reported that digital sales doubled year over year in the second quarter, and store fulfilled more than 75% of these sales.[10]

A novel approach developed in the UK is the use of "dark stores," essentially storefront warehouses that are truly mini-distribution centers, not open to the public. Dark stores are positioned near online customers for quick delivery, and their numbers show steady growth.

7. www.emarketer.com/Webinar/Key-Trends-Ecommerce/4000100

8. www.ftc2050.com/reports/ftc2050-2018-Same-day_delivery_market_UK.pdf

9. www.bbc.com/worklife/article/20200715-is-click-and-collect-the-future-of-shopping

10. www.supplychaindive.com/news/target earnings-store-fulfillment-omnichannel pandemic/583772

PAVING THE "LAST MILE"

> **T&L is seeing an explosion in growth due to the effects of the health crisis on consumer habits. The global courier, express and parcels market is expected to grow by ~5% in 2020[11], with ecommerce driving much of the growth.**

What is clear from retailers' experiences in 2020 is the threat to profits from online sales. Consumer expectations for fast delivery and reliable availability of goods mean that only retailers with highly efficient supply chains will see demand. With such a fragmented delivery market, only the largest companies with the most favorable logistics contracts and highly automated DCs can package and ship items at the price that consumers are willing to pay, without significantly eroding their profit margins.

"Grocers and delivery services are pushing hard to keep up with demand and construct a working model that can scale and be cost–effective. When this crisis does abate, it will be interesting to see what grocers report about profits with such a surge in home delivery. Like Uber, it may take some time for the new normal to be turned into a profitable business."[12]

— CAPGEMINI

Most online retailers are forced to absorb the true costs. Reportedly, executives industry-wide are devoting greater attention and scrutiny to transport service-level agreements nowadays.

Other threats loom, including the continued decline of printed document delivery and a wage-intensive balance sheet despite massive investment in automation. Delivery service profits have not kept pace with the overall industry growth and are subject to volatile fuel prices and consumer spending.

In terms of consumer perception, additional opportunities are available for retailers to improve the last mile experience. Couriers can bettertrack parcel deliveries and in-route changes; instantly survey recipients; and offer to take back broken items. The retailers can offer discounts on goods shipped by alternative delivery methods. Adding these new levels of service can help close the delivery cost gap, but it will require an extensible, forward-compatible IT platform.

---

11. www.businesswire.com/news _home/20200730005922/en/

12. www.emarketer.com/content/what grocery-retailers-can-learn-from-the- past-weeks

LABOR AND DELIVERIES

The distribution center model is moving from large-and-regional to fast-and-flexible local hubs. The trend is aided by 3PLs that have increased their offerings for warehousing, packaging, and custom branding.

Leading retailers are experimenting — and finding occasional success — with newer shipping services and making delivery part of the brand's engagement with the consumer:

- Crowdsourcing, including customer drop-offs in their neighborhoods
- Employee deliveries at shift's end
- "Gig economy" contract couriers
- Non-mail center deliveries, such as at pickup/dropoff (PODU) points, lockers, or customer vehicles with smart locks
- Delivery inside the home, with the owner's permission, including to the refrigerator
- Drones
- Driverless cars

In a nutshell, despite the method of delivery, quality and customer experience must remain at the forefront. A crowdsourced driver with an old or cracked phone reflects poorly on a prestigious brand. And, a late or lost delivery can lose a customer forever.

<div style="background:red">

CASE STUDY

China's second-largest online retailer, JD.com, operates a "white glove" delivery service11. Tuxedo-clad drivers bring the luxury items to the front doors of high-end customers.[13]

</div>

13. www.scmp.com/business/china business/article/2114954/will handsome-white-gloved-delivery-men help-jd-gain-edge

REVERSE LOGISTICS

> **"Reverse logistics," or putting returned merchandise back into the supply chain, uniquely demonstrates the potential of converged, flexible retail and T&L pathways to improve efficiency and impact the bottom line.**

The volume and waste from returns is jaw-dropping. A study by Appriss Retail estimated that returns cost retailers about $369 billion in lost sales last year, or about 10% of total sales.[14] Online sales typically generate three to four times more returns than brick-and-mortar purchases. Average return but e-commerce purveyors have little choice except to indulge consumer expectations for no-questions-asked returns at the company's expense to ship back.

Accepting returns can be a difficult way to interact with consumers, even though it offers one more touchpoint to reinforce service and a brand promise. Once the merchandise is received, retailers often lose visibility of the item and how it affects their bottom line, until it is processed at the returns center.

Returns pose further risk, because they are expensive to sort and reintroduce or ship, quite apart from the high percentage of fraud and abuse. It is a complex task to determine how and whether returns may re-enter the supply chain or be recycled, donated, sent to the manufacturer, and so on.

Crucially, badly managing reverse logistics is very costly. Managing the "return and repair" process accounts for ~10% of total supply chain costs. In complex supply chains spanning countries, distribution points and channel-types, inefficient processes can reduce profits by up to 30%.[15]

---

14. www.businessinsider.com/ups-package returns-peak-warns-retailers-2019-11

15. www.chainstoreage.com/retail-recovery offering-superior-returns-experience shifting-age-retail

IMPROVING THE RETURN SERVE

Reverse logistics can benefit greatly from automation technologies and logistics strategies such as alternative T&L, stores as mini-DCs, and omnichannel stock visibility. Those retailers who have realized the value of addressing the reverse logistics supply chain are capitalizing on returns to gain new business.

For example, a Kohl's-Amazon partnership which allows Amazon shoppers to return inventory to Kohl's stores is driving customer traffic — and additional sales — to the stores, according to Kohl's executives. "It has brought new people into Kohl's who otherwise wouldn't have gone into Kohl's. And many of them buy something..."It has underscored how important a physical transaction is to some people," said Paul Gaffney, Chief Technology Officer, Kohl's.[16]

Dedicated state-of-the-art decision-making solutions are essential due to their product return evaluation expertise in the inspection of returned products. In fact, within the last few years, 16% of retailers and manufacturers have actively deployed software management systems to manage returns. These technologies have proven to reduce transportation costs, enable higher recovery of returned and excess inventory, lower labor costs, improve brand control, and allow retailers to expand their forward sales.[17]

CONSUMER REQUEST	RETAIL RESPONSE
My daughter wasn't happy with these boots from your online store.	**2010:** The website is run out of Palo Alto by a subsidiary. Mail it to them. **2020:** We'll take those. I can refund your purchase, or you can apply store credit to a replacement pair. Incidentally, we happen to be running an in-store discount on boot socks.
I paid cash here for this item and showed my loyalty card, but I can't find my store receipt.	**2010:** Depending on condition, I'm authorized to give credit for the lowest sale price in the last year. **2020:** You can step over to this electronic kiosk, or I would be happy to assist you.
These glasses arrived broken from your website. I boxed them up to send back to the distribution center.	**2010:** You'll have to go to the post office or schedule a home courier pickup. **2020:** Let me look up that transaction. I can process it right now.
I have a package at home that I need to return to your online store.	**2010:** We operate completely separately; you'd have to call them. **2020:** I can print out a prepaid barcode label for you to take with you.
I'm a member of your customer loyalty program at the website.	**2010:** We are not able to apply this sale toward your rewards or redeem them here. **2020:** Could you tap your phone at the terminal?

16. www.cnbc.com/2020/06/18/kohls-says its-tie-up-with-amazon-underscores importance-of-stores.html

17. https://info.optoro.com returnsreport2019

NEXT
STEPS

> Companies struggling to integrate logistics and omnichannel already understand that they need to find creative ways to bolster brick-and-mortar sales. However, they are usually burdened with incompatible legacy systems and isolated business units.

To achieve a truly converged retail operation — integrating store, DC, distributed logistics, and ecommerce — and leap forward competitively, technologies and processes must be in place to empower mobile workers and enable product accountability throughout the supply chain.

The change can be substantial, but opportunities are available right now for retailers and logistics operators who commit to working smarter. The transition will be easier when you are working with a proven leader that will also help you lower TCO and "future-proof" your strategies.

READY TO TAKE THE NEXT STEP?
GET IN TOUCH AT HWLL.CO/CONTACT-PRODUCTIVITY

For more information
www.honeywellaidc.com

Honeywell Safety and Productivity Solutions
9680 Old Bailes Road
Fort Mill, SC 29707
800-582-4263
www.honeywell.com

THE
FUTURE
IS
WHAT
WE
MAKE IT

—

Honeywell