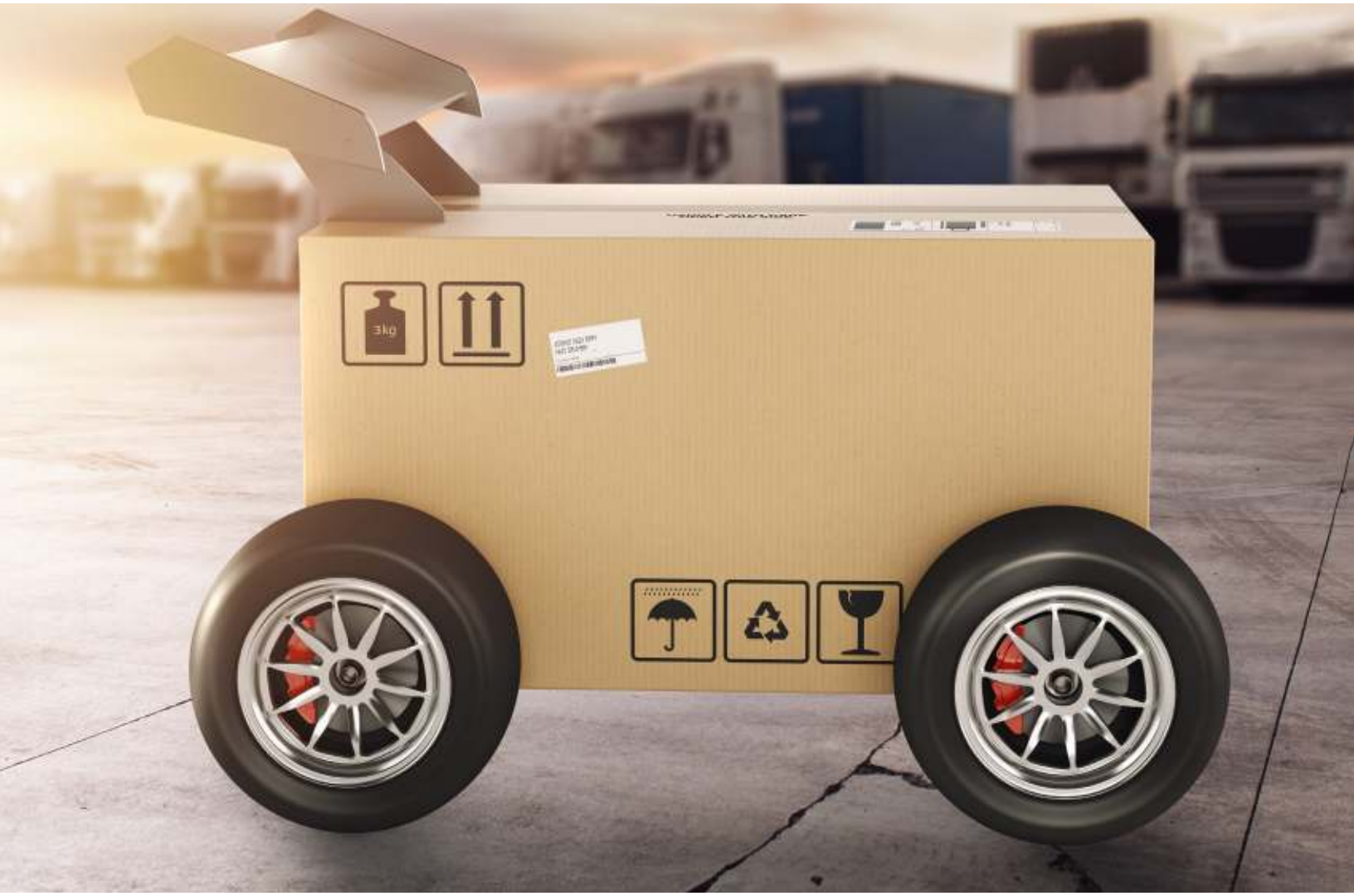
Managing the Risk of Racing Amazon

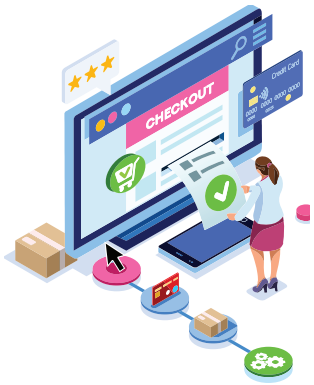
Retailers and manufacturers can effectively tackle the biggest red flags that slow e-commerce and make the strategic, financial, and operational decisions that help advance their companies in today's booming e-commerce environment.



TransportationInsight®

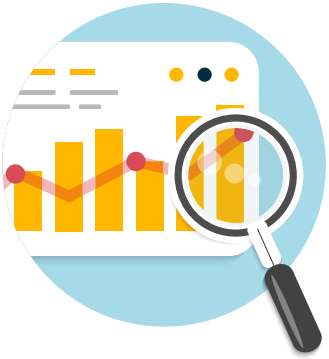
E-Commerce is Booming

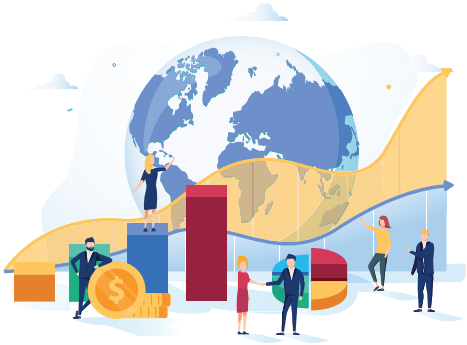
As e-commerce sales continue to skyrocket, the challenges associated with this channel are growing exponentially.



U.S. consumers spent $517.6 billion online in 2018, up 15% over the prior year.

E-commerce represented 51.9% of all retail sales growth during that period.





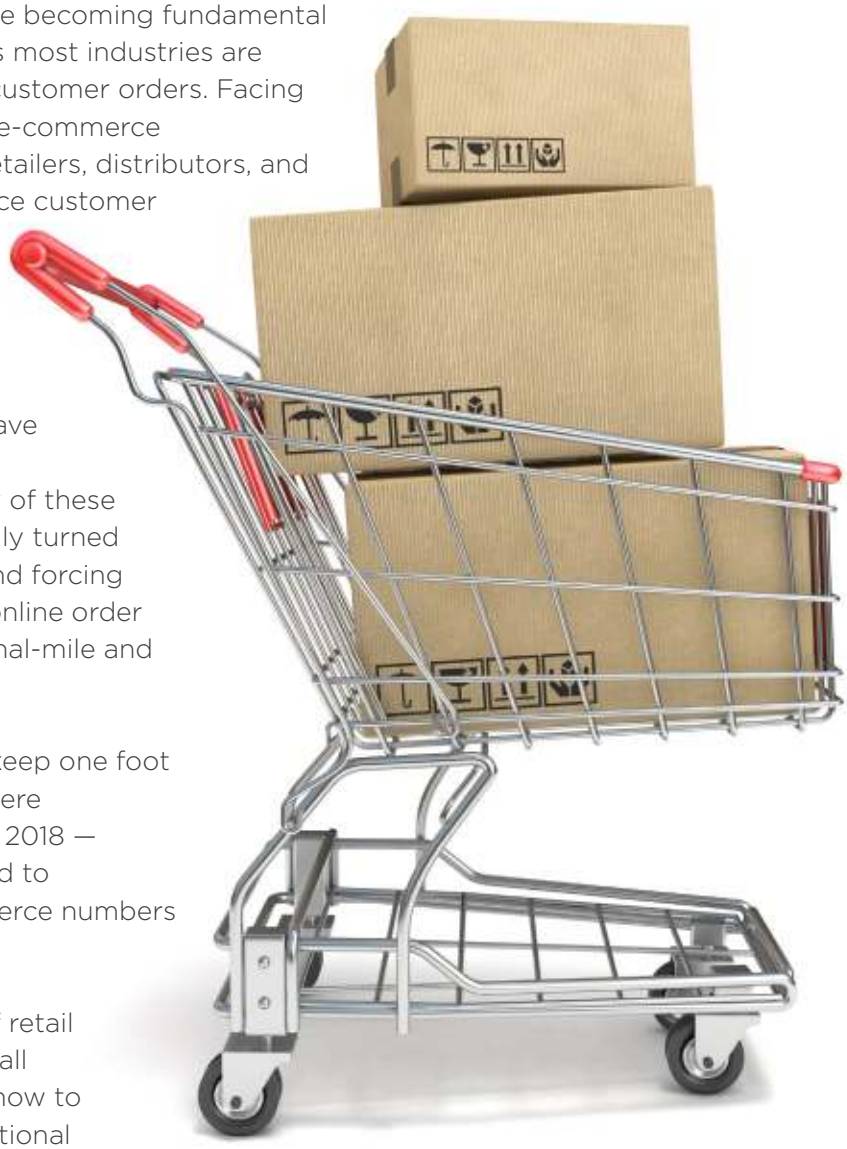
This is the largest share of growth for purchases made online since 2008, when e-commerce accounted for 63.8% of all sales growth.

E-commerce sales will surpass $740 billion by 2023.

Source: https://www.digitalcommerce360.com/article/us-ecommerce-sales/

Managing the Risk of Racing Amazon

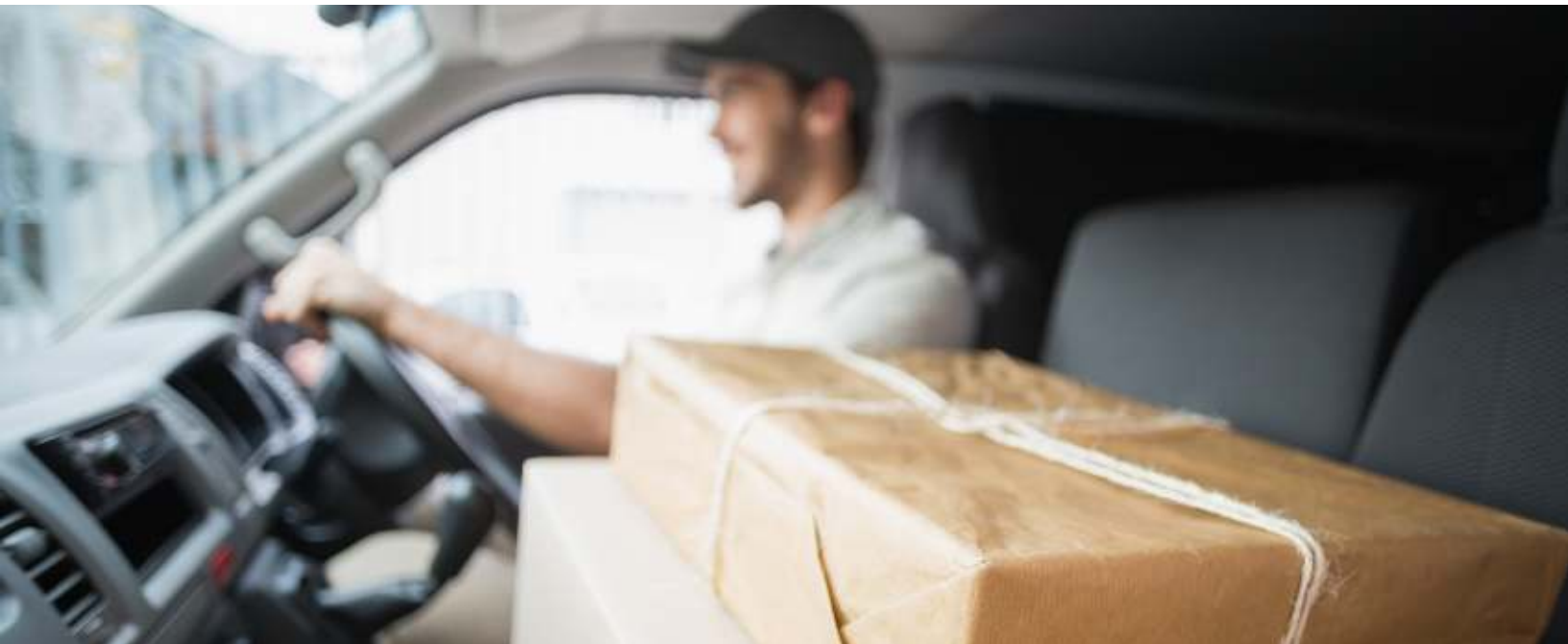
In an era where delivery choice and speed are becoming fundamental expectations for everyone, companies across most industries are rethinking how they receive, fulfill, and ship customer orders. Facing stiff competition from web-based suppliers, e-commerce providers, and even traditional companies, retailers, distributors, and manufacturers alike are challenged to enhance customer experience by offering variety in delivery options — without impacting the cost to the consumer.



Getting there isn't easy, as evidenced by the many horror stories about companies that have tried and failed in their quest to beat some of the world's largest e-tailers. In many of these cases, the risks of racing Amazon have literally turned into liabilities, effectively slowing progress and forcing companies to rethink everything from their online order interfaces to shopping cart conversions to final-mile and same-day order fulfillment management.

Despite these setbacks, companies have to keep one foot on the gas pedal in a selling environment where U.S. consumers spent $513.6 billion online in 2018 — a 14.2% increase over the prior year. Projected to surpass $740 billion by 2023, these e-commerce numbers are simply too big to ignore.

In this white paper, we explore the growth of retail e-commerce sales, explain the key risks that all retailers face in this environment, and show how to make the right strategic, financial, and operational moves to mitigate that risk once and for all.



A Booming Marketplace

As e-commerce sales continue to grow, retailers are moving away from traditional distribution models and over to more flexible, adaptable strategies that help them service consumers directly and within anticipated timeframes. This is particularly true of companies that started their e-commerce journeys as Amazon partners, and that want to regain control of their customer relationships.

Making that happen takes a commitment to inventory discipline, a rigorous fulfillment process, and a delivery platform that focuses on speed as well as exceeding the end customers' expectations at point of delivery. This presents unique challenges and risks for the brick-and-mortar retailer whose entire model has revolved around a customer visiting its stores in person to make purchases. "The brick and mortar world has really ramped up its game," says Rick Brumett, Vice President of Client Solutions at Transportation Insight, "but Amazon has educated us, as end consumers, that those efforts just aren't good enough."

Put simply, not only does shipping have to be free and fast, but if it includes a hovercraft and a promise to get a package to your doorstep within an hour, then all the better. "We're at a point where anything less than that," says Brumett, "simply doesn't meet customer expectations anymore."

These realities create new hurdles for the retail supply chain, which must either adapt quickly or watch its customers go off to the next competitor (which, incidentally, is now literally one screen tap or mouse click away). This impacts brick-and-mortar and online retailers, both of which are very concerned that someone else will beat them to the end customer. This "industry peer pressure," is taking its toll on the organizational bottom line and creates a host of new risks and red flags that companies can't afford to ignore.

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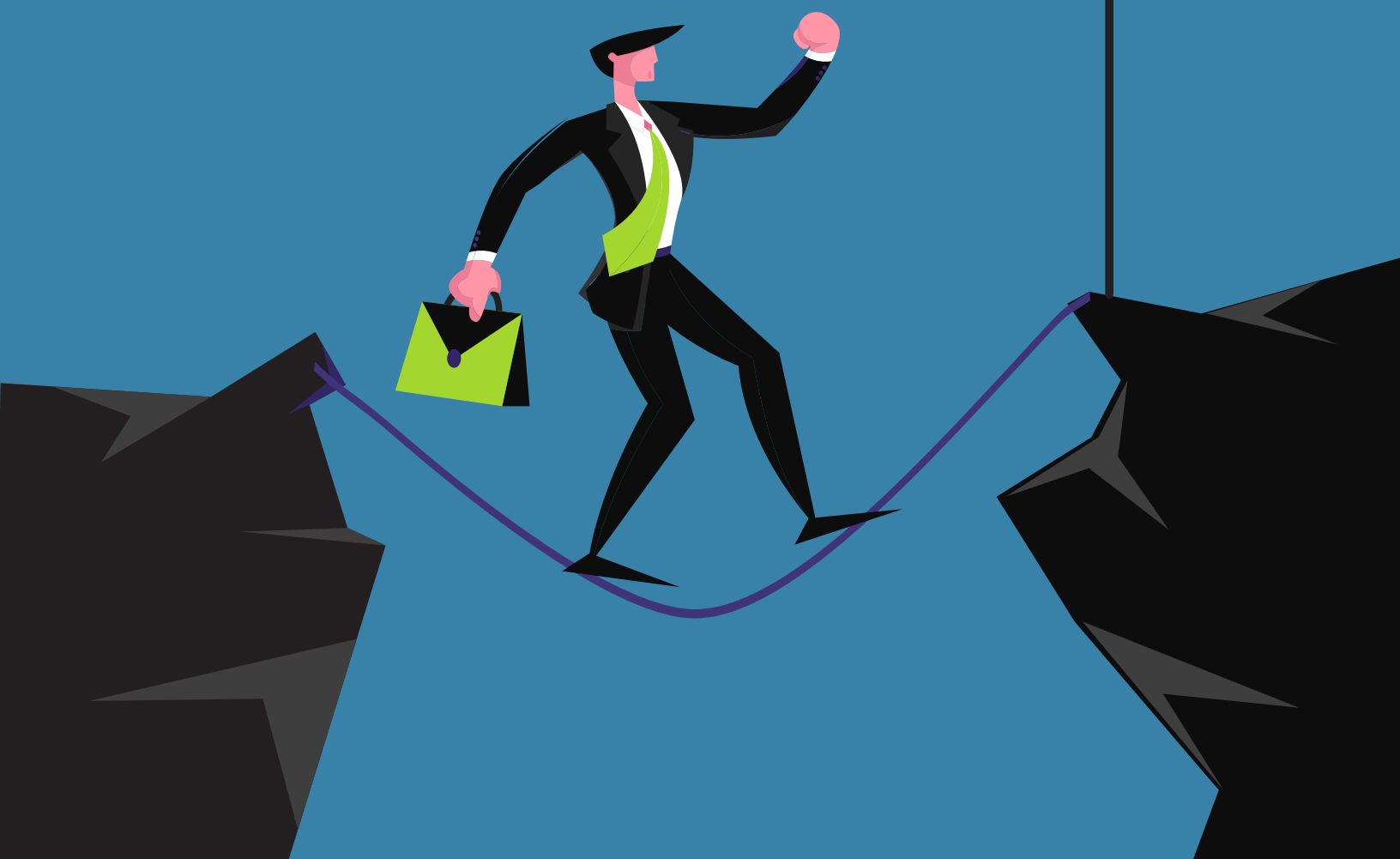
> Rick Brumett
> VP-Client Solutions
> Transportation Insight

8 Red Risk Flags You Can't Afford to Ignore

In its 2019 Retail Industry Outlook: Navigating disruption in retail report, Deloitte paints a picture of an industry where the consumer is unquestionably in the driver's seat. "Consumers realize they can have it all," it states. "Today's digital consumer is increasingly connected, has more access to information, and expects businesses to react to all their needs and wants instantly."

Operating in an industry that's in a state of "constant disruption," according to Deloitte, retailers are managing through uncertain times and placing bets on what will separate the winners from the losers. "Those that can synchronize their investments to profitably empower the consumer will likely find themselves on the right side of the tipping point," the firm says. "The nonstop disruption taking place in the retail environment is challenging many of the norms of retailing, creating opportunities for new entrants, and making transformation an imperative for incumbents."

For many, that transformation will involve taking a good, hard look at the red flags that are slowing down their e-commerce service and putting them out of the running for today's "want it now" consumer. Here are eight risks that consistently impede retailers that want and need to deliver the best possible e-commerce experiences for their customers:



Risk #1: Web-based order interfaces.

Success in e-commerce starts with a user-friendly interface that doesn't frustrate customers or send them off to buy from another site. If your online store's ordering system is cumbersome and difficult to use, no one is going to use it unless they have to. Achieve the right balance by segmenting SKUs based on what you think customers will actually buy (the 80/20 rule works well here), versus trying to put too much out there and risking the high costs of inventory duplication.

Risk #2: Shopping cart conversions.

The retailer that isn't boosting online checkout rates will quickly find itself struggling to survive in a sea of companies that have figured out the formula. If you ignore the need to drive down abandonment rates, all of the advertising, marketing, and sales efforts in the world won't help you compete against the likes of Amazon and other large e-tailers. "Cart conversions should be a major metric for all e-commerce companies," says Brumett, who tells retailers to dig down and measure key performance indicators (KPIs) like page views to cart conversions in order to get a gauge on 1) where things stand right now and 2) what they can do to drive those numbers up.

Risk #3: Same-day order fulfillment.

Retailers that want to convert digital consumers know that competing on price and customer experience just isn't enough anymore; they have to also be able to compete on speed and choice. Handled improperly, same-day delivery can be a logistical nightmare and major risk for retailers. It's also a necessary evil for them, and something that they all have to be able to do for at least some of their customers. Making that happen requires locations and/or warehouses positioned close to those buyers; a modification of existing fulfillment procedures; and ensuring that the right product is in the right place and at precisely the right minute.

Risk #4: Parcel, heavy home, and customized delivery platforms.

When it comes to bulky goods that require extra muscle and/or assembly, retailers need to factor in three different scenarios: leaving the box in the entryway of a home or apartment; putting it in the room of choice; or doing both of these plus opening up the box, removing the packaging, and setting up the product(s). "Retailers have to be able to deliver on some or all of these expectations for the end consumer," says Brumett, "who is typically willing to pay for those additional services."

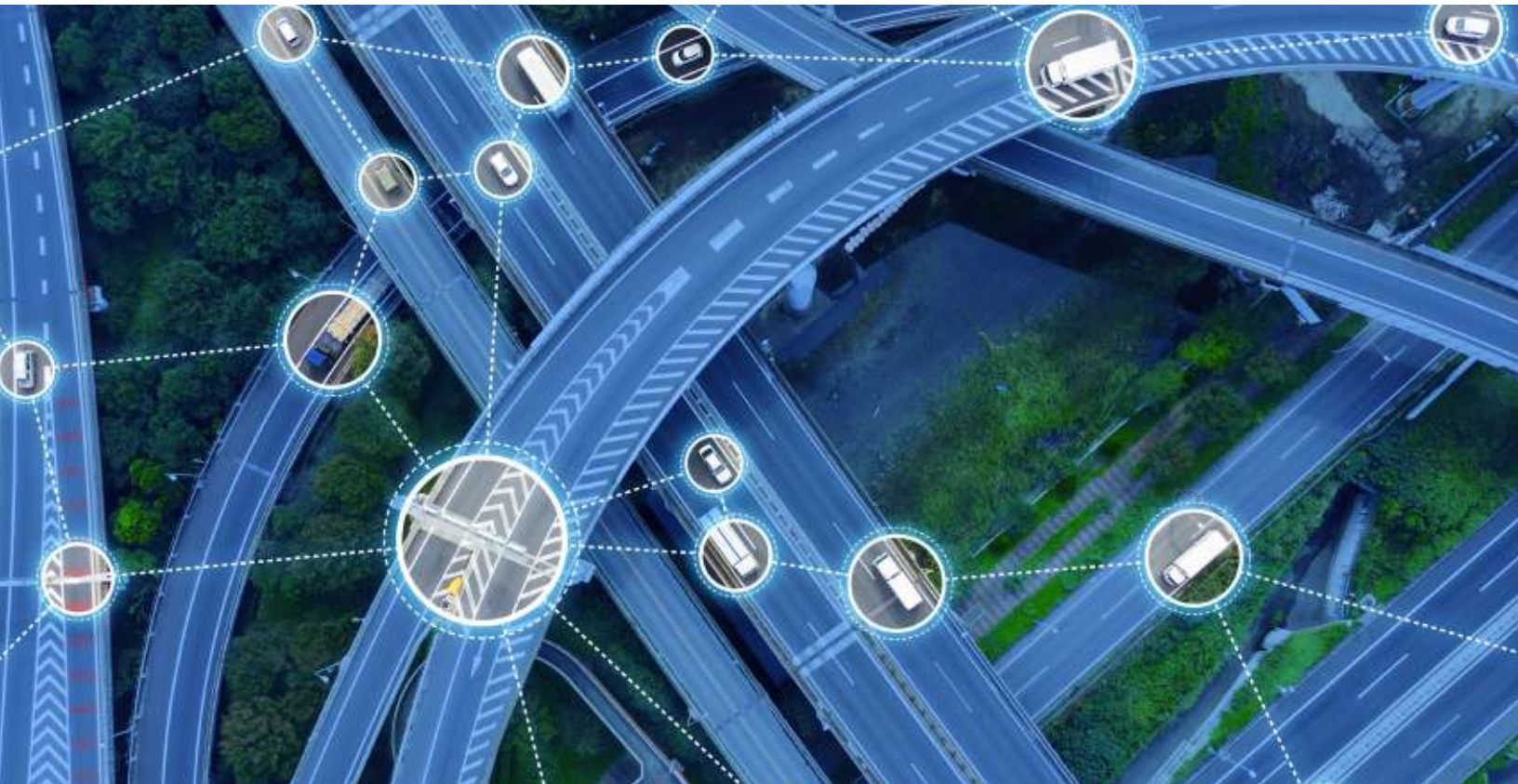
Risk #5: Selecting the best, most economical transportation mode.

Often retailers don't have access to the data that allows them to utilize more economical mode selection. Instead, many focus solely on getting same-day and next-day shipments out the door as quickly as possible without worrying about whether or not those are the best and most economical decisions.

This is a huge risk in an era where companies are being forced to go head-to-head with Amazon and Walmart, both of which offer same-day and one-day delivery to 72% and 75% of the total U.S. population, respectively. "Retailers should be using technology (i.e., transportation management systems or TMS) to select not only the most economical mode," says Brumett, "but also one that meets customers' delivery expectations."

Risk #6: Audit across all modes.

Transportation costs are rising just as they become a more critical part of the e-commerce fulfillment circle. Meanwhile, invoice data collected across modes is the foundation of analysis that drives continuous improvement in supply chain processes. The problem is that invoices can often be difficult to decipher, and they require labor support to effectively identify errors and pursue charge and service corrections. Using audit across all modes, companies know the rate they paid, identify service gaps and improve their ability to make good decisions going forward.



“Most companies aren’t measuring SKU-level profitability, and this is a major oversight.”

Risk #7: Line item general ledger coding for SKU-level profitability.

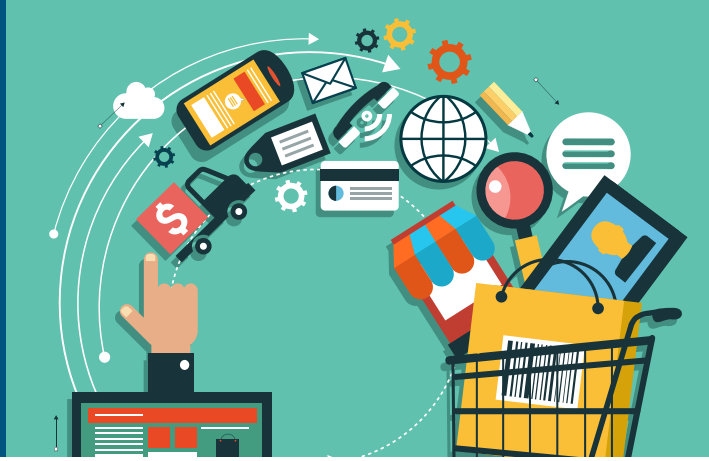
Defined as the measure of profitability for retail products and categories, SKU-level profitability helps retailers determine the true profitability of their sales. “Most companies aren’t measuring SKU-level profitability, and this is a major oversight,” says Brumett. By analyzing the total cost of carrying each inventory item and making sure that it truly meets their businesses’ financial objectives — both of which can be attained through line-item GL coding — retailers can better maintain profits and improve margins in an environment where product assortment and SKUs continue to expand. After all, selling a $10 item that costs $12 to produce, market, and sell makes no sense at all and is a completely unsustainable business model.

Risk #8: Scorecards that support management on the fly.

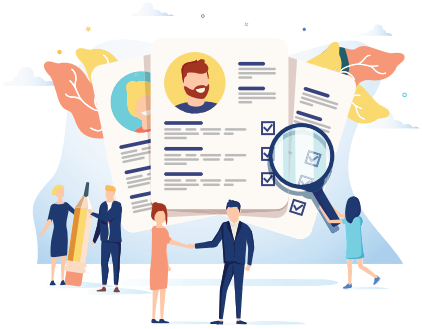
By taking an introspective look at their e-commerce operations and developing metrics based on those results, retailers can adapt faster in a world that demands speed, accuracy, and delivery on promises. The days when a company could wait for its quarterly guidance meeting to find out that it had a problem a month ago are long gone. Smart companies use scorecards to gather, compare, and disseminate meaningful, actionable intelligence (e.g., what products were shipped? How quickly were orders fulfilled? Did we pick all of our orders yesterday? If no, how can we make that up today?) on a daily basis.

Understanding these e-commerce risks – and then taking steps to proactively mitigate them – is critical to determining where diminishing return threatens sustainability, not only of a product and the e-sales channel, but also of the overall organization.

FACING THE FORCES OF CHANGE

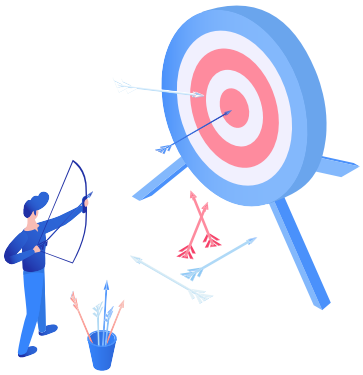


The nonstop disruption taking place in the retail environment is challenging many of the norms of retailing, creating opportunities for new entrants, and making transformation an imperative for incumbents. These five forces are driving much of the change:



Consumers.

Today's digital consumers are increasingly connected, have more access to information, and expect businesses to react to all their needs and wants instantly.



Competition.

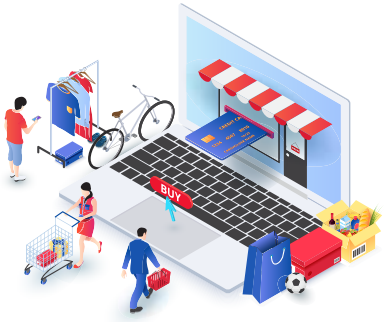
Newer, smaller, and tech-enabled competitors are stealing market share while players from other sectors are developing their own retail platforms.

Climate.

The U.S. is facing a flattening yield curve, rising asset prices (and possible market corrections), and a tightening monetary policy—all common indicators prior to a recession.

Configuration.

Many companies are accelerating their merchandise cycles, moving supply chains closer to the consumer, and deploying advanced technologies that can better connect them with consumers.



Convergence.

Retailers are increasingly bleeding into other consumer sectors, while those offering retail experiences are growing.

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Source: https://www2.deloitte.com/us/en/pages/consumer-business/articles/retail-distribution-industry-outlook.html

Strategic, Operational, Financial

Organizations pursuing e-commerce growth opportunities face financial, operational, and strategic risks that accompany ever-shrinking delivery service expectations among customers conditioned to Amazon's delivery experience. Identifying risks that lurk in e-commerce channels requires organizations to take an internal look and ensure business processes are optimized to deliver best-in-class performance.

Companies that deploy the following strategies across strategic, operational and financial areas of focus not only generate higher e-commerce revenues, but they can also serve customer segments that they weren't previously able to reach. "With e-commerce comprising over 10% of our economy right now, even a slight move of the needle can help drive significant revenue increases," says Brumett. "Those increases will bleed over to the traditional supply chain as well, regardless of how segregated that might be from your e-commerce operations."

3 KEY AREAS

Strategic

Incorporate key metrics like market growth, organizational ownership, infrastructure plans, fulfillment goals, delivery goals, financial accountability, and scorecards.

Ask yourself questions like:

How are we doing?
What are we doing?
Do we understand what we're doing?
What's our end game?
How do we plan to execute and meet those expectations?

Then:

- Clearly outline your e-commerce strategy and goals.
- Utilize carrier procurement strategies that support your desired delivery models.
- Leverage order management from generation to fulfillment request and fulfillment execution.
- It's not a one-and-done exercise, so focus on continuous improvement.

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Financial

Make sure you have a full understanding of the actual delivered cost of delivery for your products. This is critical in a fulfillment environment where free shipping is the de-facto standard. While it may be "free" to the consumer, shipping isn't at all free to the companies that are making, shipping, and handling the products. Make sure your modeling takes those costs into account, and that those costs are under control. And do you have that cost under control? If you don't have modal optimization, you don't.

From there, you'll want to:

- Understand the cost metrics for item-level profitability.
- Clearly define the impact of free shipping – how much profit is being absorbed and how much are you losing?
- Manage international trade complexities (a particularly important point at a time of tariff wars and other regulatory issues).
- Utilize mode optimization to select the most economical shipping options.

While it may be "free" to the consumer, shipping isn't at all free to the companies that are making, shipping, and handling the products.

Operational

Efficiently meeting customers demand for either next-day or same-day delivery requires a transportation network designed to serve the market that you're targeting. Attempting to serve customers nationwide from a distribution center in Charlotte, N.C., for instance, will definitely disappoint your West Coast customers. To avoid alienating customers, make sure you have the inventory in place to be able to execute on your promises, and that you have the proper tools in place to handle fulfillment (e.g., a warehouse management system [WMS], inventory allocation systems, etc.). Your next steps should be:

- Utilize platforms for conducting modal selection and carrier selection within a specific node (in order to optimize from both a price and service prospective).
- Deliver on external and internal delivery promises
- Positioning products in the supply chain in a way that enables timely, claim-free transportation.
- Align your data with that of your competitors (and your vendors' competitors). This entails capturing the operational data that will be critical to identifying the SKU-level cost of delivery.

Don't Just Push the "Easy" Button

As e-commerce evolved into the powerhouse that it is now, a lot of companies opted to push the "easy" button and sell through platforms like Amazon. Many of them are changing their minds, and with those shifts comes the need for more flexible, agile supply chains that can support same-day and next-day shipping.

These shifts are also creating a host of new risks that retailers must consider and address in order to succeed in the virtual selling environment. To best mitigate these risks while maintaining and growing market share, smart retailers are working with their logistics partners to tick those issues off one-by-one.

Organizations that want to emulate market leaders' best practices can benefit significantly from risk assessment conducted by an independent third-party. Transportation Insight offers deep expertise that helps retailers identify and close gaps in their supply chains. We're also positioned to help identify performance gaps that lead to inefficiencies throughout the order-to-delivery cycle. Working alongside hundreds of clients with world-class supply chains, a trusted advisor maintains awareness of best-in-class practices while effectively eradicating supply chain risk.

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