SUPPLY CHAIN 2021

A complete guide to strategy transformation

RWRC BY ASCENTIAL

In association with CORE DIGITISING SUPPLY CHAINS MAERSK 4C

AT A GLANCE

The events of 2020 have been a tipping point for supply chain transformation. As a result of the global health emergency, key areas of retail supply chains have had to be re-examined, such as the need for end-to-end transparency, greater collaboration, brand purpose and sustainable credentials, the adoption of new technologies and data-driven innovation.

Retailers must now shape their strategies with a focus on breaking down silos, and building relationships with suppliers and emerging brands.

With analysis of how retailers across the globe have adapted their logistics capabilities from first to final mile in recent months, RWRC's *Supply Chain 2021* report will be the go-to resource for businesses looking to sustain growth and achieve success in new ways.

This report, produced in partnership with CORE, Maersk and 4C Associates, will reveal:

- Crucial areas of investment for retail supply chains in 2021
- How retailers and brands worldwide are rethinking their operations to meet new customer demand, cut costs and ultimately survive
- Where sustainability and collaboration fits into the mix.

This is unmissable content for those retailers serious about supply chain strategy transformation in 2021 and beyond.

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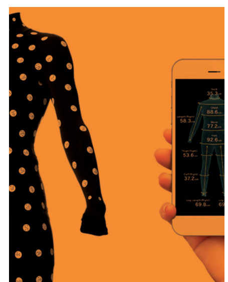

RWRC: SUPPLY CHAIN 2021

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CHIEF EXECUTIVE AND CO-FOUNDER, CORE

How can an organisation better prepare for business continuity when faced with unpredictability? It is better to prepare for a crisis rather than to react once it has arrived. Having key supply chain data on hand allows an organisation to adapt, predict and react effectively.

Digital transformation of supply chains overcomes problems associated with manual processes, inter-departmental communication and data silos, while reducing human error and unnecessary costs. Issues with purchase-order reconciliation, poor visibility and customs compliance can be resolved. Processes are automated and decision-making is transformed.

In our work with leading retailers such as George, M&S and Primark we have seen the benefits of a digitised supply chain.

Looking ahead to 2021, improving traceability and transparency of your environmental footprint will intensify. You'll need to ensure you have the capability for increased customs declarations post-Brexit and for overseas growth.

Whatever your aspirations it is critical you advance to become a synchronised organisation with a single view of data.

CORE

Retailers and suppliers around the world rely on CORE to digitise their supply chains, benefiting from our supply chain management, customs classification and sustainability solutions and services. We have delivered innovative supply chain management and visibility solutions to an extensive list of retailers.

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JEREMY SMITH

MANAGING PARTNER, 4C ASSOCIATES

The pandemic has caused many retailers to challenge what their future supply chains will look like, but they mustn't, and shouldn't, underestimate the complexity of this necessary change.

Future supply chains must be customer focused yet cost effective, agile yet resilient, all while maintaining multichannel product flow to and from the consumer. End-to-end logistics flows, retailer and supplier collaboration, ESG and digitisation are all relevant to this evolution.

However, reducing supplier and logistics complexity and risk are probably the most important factors to focus on to underpin those outcomes.

What we have seen from working with retailers is the desire to reduce linkages in the supply chain that were exposed by Covid. Moving sourcing locations closer to the consumer, improving information and product flows over longer-term, more collaborative, relationships with suppliers to reduce risk. All while optimising end-to-end cost of goods sold and cost to serve to ensure the consumer has options.

We hope this report gives you the insight into what the sector is seeing and why these issues are so relevant, now more than ever.

4C Associates

The 4C team combines extensive retail knowledge and experience with the latest process and technology innovations to provide transformative solutions and sustainable commercial and supply chain outcomes. We focus on consumer, cost and culture to empower delivery of better results. Our expertise lies in buying and ranging better through combining customer focus, data insights and commercial acumen at a pace beyond the reach of typical retail teams. We help businesses manage margin pressures and improve end-to-end supply chain processes, delivering hard hitting in-year savings.

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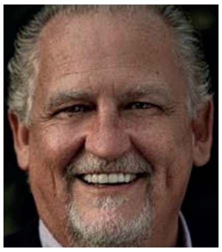
VIEWPOINTS



JEREMY HAYCOCK

MANAGING DIRECTOR, MAERSK UK & IRELAND

A retail supply chain can be something of a paradox, where flexibility and efficiency need to go hand in hand. Retail customers seek both control and partnership, accompanied by the end consumer demanding sustainability and speed, all at once.

Covid-19 has only added to this complexity – accelerating the world's reliance on ecommerce and hugely varying the speed with which goods flow.

Given this uncertainty, logistics is playing an important role in building resilient and agile businesses that can constantly adapt to change; with innovative solutions to manage the flow of inventory; digitisation initiatives (seen as essential, not a luxury); visibility that enables agile decision-making; and the effective integration of people, processes, information and different modes of transport.

Amidst all this complexity there is a big opportunity: building an omni channel presence supported by a flexible supply chain. This can help businesses adapt quickly to rapidly changing retail and consumer trends, enabling growth that both outsmarts and outlives the pandemic.

Maersk

A.P. Moller – Maersk is an integrated container logistics company. We connect and simplify logistics to help our customers grow and thrive. Our flexible suite of innovative and integrated supply chain solutions are designed to help your business adapt quickly and improve resilience. With a dedicated team of more than 80,000, operating in 130 countries, we go all the way to enable global trade for a growing world. Contact head of retail sales Neil Ashby via the email address below for more information.

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INTRODUCTION

SUPPLY CHAINS IN THE SPOTLIGHT

In the annals of history, 2020 will stand out as the year millions of people worldwide were infected by coronavirus, which – at the time of writing – has proved fatal for almost a million people globally and rising.

History textbooks will talk about the changes Covid-19 brought to everyday life; shutting down large sections of society as governments urged people to stay at home to halt the spread of the virus.

These publications will also assess the pandemic's influence and long-term impact on business.

For the retail industry, there has been a dramatic shift towards more ecommerce, fresh store formats and new procedures related to every aspect of their supply chains. What is increasingly clear for the future is that innovative supply chain management and the need to operate with a flexible business model will be prerequisites of success for the industry. If Brexit had not already accelerated the need for this transformation, the pandemic did, as supply chains creaked under the weight of unexpected online demand.

From consumer stockpiling causing supply issues in UK grocery in the spring, to reduced delivery slots because of a slowdown in warehouse operations, some fundamental retail functions have had to adapt to a new world.

At the start of 2020, many retailers were transforming their supply chain strategies to remain at the forefront of the industry – and to better serve customers.

In order to survive, retailers have now been forced to re-evaluate and fast-track their strategies, adapt their logistics and look for new partnerships to ensure they can fulfil customers' orders in the way they demand. Collaboration and transparency between retailers and suppliers has never been greater.

Some of the changes required of retailers are expensive and drastic – for instance, the clear shift to online can be margin-erosive. But as Marks & Spencer chair Archie Norman said in the retailer's 2020 annual report, "never let a good crisis go to waste".

During the pandemic there have been multiple retailers that have put those words into practice, be it through reorganising their supply chains, reshaping their business models, collaborating or trying out new innovations and ideas.

This ingenuity, graft, tough decision-making and future gazing are all key focuses of this report. Over the next five chapters, we highlight how retailers can shape their supply chains for the year ahead – from first to final mile, and with digital, sustainability and partnerships in mind – based on what the industry has learnt from an extraordinary 2020.

'Never let a good crisis go to waste' are words retailers have been putting into practice in their supply chains

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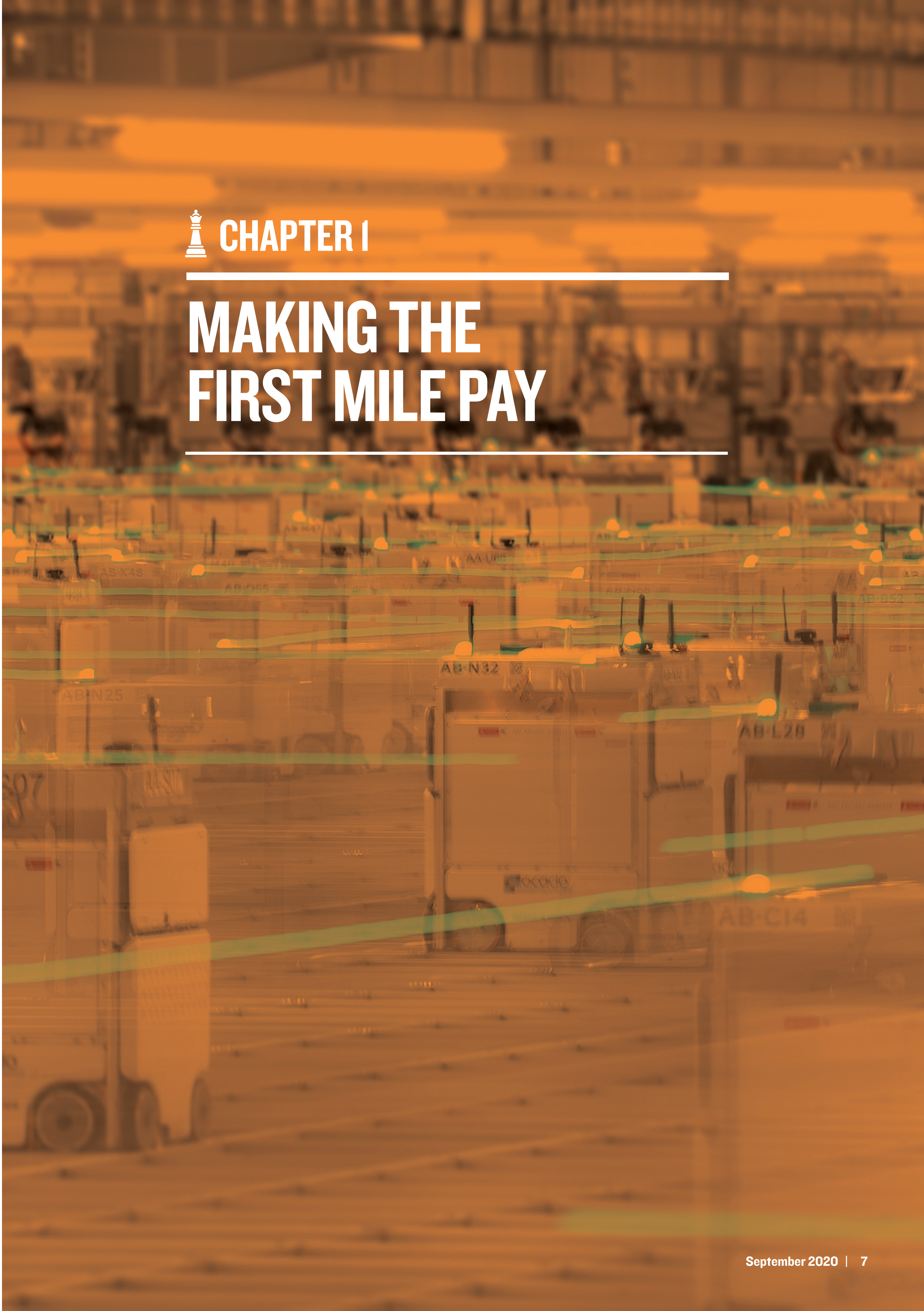

CHAPTER 1

MAKING THE FIRST MILE PAY

▲ AO.com is among the retailers that have increased warehouse space in order to fulfil demand from online shoppers

Retailers have long been obsessed with the 'last mile', but recent events such as Brexit and the coronavirus pandemic have highlighted the role of the 'first mile' in ensuring efficient, resilient supply chains. The first mile represents the journey from the point at which a consumer places an order, to the time it is picked, packed and dispatched, and retailers need many components in place along this stage of the supply chain to ensure success.

Warehouses take centre stage

Once a behind-the-scenes function for retailers, the warehouse has now become a selling point for their proposition as a means to boost efficiency, cater to surging online demand and drive innovation.

Until the pandemic struck, Amazon was offering public tours of a number of its fulfilment centres, while Chinese marketplace Tmall Global had been livestreaming brand events from its distribution facilities to drum up consumer interest in annual sales events, highlighting the new role of the warehouse as a marketable asset.

Innovation accelerated during the pandemic with Amazon launching three new sites in the UK featuring its home-built robotics technology, which aims to speed up delivery and enable the business to deal with a growing number of orders. Waitrose, Ocado, and AO.com are among the other retailers to have added new warehouse space in response to their rising online shopper demands.

The power of the warehouse industry is illustrated by shed operator Segro's recent performance. In the six months to June 30 Segro's pre-tax profit jumped 6.5% to £140m and the value of its portfolio increased 0.7% to £11.2bn, with 64% of its new developments already pre-leased, and rents and renewals up on previous years.

And while new warehouses are cropping up, these sites are running in different ways to before. Ocado's spaces are robot-heavy and use artificial intelligence (AI) to optimise their operations, while Boohoo, JD Sports and The Very Group all recently increased their use of automation in their sites to speed up fulfilment and returns processing.

Some retailers are sharing distribution space, with several major warehouse providers promoting the benefits of mixed-use and multi-occupant facilities.

The rise of urban fulfilment centres

Growing consumer demand for ecommerce is also prompting retailers to rethink their store estates – can these be used as micro-fulfilment centres to support the shift online?

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Majestic Wine temporarily closed shops to the public in the coronavirus-enforced lockdown, instead using them as mini warehouses to serve online shoppers – and there are signs this could be a more permanent move for other retailers.

Sainsbury's and Waitrose, for instance, ramped up their fulfil-from-store capabilities to serve online shoppers. Like Majestic, Sainsbury's closed some of its convenience stores to the public, made them 'dark' and used them to serve online orders, while Waitrose continues to increase the number of open stores it uses to pick local ecommerce orders.

Poundland, which is set to trial home delivery in 2021, plans to close one of its three stores in Cannock and use it as a mini-fulfilment hub to serve the online operation instead.

And this trend continues in the US. American consumer electronics retailer Best Buy is turning 25% of its shops into 'hub stores' and increasing the volume of ecommerce orders it serves to allow the business to be closer to the consumer.

Converting stores into distribution centres is also of interest to Amazon. In August it was revealed that the retail giant was in talks to convert abandoned JCPenney department stores into Amazon fulfilment centres.

Thomas O'Connor, senior research director at global analyst group Gartner, says the breadth of retailers trying this type of model proves it is a trend the industry should leverage in 2021.

"Amazon's new Fresh store in Los Angeles is the leading example of driving new innovation in grocery and it has a micro-fulfilment site in the shop – so that speaks a lot to the potential," he notes.

Just in time becomes just in case

Maersk's Haycock says the big shift this year in usage of warehouse space and in thinking around local fulfilment is due to a move from 'just in time' to 'just in case' supply chains

"Covid-19 and Brexit have focused our customers' minds to ensure products are available outside of usual demand profiles and seasonality, generating a need for 'just in case' strategies in support of existing supply chains and distribution facilities.

"We're seeing this take the form of 'distribution centre bypass' solutions, where interest is growing, or 'intelligent' stock-building at distribution centre shared user warehouse facilities. These options depressurise retailers' existing distribution and fulfilment centres enabling them to continue servicing stores and end consumers while providing additional fast-track channels if required."

> **Retailers are rethinking their store estates – can these be used as micro-fulfilment centres?**

▼ Ocado's warehouse spaces are robot-heavy and use AI to optimise operations

Moving goods with the times

There has been a greater need for retailers to make their sourcing and supplier bases more resilient, with plenty of examples of retailers taking more control of their distribution networks.

As a direct result of the pandemic, The Hut Group launched its own air cargo service to ensure its goods could continue to be sent internationally. Meanwhile, Card Factory announced it would be bucking the near-sourcing trend by reducing its reliance on overseas production and building more in-house manufacturing capability in the UK to provide more flexibility and speed to its supply chain.

▲ The Hut Group launched an air cargo service to ensure its goods could reach international markets

In grocery, the process of growing produce in vertical stacks – often in a controlled indoor environment known as vertical farming – is being tested by Ocado near its warehouses, and within Marks & Spencer and Selfridges stores. It is viewed as an urban method of food production that ensures goods are grown closer to where they are being sold, thus enhancing freshness and sustainability credentials.

Discussing the macro environment behind many of these new supply chain developments, OC&C Strategy Consultants senior adviser Michael Jary says the long period of retailers driving growth through extended supply chains into low-cost sourcing regions such as China is coming to an end.

"It's increasingly difficult to justify the economics and the cost differential versus sourcing from home is narrowing," he notes, adding the risk of lengthy supply chains has become more apparent, particularly due to Covid-19.

4C Associates managing partner Jeremy Smith agrees and says it is "seeing a strong desire among retail customers to nearshore or onshore more of their sourcing locations, with the twin threats of Covid and Brexit meaning uncertainty is at its highest. Retailers believe the best way to mitigate this uncertainty is to bring more of the potential problems closer to their consumers to reduce the impact from their supply chains, until more is known. This means that there are likely to be fewer, but closer buyer–supplier relationships of shorter, less complex supply chains."

Jary continues: "Unquestionably, we're going to see retail stop importing deflation, and supply chains shortening and moving closer to demand. Not everything is going onshore, but a greater proportion is going to be sourced from places closer to that demand."

Margins in retail are tight, so such moves might necessitate price rises for consumers in the near term, according to Jary, which is not ideal in a recessionary environment. But with Brexit and the pandemic underlining the fragility of the 'just-in-time' supply chains retailers have built in recent years, proactive companies aren't standing still.

Multiple supply options are now required to provide shoppers with choice and service.

Indeed, local and urban fulfilment look set to become more prominent for retailers of all types in the year ahead. A Barclays study of 300 retail executives carried out in July 2020 found 27% are moving to suppliers based closer to home, 28% plan to do more to support local communities and 20% think the future of retail is in local high streets rather than city centres.

In April, chief supply chain officer at Asda Mark Simpson said "local shopping and localism will come to the fore again". Talking on a Retail Week virtual panel session, run in association with Maersk, he said Asda is doing more work with local supply chains in preparation.

> "We're seeing a strong desire among retailers to **onshore** more of their sourcing locations"
>
> Jeremy Smith, 4C Associates

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GETTING BREXIT-READY

With the UK's transition period after leaving the European Union set to end on December 31, retailers must be ready for new cross-border trading conditions and to adapt to potential supply chain disruption.

"We've had this drill twice already," notes Jary, referencing the multiple Brexit delays caused by stalled negotiations on terms.

"What we've seen in the past is retailers building a significant domestic stockpile in order to protect supply chain disruption. I suspect we'll see the same again unless there's an earlier breakthrough in negotiations."

The EU is going to apply the common external tariff to exports from the UK to the EU, and there will be some degree of inspection because there will no longer be European single market assurance. Delays at ports and the development of lorry parks in the south of England seems a likely consequence.

> I suspect we'll see domestic **stockpiling** to protect supply chain disruption
>
> **Michael Jary, OC&C Strategy Consultants**

"If lorries and drivers are delayed going out, they'll be delayed coming back in again," explains Jary.

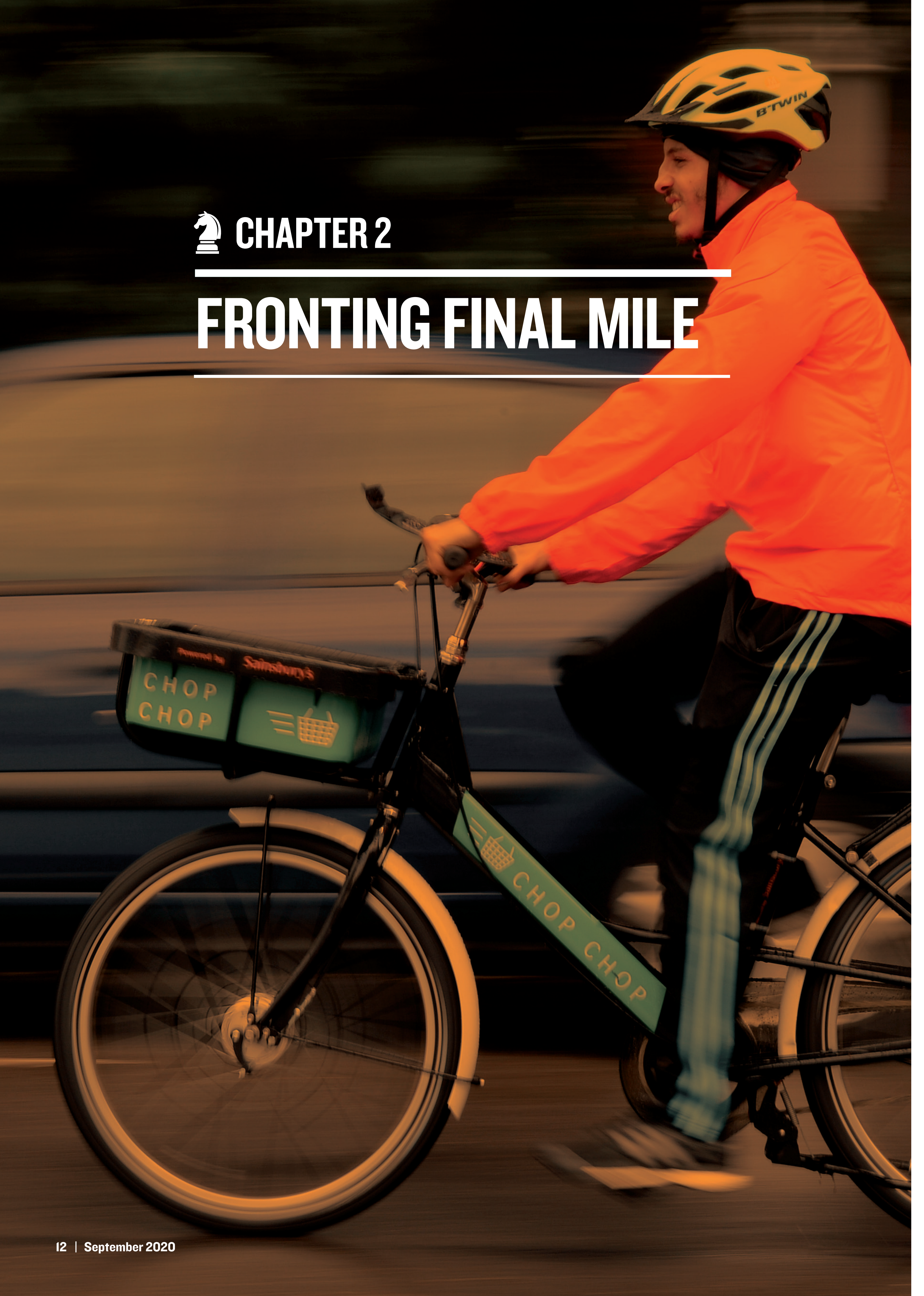
"Retailers don't bear a risk as direct as certain exporters, but as importers of product they are highly vulnerable to disruption across the complicated logistics link of the short strait between Calais and Dover, and they'll stockpile against that."

Retailers may also look to alternative supply routes but that may incur further costs.

Short of an official UK trade agreement with the EU, retailers should monitor the government's documentation on how to trade under World Trade Organization rules. A key supply chain consideration for retailers is whether haulier drivers have the correct documentation to drive in the EU, as special permits and insurance may be required.

The right paperwork will be crucial from the new year for EU citizen staff working in the UK, as well as contracts, licences and declarations. Retailers must get familiar with international commercial terms – also known as Incoterms – to ensure suitable importers–exporters terms are in place.

British fashion retailers with international customers, including Joules, and Berghaus and Speedo parent company Pentland Brands, are among the retailers establishing bonded warehouses in the UK as a Brexit mitigation manoeuvre. Such facilities enable the storage of goods closer to the international markets for which they are destined, with delayed customs duties.



CHAPTER 2

FRONTING FINAL MILE

Similarly to the first mile, the pandemic has forced retailers to step up their final-mile logistics to meet customer demand and keep a handle on costs.

By 'final mile', we mean the period when the product has left where it was stored and is en route to the customer's chosen point of delivery or collection.

Much of what we've seen in 2020 so far is an acceleration of pre-pandemic plans, particularly in terms of growing online as a percentage of total sales, but there are examples of a radical new direction in final-mile fulfilment.

'Contactless delivery' became the lockdown buzz phrase for many carriers, and with uncertainty around how the coronavirus will impact business and consumers for the foreseeable future it is set to stay.

Many retailers continue to leave products on doorsteps or hand over goods with extra packaging, while delivery workers are taking photographs of customers next to their packages to confirm fulfilment.

During the height of the pandemic consumers accepted longer lead times for parcel deliveries as standard given that health and safety restrictions in many retail warehouses impeded delivery volumes.

Retailers will not be quick to revert to costly same- and next-day fulfilment if they can ensure consumers are happy to wait longer – and, regardless, they will continue to be restricted by Covid-19 prevention measures.

Gartner's O'Connor says retailers were starting to think "do we really need to be fastest?" before the pandemic took hold.

"Our data shows in 2018-19 there was actually a decrease in the number of brands offering same-, next- and two-day delivery," he explains, adding there has been a shift to more certainty and greater communication rather than focusing on "absolute speed".

The annual Gartner study of around 65 retailers has run since 2016, and the number of retailers using rapid delivery grew every year until 2019 when it dropped.

"Retailers have to think about what offerings there are in the market versus what they can actually serve, and what is the profitability of these offerings," O'Connor adds.

▲ Timberland has committed to planting 50 million trees by 2025 in a bid to encourage sustainable decisions from customers such as opting for longer lead times

Introducing longer lead times can also be motivated by a desire to become a more sustainable business. In 2019 shoe brand Timberland committed to planting 50 million trees by 2025, as part of a wider scheme encouraging shoppers to make more sustainable purchasing decisions, such as settling for long lead times. This 'if you help us, we'll be greener' mantra is likely to resonate with an increasingly eco-conscious consumer – a trend discussed in greater detail in chapter five.

> "Retailers have to think about what offerings there are in the market versus what they can actually serve"
>
> Thomas O'Connor, Gartner

Retailers racing to the finish line

Despite slowing its services during the pandemic in line with health and safety guidance, Amazon is not taking its foot off the accelerator in the long term.

Morrisons teamed up with Amazon to sell its full grocery range through Amazon.co.uk and take advantage of the associated speedy logistics, while Amazon's own grocery concept Fresh is rolling out across the UK. Amazon Fresh's selling points are speed and no additional delivery cost for those signed up to its Prime membership.

Sainsbury's also increased the number of its stores offering Chop Chop delivery during the pandemic to 50 across 20 UK cities. The retailer's staff pick orders – up to 20 items per customer – before cycling the goods to consumers' homes within an hour.

Retail and digital director at Sainsbury's Clodagh Moriarty says customers using the service are "valuing the speed and convenience it brings".

The Co-op has recently expanded its robot delivery service in and around Milton Keynes to help meet more online demand for its groceries. In September it unveiled a new zero-emission partnership with Pinga, a delivery service in east London that allows customers to order and receive goods from local shops within 90 minutes by foot, bicycle or electric scooter.

The Co-op's head of online development Jason Perry says: "We continue to innovate and expand access to our products, getting closer to our members and customers with ease, speed, quality and choice locally to meet the needs of communities."

Efforts to prise consumers away from rapid delivery will not be easy, it would seem. The IMRG-Metapack UK Delivery Index suggested next- and specified-day delivery were the most popular options in 2019, covering 56.6% of all UK orders, excluding cross-border.

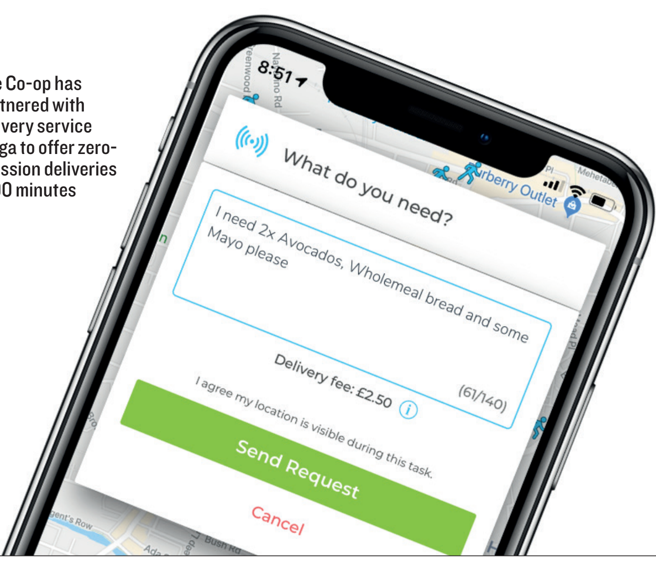
Fast forward to 2020 and a Retail Week study of 1,000 consumers conducted in June found that 28% of shoppers now expect next-day home delivery as standard. This is particularly interesting when you compare it with Gartner's study findings that fewer retailers are offering next-day delivery, suggesting that while consumers increasingly want it retailers aren't meeting that need.

Clicking into shape

Outside of home delivery, click-and-collect options are also diversifying and will become key for supply chain strategies in 2021.

Kingfisher, Dixons Carphone, Marks & Spencer and Dunelm were among the retailers to introduce drive-thru click-and-collect services as a way of maintaining a contactless process during the pandemic.

28% of shoppers now expect next-day delivery as standard



▶ The Co-op has partnered with delivery service Pinga to offer zero-emission deliveries in 90 minutes

▼ Sainsbury's recently increased the number of stores offering one-hour bicycle-couriered Chop Chop deliveries

Indeed, click and collect in general came to the fore in the pandemic, with businesses including Costa Coffee, Starbucks, and Halfords adapting some of their store estates into collection hubs for online orders.

Many of these initiatives will have longevity, too. Toolstation, which operated click-and-collect stores during the pandemic, is exploring ways it can open more permanent shops in this format.

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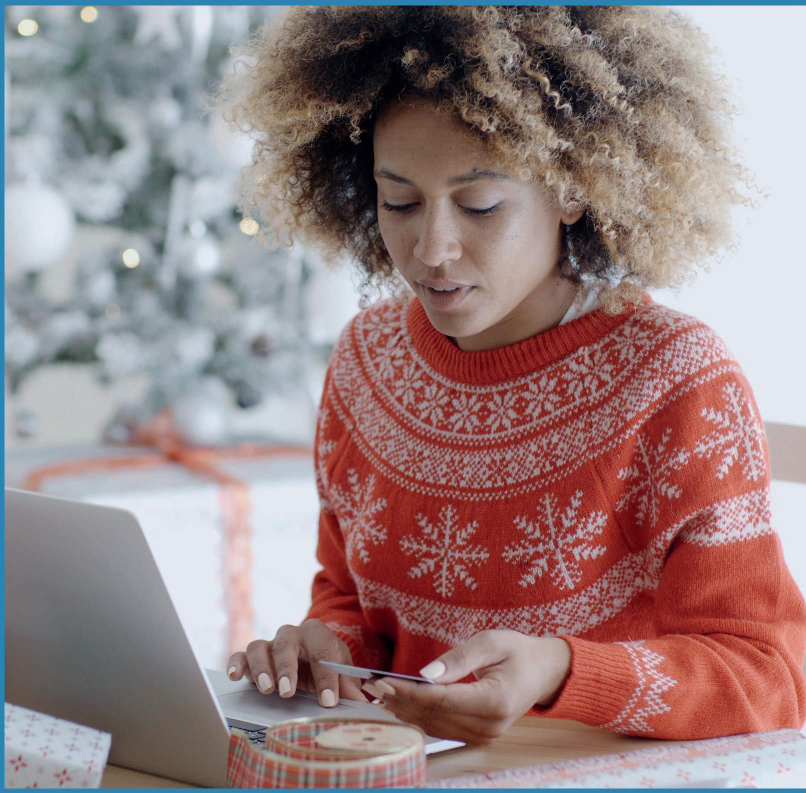
How to deliver an online Christmas



In the short term retailers must find ways of reworking their ecommerce operations to make money this Christmas.

The costs of selling online, from the acquisition of customers in the first place to fulfilling those customers' orders, are already high – even for pureplays, which are set up for this operating model.

And with online demand set to rise further over the Christmas period – Retail Week research from June found that 53% of consumers are more likely to shop online despite stores being open – retailers are going to have to work even harder to drive costs down while meeting customer delivery expectations.

So where can retailers make easy wins? Here are five recommendations:

1 CONTACT YOUR SUPPLIERS AND MANAGE RELATIONSHIPS CAREFULLY

The online peak accelerated by the pandemic has shown that retailers need to ensure inventory will be available to fulfil customer orders. Retailers need to be in constant communication with their suppliers in the run-up to Christmas to identify potential inventory problems.

4C Associates' Smith says the pressure Covid has put on supply chains to reduce complexity and secure stock relies upon suppliers seeing businesses as their customer of choice. "How many retailers can be sure they're currently treating their suppliers in a way that gives them that title?" he says.

2 CONSIDER DISTRIBUTION OPTIONS

The Golden Quarter peak is likely to cause more disruption – notwithstanding rumours of a second round of store closures given the UK government's recent introduction of new Covid restrictions and talk of a 'second lockdown'. Retailers should ask themselves whether it would make sense to place some inventory now at fulfilment centres that are near customers.

3 GET A SPECIALIST LOGISTICS PARTNER ON BOARD

Speaking to Retail Week in August, Superdry chair Peter Williams said that logistics specialists have such scale and expertise that it is logical for most retailers to team up with a specialist partner. This can also help retailers serve customers that want later next-day delivery cut-offs over the Golden Quarter. Specialist fulfilment companies are also more likely to be able to spend on automation to help increase capabilities.

4 TEAM UP WITH A PLATFORM BUSINESS OR MARKETPLACE TO LOOK AFTER DELIVERY AT SCALE

The distribution and fulfilment offered by platform businesses has led many established retailers to team up with them – whether retail giants in their own right such as Alibaba or Amazon, or dedicated technology platforms such as Ocado and Shopify.

5 FOCUS ON THE STORE

This might sound counter-intuitive, but stores may yet become a more vital component of the ecommerce offer than ever before this Christmas, especially if they are more effectively positioned within the retail ecosystem. "There are opportunities for retailers to capitalise on click-and-collect services in store," says NBK Retail consultant Natalie Berg.

And, should a second UK lockdown be introduced over the Christmas period, retailers can use their closed/vacant stores as mini-fulfilment centres to reach customers in urban areas more efficiently.

STEMMING THE RETURNS AVALANCHE

The 'final mile' is perhaps a supply chain misnomer. It is only 'final' if the product is not returned, and with returns on the rise in the UK over the past few years reverse logistics has become a huge factor for retailers to consider.

Research in May from buy now, pay later payments provider Openpay estimated items bought online and returned in the UK are worth £5.2bn annually, and it argued the coronavirus crisis would exacerbate the problem as many businesses extended their returns windows.

> "Returns in the UK are worth **£5.2bn** annually"

The rise of online retail goes hand in hand with increased returns because consumers cannot see or try before they buy. However, bricks-and-mortar retailers dealing with social distancing and increased health and safety measures also have restrictions on fitting rooms, further fuelling uncertainty in purchasing decisions – particularly fashion.

In the aftermath of the pandemic, it will be crucial that retailers act to tackle the increasing volume of returns and keep the spiralling cost of processing them down. There are signs that some are.

Women's fashion etailer Sosandar is one of a limited number of retailers that regularly publicises its returns rate. It was at 50% for the 12 months to March 31, but in the first quarter of the new financial year it dropped to 38%.

Sosandar attributed the improvement to its product mix, and a shift in customer behaviour across all categories. Indeed, Asos also reported "a significant and sustained reduction in returns rates" between April and August, saying customer demand for 'lockdown' categories, such as activewear and face and body, helped bring the figure down as customers were more certain in their purchasing decisions.

Asos spoke of "a prolonged shift in customer behaviour towards more deliberate purchasing across all product categories, even when sales momentum has improved", hinting at long-term improvement in this field.

There is no silver bullet that can fix the returns problem – it will be up to individual retailers to tackle the issue in their own ways. Next, for example, charges a small fee if consumers want to return items. In the US, Kohl's ended its long-standing 'no returns deadline' policy in 2019 and instead now urges consumers to send or bring back items within 180 days.

As the Covid-19 crisis escalated, Walmart was one notable example of a retailer that only accepted returns online, refusing to take back many items in its stores as a health and safety measure, and while it reorganised its customer service team in the pandemic. Most states are now offering standard returns policies again, but the move shows how operations are severely impacted by inbound goods.

▼ Bloomingdale's fits popular products with a 'B-Tag' – once removed the item cannot be returned

The problem of returns is not new, and has been challenging retailers for many years. However, there are more quirky solutions that other businesses could take inspiration from.

Since 2013, US department store chain Bloomingdale's has sold some of its most popular ranges with a 'B-Tag' security label still attached. The tag works by allowing the customer to press the 'B' button on the tag to remove it, but once removed it cannot be re-attached. In an attempt to stop people wearing items once or twice and returning them for a refund, the retailer refuses to process returns if the label has been removed by the customer.

CHAPTER 3

THE RISE OF DIGITISED SUPPLY NETWORKS

▲ Etailers such as Amazon have recently been using AI tech to maintain social distancing in warehouses

There are so many variables that affect both demand and supply for decision-makers in the supply chain that it is becoming increasingly difficult to handle this manually.

Analyst group Retail Systems Research (RSR) claims the most successful global retailers are recognising how next-generation technologies – such as digital twins (a digital replica of a physical process or person), artificial intelligence (AI) and machine learning – will keep them ahead of the game.

A 2020 RSR report, produced in conjunction with software firm Llamasoft, found 56% of those it classed as 'retail winners' already use technology to model contingency plans for severe supply chain interruptions, while only 31% of underperformers do the same. Attitude to technology is a key differential between success and underperformance, it appears.

> “Top-performing retailers place more importance on the ability of **next-gen tech** to improve their operations”

According to RSR, retail winners place more importance on the ability of next-gen tech to improve their existing operations, with more than 50% identifying high value potential in every use case – from demand forecasting (80%) to last-mile delivery optimisation (67%).

So, what's actually taking place in the field and where should retailers be placing their bets in 2021? Artificial intelligence is one area of particular focus.

Retailers eyeing up AI

Amazon reports using AI to help maintain social distancing in warehouses, H&M and Carrefour are using it to improve inventory optimisation, and Walmart introduced an AI-enabled last-mile routing delivery mechanism during the pandemic to support growth in its online business.

Walmart's Express Delivery, which launched in 2020 to get products to chain. What was once an expensive piece of tech to introduce is now more affordable and seemingly suitable for modern commerce.

AI, though, in particular, seems to be the next-gen tech no longer for the future, but one quickly emerging as a must-have capability in today's retail supply chain.

Gartner's O'Connor says: "We conduct an annual survey of chief supply chain officers and within the retail segment of that we ask questions about different types of tech.

"The top response in terms of what's disruptive and important is AI. And when we interview CEOs, they say the same thing – it's clearly the number one thing that retail businesses see as being as disruptive to the future of their organisations."

Blockchain bedding down

While AI is the tech innovation retailers pinpoint as most crucial for their supply chain strategies right now, there are other emerging technologies to keep tabs on.

O'Connor says blockchain – defined as a modernisation of inventory visibility for a business, especially in grocery where it's being primarily used – is not yet a priority, with just 8% of retail supply chain officers describing it as disruptive and important today, according to Gartner.

"That's not to say it's not going to happen – but the difficulty is in landing the plane when it comes to blockchain because of the diversity and sheer breadth of it," O'Connor explains.

"Retailers leading in blockchain are more grocery oriented, where companies are thinking about how they can show freshness."

Tech titan IBM is one business looking to advance blockchain's role in the global supply chain, bringing parts of the industry together to create united networks. One

In association with CORE MAERSK 4C

such initiative, IBM Food Trust, brings companies like Kroger, Nestlé and Carrefour together to provide end-to-end supply chain visibility of food.

But IBM is also quickly growing its TradeLens blockchain platform, a venture in association with Maersk, that encourages organisations to share shipping data and thus improve the tracking of goods across territories. Freight-forwarding companies, international ports and airports are among those to sign up in 2020.

> Businesses making **new investments** report the strongest financial performance

Tech for the fundamentals

Digitising the supply chain does not solely revolve around artificial intelligence (AI), radio-frequency identification (RFID) and blockchain. Mixed-reality headsets in the manufacturing process – including car maker Volvo using the tech to evaluate safety features and design – and in warehouse picking, where several experiments have taken place in recent years, point the way to future innovation.

Likewise, digital sampling – technology used in the garment design process that creates 3D digital renders of garments and materials as opposed to using traditional physical cut-off – is revolutionising the buying and design components of the fashion supply chain.

Levi's, for instance, started doing this on a larger scale in 2020. Levi's is able to sell to merchants from images rather than using physical samples and this policy is reportedly driving business improvements.

And some more straightforward technological changes can make a big difference, too.

Digitising invoicing and other administrative processes can ensure issues such as purchase order queries are resolved quickly and payments are made efficiently, while also helping organisations stay alert to fraud, and customs duties and tax requirements.

Research from the Chartered Institute of Procurement & Supply and the University of Melbourne, published in 2019, highlighted 11 digitalisation technologies that have the power to drive real change in the supply chain.

These were 3D printing, AI, augmented reality (AR), big data, cloud computing, IoT, omnichannel, RFID, robotics, sensor technology and simulation.

Specifically for procurement, it talked up big data's capability to better support real-time decision-making.

"This technology supports analysis of massive data sets such as contracts, expenses, project portfolios, performance measurement and virtual machine system data, and combines them to manage complex outsourcing and supply chain operations efficiently," the report notes.

It continues: "Implementing big data can support running enquiries faster, predicting demands accurately to solve sourcing challenges and potentially reducing operational costs."

While these digital innovations often require large upfront investment in the early stages, the long-term gain for retailers makes the pay-off worth it. A 2018 report from professional services company Accenture found only 6% of corporate businesses were generating a significant proportion of their income from new investments. However, this same 6% reported the strongest financial performance of all 1,440 companies Accenture surveyed.

▼ Levi's creates 3D digital renders of garments and materials for merchants in a move that is revolutionising the fashion supply chain

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CHAPTER 4

COLLABORATION IS KING

► M&S recently replaced Waitrose as Ocado's primary groceries supplier

Marks & Spencer replacing Waitrose as the primary food and groceries supplier to Ocado is one of the standout supply chain stories of 2020.

M&S paid £750m to take a 50% stake in Ocado Retail, creating a joint venture that elevates the former's previously limited online food business. The partnership officially started on September 1 and M&S Food managing director Stuart Machin said the deal was "transformational" for the company.

Thanks to the deal, the M&S Food range of 6,000 products and 800 M&S clothing and home lines have been brought together online for the first time, adding to Ocado Retail's 50,000 products.

One party is bringing the food product expertise, the other the technology prowess, with every order packed in one of three distribution centres using sophisticated tech, before being delivered via Ocado vans from regional spokes.

It is one example of how retailers are opting to collaborate to strengthen their operations, and is part of a growing industry trend for businesses to play to their strengths and seek support from third parties when necessary.

Elsewhere, Sainsbury's is ramping up its wholesale business – selling through new channels such as WHSmith's hospital stores and Dobbies Garden Centres – while John Lewis has partnered with the Co-op so that items can now be ordered online and collected at Co-op stores across the UK.

Outside of the UK collaboration is also taking on new meaning for retailers looking to streamline their delivery while helping the environment.

For example, Japan's three biggest retailers – 7-Eleven, Family Mart and Lawson – have been experimenting with a joint delivery service to mitigate a shortage of delivery drivers in the country while also reducing the number of vans on the road by up to 30%. The collaboration – which launched in August as a one-week pilot – was deemed a "big turning point" by Japanese critics as the three brands had always worked in silos up until then.

On-demand apps gain favour

Having split from Ocado, Waitrose is seeking new ways of growing online. In September it embarked on a trial with Deliveroo, making more than 500 products available to those using the delivery app.

Waitrose executive director James Bailey said the trial has "huge potential to give new and existing customers greater choice and flexibility for when and how they want to shop".

Since the coronavirus hit UK shores, there have been a flurry of partnerships established between retailers and on-demand apps in response to the new pandemic-influenced consumer environment.

Asda, Caffè Nero, Co-op, Costa Coffee, Holland & Barrett, M&S, and Morrisons were among those to either strengthen or spark relationships with Deliveroo or rivals such as Uber Eats and Just Eat. The thinking here was to speed up fulfilment to consumers in the health emergency or to fast-track their online delivery development – and many of the tie-ups have remained in place showing they have value and aren't fly-by-night strategies.

Commenting on his grocer's Deliveroo service from 130 stores, covering 70 product ranges that are biked to customers' homes in as little as 30 minutes, Morrisons chief executive David Potts said: "It's a great combination of traditional and modern methods, and it will provide more vulnerable people with the opportunity to receive their home delivery."

The pandemic has certainly shown that retailers must collaborate and partner to achieve a customer-centric and cost-efficient supply chain – but, in some cases, these collaborations have seemingly been necessary for survival.

Following an in-depth investigation into Amazon's proposed investment in Deliveroo, which started in 2019, the Competition and Markets Authority (CMA) gave the green light for the former to take an influential stake in the latter. The watchdog said the impact of the coronavirus could mean Deliveroo would "not be able to meet its financial commitments and would have to exit the market" without Amazon's input.

Will the CMA's Amazon–Deliveroo deal decision set a precedent for more M&A and investment opportunities involving rival retailers and brands? If the CMA is consistent following its judgement on this case, collaboration in the retail supply chain will continue as a matter of business survival in 2021 and beyond.

▼ Following its split from Ocado, Waitrose has partnered with Deliveroo in order to reach more customers

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CHAPTER 5

SUSTAINABLE SUPPLY CHAINS

▲ Retailers were asked to carefully consider the impact on workers before cancelling orders

The events of the past 10 months have shown that retailers must consider ethics and sustainability, and not just profits, when it comes to supply chains.

Supplier relationships are increasingly important to consumers when choosing where to shop. New YouGov data reveals that 31% of people have stopped buying clothes from a brand because of poor working conditions and exploitation in factories. Women are more likely to vote with their wallet, with 35% having stopped buying from an apparel company.

31% of consumers stopped buying clothes from a brand due to poor working conditions

These green consumer expectations are matched by supplier demands. In April, a joint statement from several manufacturing associations in Asia, from which much of the fashion industry sources its goods, called on retailers to think about the wider supply chain as they mapped out pandemic response plans.

"It is time for global businesses to uphold and honour their commitment to labour rights, social responsibility and sustainable supply chains," said the statement, which was signed by organisations such as Bangladesh Garment Manufacturers & Exporters Association (BGMEA) and the Pakistan Textile Exporters Association.

The groups called on global brands to "carefully consider all potential impacts on workers and small businesses in the supply chain when making significant purchasing decisions", with BGMEA president Dr Rubana Huq saying the pandemic would potentially lead to millions of workers "literally going hungry" if buying activity dried up.

However, fashion giants including Arcadia, Asda, Debenhams and New Look cancelled an estimated £2.5bn in clothing orders from suppliers in Bangladesh.

And after initially cancelling all orders as the coronavirus-enforced lockdown took hold, Primark made several commitments to paying textiles suppliers in full for all work incurred after the retailer's stores temporarily closed down.

In July, Primark placed £1.2bn of new orders as stores reopened again, but chief executive Paul Marchant explained the difficult situation retailers like his found themselves in.

Cancelling orders "was one of the toughest decisions we have ever had to take", he said, adding: "The reality is that we need a healthy, thriving retail environment to underpin a healthy, thriving garment supply chain. This, in turn, will protect the jobs of the millions who work across our industry."

Meanwhile, in grocery, where sales soared during lockdown, several retailers were commended for supplier relationship management. Morrisons, for example, committed to immediate payment to smaller suppliers between March and September, recognising their need for consistent cash flow in a challenging economy.

Many small suppliers experienced lengthened payment terms as their big clients insulated themselves from Covid-19. Federation of Small Businesses national chair Mike Cherry said of Morrisons: "This is what good business looks like in these unprecedented times."

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▲ Asos requires third-party brands to adhere to a list of commitments outlined in its Transparency Pledge

43% of consumers say they'd be less likely to shop with a retailer that didn't pay suppliers during the pandemic

How the tables are turning

The focus on the importance of ethics in the supply chain may have intensified during the pandemic, but it's an area of long-running concern. Boohoo and Quiz are the latest fast-fashion companies under the microscope, with both conducting investigations into their UK supplier base following allegations of malpractice and low payment.

In August, Asos published four new commitments required of third-party brands as part of the Transparency Pledge, which is led by human rights charities. Those working with the retailer must map out all parts of their UK textile supply chain, identify risks, join the Fast Forward auditing programme and continue to disclose the manufacturing sites they use.

The Ethical Trading Initiative monitors retail supply chains in accordance with an ethical code. Its apparel and textiles programme lead Nigel Venes says consumer pressure is an important driver of improvements in ethical standards in the textiles industry.

This is enforced by Retail Week data from June which found that of 1,000 consumer surveyed, 43% would be less likely to shop with a retailer that didn't pay its suppliers during the pandemic.

However, what consumers say and do is very different. Venes argues that in the depressed economy the UK currently finds itself in, affordable goods will continue to be a key purchasing factor above all else.

"It's a massive challenge for the consumer to understand," he says.

"The question is no longer 'where was the product made?' – it's a case of how was it made and who's involved in that process? And that's much more difficult to determine."

Venes has called on the government to create a framework of good working practices, which ethical companies can align to. He says it then involves corporate and community governance to help create real, lasting change.

> **Through our sustainability platform Leaf, we have helped our customers understand their environmental impact by collecting supply chain data from suppliers, farms and mills. We combine this with data from environmental organisations to produce their unique environmental footprint. This has helped our customers become signatories to sustainable initiatives, enabling them to share their commitment and progress in a more public and open way. – CORE**

▲ Primark launched a recycling clothing programme in July to help curb the impact of textile waste

Green supply

Despite the focus of retailers' attention turning to Covid-19 in 2020, many larger players have not lost sight of the environmental issues topping the agenda.

Ikea parent company Ingka Group said in September it is committed to investing €600m more into companies, solutions and its own operations over the next year – all with the aim of having a direct impact towards the Paris Agreement and the UN Sustainable Development Goals.

Juvencio Maeztu, deputy chief executive and chief financial officer of Ingka Group, says: "We believe it's good business to be a good business."

Kingfisher announced in August a Responsible Business plan, which includes an aspiration to create more forests than it uses by delivering 100% responsibly sourced wood and paper in all products it sells by 2025, and supporting reforestation projects.

Remanufacturing is making a resurgence, too, with footwear retailer Vivobarefoot launching its own repair and resell service alongside larger players such as Selfridges and H&M, which have put 'circular economy' techniques at the heart of their operations.

▲ Selfridges recently launched Project Earth, putting repair, resell, refill and rental at the heart of its strategy (see storefront on page 23)

In August Selfridges launched Project Earth, a campaign pledging to "ensure the most environmentally impactful materials used throughout the business come from certified, sustainable sources by 2025". It is embarking on initiatives that put repair, resell, refill and rental at the heart of what it does, and educating consumers on the green agenda.

Primark has also entered the fore, launching a recycling clothing programme in July to help curb the impact of textile waste on the environment. Customers can make donations to a collection box in store and all items will be reused, recycled or repurposed with any profits from the scheme going to Unicef.

OC&C's Jary suggests the UK government will "become more muscular" in demanding corporations take responsibility for their environmental footprint, adding that the pandemic has shown it has more power to enforce change than it may have realised.

"The government has recognised it has the power and responsibility to set the rules in a way they were perhaps previously concerned about," he explains.

"There's no doubt retailer compliance here is a necessity – the rules will change and I think consumer demand will change. Retailers need to be on the front foot."

If Jary's comments ring true, the wider retail industry should be preparing to follow suit – not just for social good, but as a matter of legal obligation.

> It's **good** business to be a **good** business
>
> Juvencio Maeztu, Ikea parent company Ingka Group

FIVE SUPPLY CHAIN PRIORITIES FOR 2021

1 MAKE YOUR SOURCING, SUPPLY BASE AND WAREHOUSING AS AGILE AS POSSIBLE

From diversifying manufacturing, expanding distribution networks and investing in urban fulfilment centres, this report reinforces that retailers must make their first mile pay in 2021.

2 DIGITISE YOUR SUPPLY CHAIN

Retailers that apply technology such as AI and blockchain are more likely to gain a competitive advantage through more transparent, agile and predictable service delivery, which lowers costs and enhances customer experience.

3 TAKE ACTION ON RETURNS

Returns logistics is now a £5.2bn problem for the sector – and it's getting worse. Return fees, longer lead times and tags like those implemented by Bloomingdale's are among the solutions that can be explored.

4 STOP, COLLABORATE AND LISTEN

In 2020, a smorgasbord of businesses entered into new collaborations and partnerships to achieve a customer-centric and cost-efficient supply chain. In 2021, it's time more retailers followed their lead.

5 GET SERIOUS ABOUT SUSTAINABILITY

The backlash against retailers that failed to prioritise ethics and sustainability during the coronavirus outbreak has been immense. While pursuing sustainable credentials is not just a moral obligation, the data speaks for itself: consumers want to buy from ethical and sustainable brands.

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