

Global Retail & Consumer Goods CEO Survey: The Omni-Channel Fulfillment Imperative



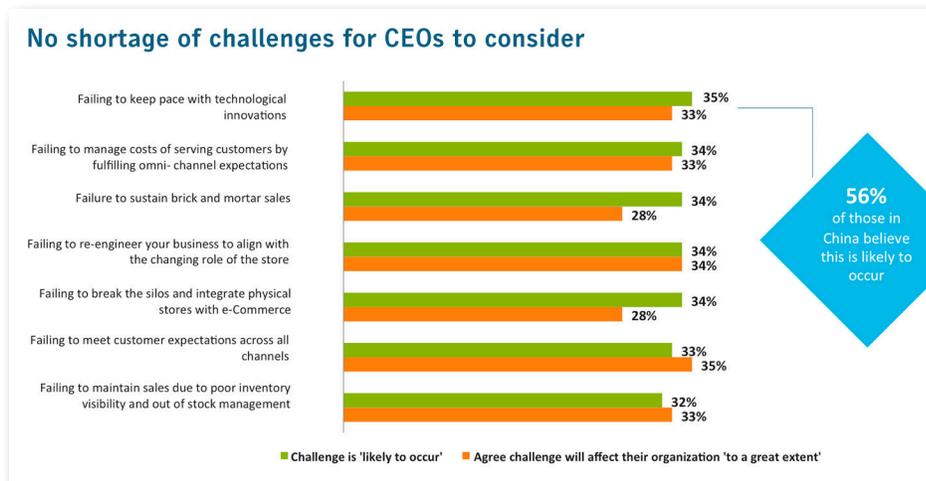
PwC CEO survey finds rising confidence in revenue growth in 2015, but only 19% of top retailers say they can fulfill omni-channel demand profitably!

In the latest annual survey of retail and consumer goods CEOs conducted by PwC on behalf of JDA Software, CEOs expressed rising confidence in revenue growth over the next 12 months compared to last year. However, meeting the expectations of omni-channel shoppers is a concern evident in their responses to a number of questions. Moreover, only 19 percent of the top 250 retailers (and only 16 percent of all respondents) say they can fulfill omni-channel demand profitably.

PwC conducted the survey in late 2014, with 410 responses from CEOs across North and Central America; the United Kingdom; France; Germany; China; Japan; and Australia. Twenty-two percent of responses came from top 250 retailers (> \$5 billion revenue), with another 51 percent classified as top 1,000 retailers. Respondents identified themselves as coming from hard goods, soft goods, CPG, ecommerce and grocery verticals, as well as a few related retail and consumer sectors.

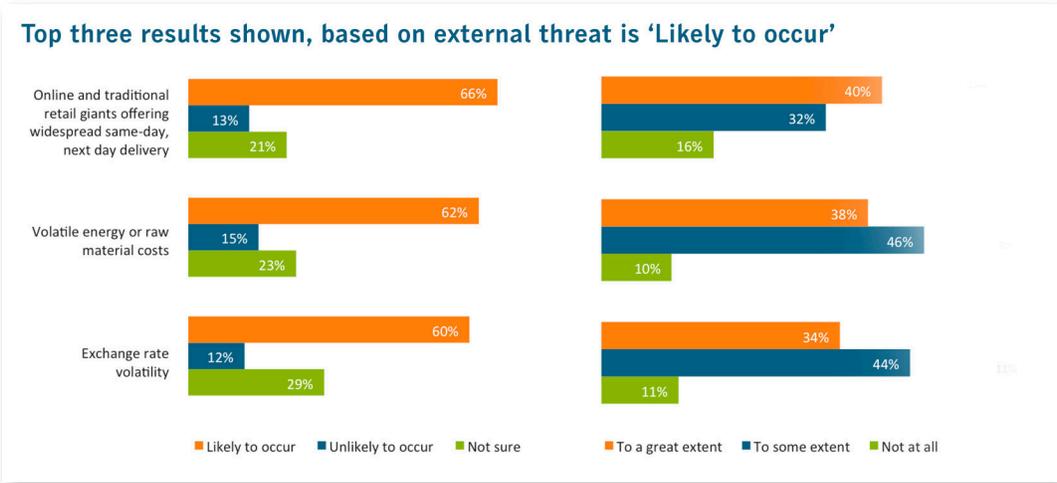
Threats and Challenges

Competition, volatility and change are rising in intensity in today's marketplace and represent key threats and challenges on the minds of retail and consumer goods CEOs. The complete transformation of the marketplace into an omni-channel world is having many ramifications as noted by the survey participants. For example, the challenge that CEOs said would be most likely to impact them to a great extent (35 percent) was failing to meet customer expectations across channels. But close behind this (34 percent) was failing to re-engineer your business to align with the changing role of the store. And tied for the third greatest threat (33 percent) was failing to manage the costs of fulfilling omni-channel expectations. These all represent different aspects of the omni-channel challenge: providing seamless cross-channel experiences; redefining the role of the store in the path to purchase; and the rising cost and complexity of fulfillment.



While retail CEOs recognize these challenges, they still appear more focused on revenue growth than profitability. When asked to rank their top initiatives for improving business operations over the next 12 months, the number one choice (57 percent) was spending capital on creating new customer experiences, closely followed (56 percent) by using stores as fulfillment centers for faster deliveries of online purchases. Similarly, when asked to rank strategic growth enablers for the year, reducing/reformatting physical store footprints to focus on expanding their ecommerce business was the top choice at 53 percent.

As disruptive as the omni-channel transformation is, however, it is not the only challenge facing retailers and consumer goods CEOs. Heightened external competition is also posing a major threat. Sixty-six percent of respondents said that the threat of online and traditional retail giants offering same-day or next-day delivery was likely to occur in the next 12 months and 40 percent said this would impact them “to a great extent.” Volatility in energy and materials costs, and volatile exchange rates also received greater than 60 percent expectations of occurring, with the likelihood of significant impact rated at 38 percent and 34 percent, respectively.



Clearly, CEOs have more than enough threats and challenges to keep them up at night. But the biggest challenge hasn’t changed—it has just gotten more difficult—profitable operations.

The Profitability Challenge

While offering omni-channel shopping experiences to consumers has become an imperative for survival in today’s marketplace, it is still far from seamless. There are many hurdles yet to be crossed before retailers and consumer goods companies can say they have successfully mastered this daunting transformation. One of the most telling indicators is that few are doing it profitably. Only 16 percent of all survey respondents (and only 19 percent of the top 250 retail respondents) say they can make a profit while delivering on omni-channel demand. Think about that—less than one in five of the largest retailers, whom presumably would have the greatest resources to implement omni-channel programs, report they can make a profit at it!

It’s not rocket science—profitability is the biggest challenge because costs are rising faster than revenue. Sixty-seven percent of respondents say their costs to fulfill omni-channel orders are increasing. When asked to rank their highest costs for fulfilling orders, 71 percent said handling returns from online and store orders, 67 percent said shipping directly to the customer, and 59 percent said shipping to the store for customer pick-ups. The direct correlation between these omni-channel tasks and the lack of profitability points out huge opportunities for improvement.



Most frequently ranked in the top 3 for cost of fulfilling orders



Returns from online and store order **71%**

2 nd	Shipping directly to customers from distribution center or warehouse	67%
3 rd	Ship to store for pick up	59%
4 th	Ship from store	52%
5 th	Preparing online orders for in-store pickup	39%



To help understand what these numbers mean to profitable operations, consider Jenna, a mother of three from Irvine, California who sees a new sweater she likes on her smartphone while she is waiting to pick the kids up from school. She notices the retailer's free two-day delivery offer and decides to order the sweater from her phone. The retailer must now consider the options available to get the sweater to Jenna in the promised timeframe as profitably as possible.

The retailer first locates six of the sweaters in her size and color at their nearby Carlsbad, California store. But the retailer is expecting a busy weekend at that store and does not want to deplete store inventory that forecasts indicate are likely to be sold then.

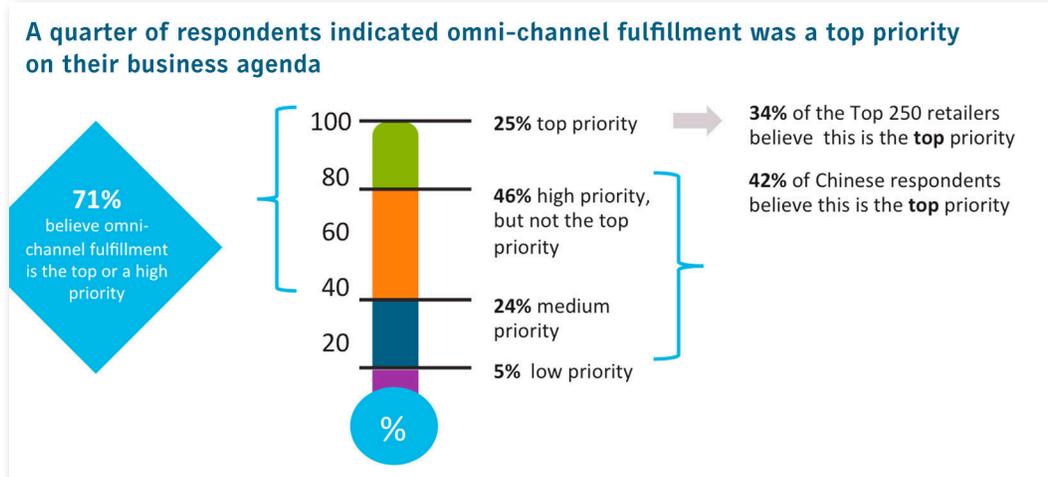
Next the retailer finds the sweater at the Tulsa, Oklahoma distribution center run by their 3PL partner. However, rigid 3PL policies will require unprofitable costs to meet the two-day delivery window.

Finally, the retailer sees that their sweater supplier in Chicago, Illinois is offering free two-day shipping as a promotion and decides to have the sweater shipped from there since this will be the most profitable option that satisfies the promised delivery timeframe. Of course, these and potentially many other options are immediately evaluated and selected by the retailer's integrated fulfillment system.

Shopping experiences like this example are happening thousands of times every day across all retail segments. Retailers and consumer goods suppliers are starting to master omni-channel shopping, but are struggling with the cost and complexity of omni-channel fulfillment. More than four out of five of the responding companies in the survey indicated they are not able to master omni-channel fulfillment profitably. Obviously, something must change because these economics are not sustainable.

Innovation

The CEOs in the survey clearly understand the challenges they have ahead of them with profitability in omni-channel fulfillment. They know they will have to innovate if they are to be profitable while meeting customer expectations. Seventy-one percent say it is either a high or their top priority. Thirty-four percent of the top 250 retailers say it is their number one priority. And these CEOs are starting to put their money where their mouths are—they are investing an average of 29 percent of their total capital expenditures for 2015 on improving their omni-channel fulfillment capabilities. For the top 250 retailers this investment represents a 61 percent increase over last year's investment in this area.



An interesting aspect of the survey results is where CEOs plan to invest to improve omni-channel fulfillment. It goes back to the basic blocking and tackling of supply chain. The area most cited as needing attention (88 percent) was transportation & logistics. This is entirely consistent with the findings earlier in the survey that noted that returns, shipping to customers and shipping to stores for customer pick-up were their three top order fulfillment costs. Neither retailers nor consumer goods companies can profitably fulfill omni-channel demand until they can better manage and reduce these costs.

The second area of omni-channel fulfillment most cited as needing attention (85 percent) is a bit more surprising. While omni-channel fulfillment is most often considered an execution task, the CEOs feel properly planning for this process is also a top priority. These CEOs realize that positioning the right inventory and assortments close to customer delivery points is critical for achieving customer satisfaction and profitability. In fact, more CEOs (52 percent) ranked improving inventory availability while controlling cost as their top organizational priority than any other objective.

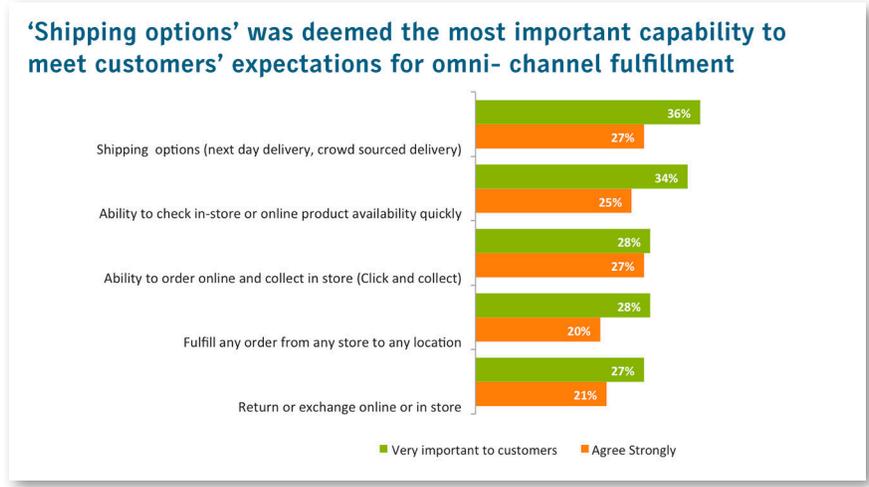
This also points out that CEOs understand that planning and execution must be tightly integrated in the omni-channel world in order to meet service and profitability goals. Previous siloed approaches cannot achieve these dual objectives. And in fact, planning for merchandising, product positioning, shelf space and inventory management while executing flexible fulfillment options was, along with enterprise inventory visibility, the organizational priority most cited by CEOs that they could not currently deliver. Thus, integrating planning and execution and closing this gap will be critical for omni-channel success.



Consider Jenna and her sweater. Using customer-centric segmentation and planning, the retailer might have had sufficient quantities available at her local store without sacrificing potential sales. And with enterprise inventory visibility, they could have allowed Jenna to order it online and have it waiting for her at the service counter or other convenient pick-up location when she arrived, creating a loyalty-inspiring shopping experience. It is this type of innovation that will propel the winners going forward.

The Challenges Ahead

The CEOs in the survey know they have gaps to fill between customer expectations and their current capabilities, and they plan to place significant investment in this area in 2015. For example, when asked what capabilities were most important to meet customer expectations for omni-channel fulfillment, the clear leaders (at 36 percent and 34 percent) were the ability to offer shipping options such as next-day delivery and crowd-sourced delivery, and the ability to easily check online and in-store product availability quickly. But when asked their company’s ability to meet those expectations, only 27 percent and 25 percent, respectively, strongly agreed they could meet the expectations currently.

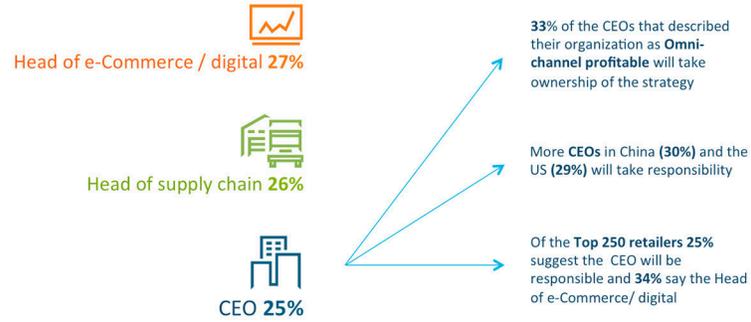


However, getting to the point where retailers and consumer goods companies can meet customers’ omni-channel fulfillment expectations is only half the battle. The next hurdle is being able to do so profitably. As noted earlier, less than one in five CEOs said they could do this today.

This major challenge to meet customers’ expectations profitably has pushed omni-channel fulfillment to boardroom level importance. When asked who would own omni-channel fulfillment strategy and investment over the next three to five years, there was a fairly even split among executive level positions. Twenty-seven percent said the head of ecommerce/digital would own it, reflecting traditional views that omni-channel stems from digital channels. Twenty-six percent felt the head of supply chain should own it, demonstrating the rapid rise in importance of the supply chain function in an omni-channel world. Finally, 25 percent said the CEO would own this strategic function. This is an interesting finding because it indicates that the importance of omni-channel fulfillment in overall corporate success is recognized at the highest level of the organization.



A quarter of respondents believe the CEO will be responsible for omni-channel fulfillment strategy & investment in the next 3-5 years



If one is to take anything from the survey results, it is that there are significant challenges ahead for retailers and consumer goods companies in the omni-channel world going forward. The biggest of these is meeting customer expectations profitably. The good news is that CEOs recognize the challenge and fueled by expectations of revenue growth are investing this year to address this challenge.