

# LIMBER UP

THE AGILITY IMPERATIVE IN AN OMNICHANNEL WORLD



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*The internet is becoming increasingly important in B2B transactions: while it represents a \$700 billion business in the US today, it is set to top \$1.2 trillion by 2020. More importantly, Amazon and Amazon-like offerings have led B2B customers to expect the same experience from their distributors as when shopping online. B2B customers are expecting more and more to be able to discover, buy, receive, and return products seamlessly across multiple channels. In short, they want to fully benefit from the omnichannel experience, and, for distributors, this creates challenges and opportunities.*

While product manufacturers and online distributors can now bypass distributors and go direct to customers, traditional distributors can use their unique position in the supply chain to grow, to reinvent their businesses and relationships, and to become platforms or marketplaces for customers.

## AMAZON HAS RESET THE EXPECTATIONS OF YOUR CUSTOMERS

Amazon's bold plans to take B2B e-commerce by storm, as it did for B2C, has captured the attention of distributors and pushed anxious executive teams to assess their risks and test their strategies.

What if everyone has missed the forest for the trees?

Amazon's move was indeed a critical juncture in B2B but not because of the risk it caused to its competitors. It was critical because of what motivated Amazon to target this sector: B2B e-commerce is already a \$700 billion business in the US (more than twice the size of e-commerce) and is set to top \$1.2 trillion by 2020.<sup>1</sup> B2B buyers are moving towards e-commerce, with 68% of them purchasing goods online in 2014, up from 57% in 2013.<sup>2</sup>

Perhaps more importantly, e-commerce is changing buyers' expectations in ways that had not been anticipated. Sixty-five percent of B2B customers feel a service gap versus Amazon and Amazon-like offerings.<sup>3</sup> As the CEO of a major multi-category distributor puts it: "Our customers have already been trained by Amazon [in B2C] on what good looks like. That's what we have to compete with." In other words, distributors are not yet competing against Amazon. They are competing against the consumer expectations that Amazon has set.

This transition is permanently altering decades-old supply chains where suppliers, distributors, and retailers link together and/or compete against one another to better serve businesses and end consumers. Exhibit 1 illustrates how the online space links with other channels to enable new forms of collaboration and competition. Some of those forms

<sup>1</sup> Source: Forester Research

<sup>2</sup> Source: Acquity Group

<sup>3</sup> Source: LMA Consulting Group

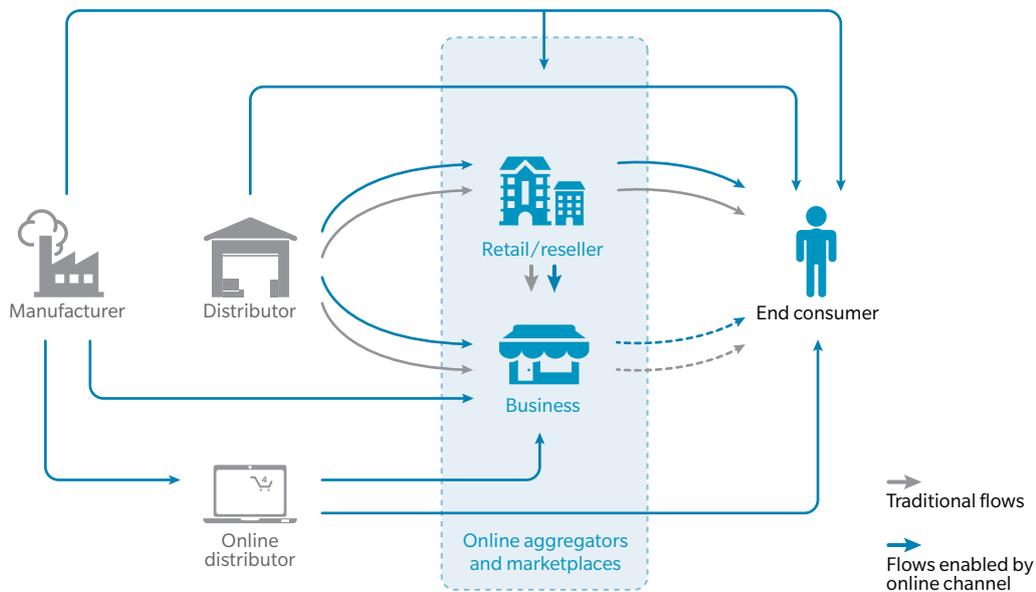
challenge distributors' position in the value chain: product manufacturers can bypass distributors and go direct to retail, businesses, and end consumer, as can online distributors. Others provide distributors with opportunities to use their unique strength in the supply chain to grow: retailers or suppliers can drop-ship consumer orders to them for items they do not stock or cannot pick up in their distribution centres.

For all involved, omnichannel requires a shift in mentality. We believe this means that distributors need to change their operating mindset from cost-centric to customer-centric.

This paper presents a new way of thinking about the operational implications of omnichannel distribution, namely **distributors should take two steps** to survive and win in the new world:

1. **Use agile approaches to IT and business** – focus on long-term consumer trends and continuously adapt to an evolving target
2. **Create a practical action plan** to ensure your operations are – or will become – truly customer-centric.

Exhibit 1: Traditional and online-enabled product flows



## 1. USE AGILE APPROACHES TO IT AND BUSINESS

Traditionally, distributors have grown operations sequentially. Expansion plans are laid out and executed in a series of planned steps over several months or even years. However, given the rapid pace of change of both consumer behaviour and technology, this incremental approach carries a risk. It is becoming more difficult to predict what the channel landscape will look like in two to three years – let alone five to eight – much less define and plan for what is essentially an unknowable end state.

Not only will buyer needs continue to evolve but omnichannel is also likely to mean different things to buyers in different markets and sectors. We believe that distributors should design their operations to be flexible enough to support long-term trends that are applicable across different sectors and geographies, such as:

- More **access points** – online, mobile, stores, click-and-collect, lockers, pick-up and drop-off points, and parcel shops
- More **delivery options** – after-hours and weekend delivery time slots
- Shorter **lead times** – same-day and next-day delivery
- **Seamless experience** – across access points and channels.

Understanding where the buyer is going and designing the offer intelligently (and profitably) to stay one step ahead is the secret to success. Any long-term plans are almost certainly going to need to be revisited every six months, given constant changes to buyers and technology. To be agile, distributor operations will need to:

- Think of the end state as an evolving target and adopt a continuous improvement mindset
- Focus more on incremental steps and “sprints” rather than a sequential “marathon”, where it is better to make progress frequently and tangibly in weeks and months, not years
- Consider working tests and live proof-of-concepts using the customer experience as the primary measure of progress
- Plan for experimentation and failure; fail quickly and cheaply
- Place a high value on simplicity, speed, and nimbleness
- Constantly reflect on progress and be faster, simpler, and more efficient.

## 2. CREATE A PRACTICAL ACTION PLAN

While virtually every distribution process is affected by omnichannel, we believe that four key strategic foundations to distribution operations are critical to support the transformation to customer-centricity:

- **Change how you think about designing your network and fulfilling orders**
- **Consider a variety of options for last-mile delivery**
- **Collaborate to lower total costs across the value chain**
- **Build and partner for the right tech capabilities.**

### CHANGE HOW YOU THINK ABOUT DESIGNING YOUR NETWORK AND FULFILLING ORDERS

The development of e-commerce and the proliferation of new services will force distributors to review their traditional network design and order fulfilment operations. While distributors traditionally relied on distribution centres, in the new world they will exploit a dynamic network of locations using a combination of warehouse picking, branch picking, drop-shipping, and fulfilment from suppliers’ distribution centres. Exhibit 2 lays out the rationale of each approach.

Designing a dynamic network will require distributors to consider online elements versus the in-store range, CAPEX, pick-pack-ship volumes, access points, and lead time.

### Exhibit 2: Dynamic network design and order fulfilment

APPROACH	RATIONALE	USE CASE
<b>Store picking</b>	<ul style="list-style-type: none"> <li>Offering a broad range of SKUs within two hours with minimal investment</li> </ul>	<ul style="list-style-type: none"> <li>Click-and-collect</li> <li>Ship-from-store</li> </ul>
<b>Dark store</b>	<ul style="list-style-type: none"> <li>Higher picking productivity on a narrower range, for pick-up or delivery within two hours</li> </ul>	<ul style="list-style-type: none"> <li>Click-and-collect</li> <li>Same-day home delivery</li> </ul>
<b>Fulfilment centre</b>	<ul style="list-style-type: none"> <li>High picking productivity on a broad range of SKUs for next-day delivery</li> <li>Can be dedicated to online or shared with bricks-and-mortar operations</li> </ul>	<ul style="list-style-type: none"> <li>Home delivery</li> </ul>
<b>Drop-shipping</b>	<ul style="list-style-type: none"> <li>Expanding range to SKUs not sold in store by partnering with suppliers and wholesalers</li> </ul>	<ul style="list-style-type: none"> <li>Home delivery</li> <li>Endless aisles</li> </ul>
<b>Fulfil from supplier's distribution centres</b>	<ul style="list-style-type: none"> <li>Cut costs and inventory by shipping very high-volume products straight from the supplier</li> </ul>	<ul style="list-style-type: none"> <li>Home delivery</li> </ul>

## CONSIDER A VARIETY OF OPTIONS FOR LAST-MILE DELIVERY

Delivery costs and services are among the most critical factors in choosing where to shop online. This has turned the last mile into one of the most powerful ways to differentiate in the market.

Incumbent transportation carriers have for decades built hub-and-spoke infrastructure and fixed delivery waves to offer overnight or next-day delivery services for mid- to long-distance destinations. This model will increasingly become irrelevant for the last mile. Despite their density, distributors' delivery networks are not built to serve individual buyers with small orders.

Online leaders such as Amazon and Google have invested more aggressively in last-mile innovation than retailers and distributors:

- Amazon is building its own delivery infrastructure for same-day delivery and next-day delivery as well as for Amazon Fresh, while dynamically evolving its partnerships with USPS, UPS, FedEx, and others
- Google has built its own delivery network to support the growth of Google Express.

Together they are reshaping the way suppliers and logistics companies redesign their operations.

Reflecting on how this affects their own business model, distributors will have to consider three options to innovate in this space:

- Transform their proprietary delivery capabilities where they have volume and density
- Make good use of radically new solutions offered by start-ups such as Uber and CollectPlus
- Push their traditional suppliers to innovate more and rethink delivery models. Leading global parcel carriers DHL and UPS are already experimenting with new approaches to the modelling of delivery rounds, allowing them to adjust routes and truck deployment in real time.

## COLLABORATE TO LOWER TOTAL COSTS ACROSS THE VALUE CHAIN

As part of Amazon's Vendor Flex programme, P&G allowed Amazon to set up fulfilment operations within its own warehouses to reduce transportation costs and speed up delivery. While supplier-managed inventory and other collaborative projects have existed for decades, this partnership is among the first in the online space.

Suppliers are making considerable investments in direct-to-customer capabilities and partnerships. Given the scale required to serve consumers, we believe that it will be in the interests of suppliers, retailers, and distributors to work more closely to take an end-to-end view of the supply chain. Areas of focus will include:

- End-to-end **distribution** approach, drop-shipping – retailers are constantly expanding their online range, which opens up an avenue for distributors to deliver drop-shipping services focusing on the long tail of SKUs not stocked by the retailers
- Integrated **planning** and forecasting, using big data – bringing together market insights from across the value chain will enable to more accurately forecast revenue and reduce inventory levels while improving on-shelf availability
- Real-time visibility on **inventory** and orders – retailers, suppliers, and distributors will need a platform to dynamically route orders to the most competitive centre, based on inventory availability
- Real-time **replenishment** – fulfilment centres require very high levels of product availability, which require more frequent replenishment and lower minimum order quantities
- Differentiated **packaging** for online versus in-store – online volumes are reaching the critical mass that justifies dedicated packaging, better suited to online merchandising and delivery.

This reflects our view that the intelligent distributor will, over time, morph into a marketplace intermediary, building more intense relationships upstream with suppliers and downstream with customers. (See our publication, *intelligent distribution: Making your business more commercially effective.*)

## BUILD AND PARTNER FOR THE RIGHT TECH CAPABILITIES

Omnichannel is bringing a radically different set of challenges and requirements that are often incompatible with legacy systems and technologies, such as:

- **Visibility** and a **single view** of product, inventory, customer, and order data across channels and stakeholders
- **Real-time** decision making on operational dimensions (inventory management, delivery tracking, etc.) and commercial decisions (pricing, channel focus, salesforce deployment, etc.)
- **Orchestration** of multiple stakeholders such as suppliers, third-party logistics providers, transportation companies, e-commerce platform, and enterprise resource planning
- Technology-enabled **breakthrough** in productivity and services such as picking technologies and automation, and in-store kiosks.

## CASE STUDY

# @WALMARTLABS

### The challenge

Each year, 245 million customers visited Walmart's 10,900 stores and 10 websites worldwide. The world's largest retailer recognised that having a presence as a significant digital player would be necessary to ensure a consistent and high-quality experience across the different channels of its brand, and to be able to create digital innovations ahead of both the existing competition and future new competitors.

### The solution

The solution was to drive Apple-quality technology innovation customised to Walmart's business proposition and customers. With tech talent centred around California, Walmart acquired an existing start-up in the state and redeveloped it as @WalmartLabs. The division is kept at arm's length from the retail business to facilitate innovation and creativity.

### The outcome

Walmart is now viewed as a leading-edge digital innovator in retail. In addition to supporting customers across different technology interfaces, @WalmartLabs created a custom search engine for Walmart.com to help shoppers browse, discover, and purchase items in a new fast and intuitive manner. The @WalmartLabs project has since grown to acquire further start-ups and can attract some of the top talent in the tech industry. Currently, it operates with more than 3,500 employees.

How can distributors evolve their systems to enable customer-centric operations?

@WalmartLabs is showing one possible way with 15 acquisitions conducted since 2011.

## CONCLUSION

The rapid growth of e-commerce is reshaping the distribution ecosystem and the balance of power among suppliers, retailers, online players, distributors, and logistics groups. There is a fundamental shift in the way buyers shop, thereby increasing complexity for distributors. Distributors risk losing buyers, cash flow, and control on key elements of their value chain.

We believe that, to survive and win in this context, distributors need to shift their operations from cost-centric to customer-centric and become more agile to adapt to an evolving target.

## ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialised expertise in strategy, operations, risk management, and organisation transformation.

In the Distribution and Wholesale practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in distribution and wholesale: an obsession with attracting, serving, and growing customers, constant dedication to operational excellence, and a relentless drive to improve capabilities. We have a track record of helping clients win in this environment, creating real competitive advantage and driving significant growth. We believe our hands-on approach to making change happen is truly unique – and over the last 25 years, we've built our business by helping distributors and wholesalers build theirs.

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