

POINT OF VIEW

THE FUTURE OF
**BRICK-AND-MORTAR
RETAILERS**

Retail





“
if we have it,
you can buy it....
”

Introduction

Consumer buying behavior has consistently shifted to ecommerce and home delivery since Amazon was born in Seattle 25 years ago. Globally, more than 2.1 billion shoppers are expected to purchase goods and services online by 2021¹. In the UK, online retail is expected to grow by 11% in 2020, accounting for €222.5 billion (about \$243.5 billion)².

This shift is being accelerated by the surge in online demand and expectation of ‘no contact delivery promise’ caused by the social distancing norms and safety concerns arising from COVID-19. Many retailers are facing challenges such as handling the surge in online demand; dealing with inventory shortages due to skewed demand patterns;

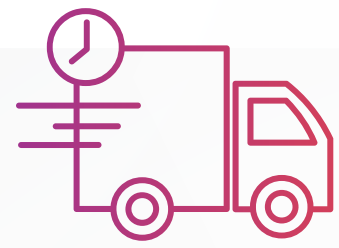
inventory trapped in locations where it is not being sold; and workforce imbalance to fulfill customer orders. Against the backdrop of altered demand patterns and customer behavior, what holds for the future of brick-and-mortar retailers?



How Omnichannel Fulfillment May Save the High Street Post COVID-19

Traditional retailers have frequently competed in ecommerce through huge fulfillment centers—many of these are reaching capacity constraints and appetite in the industry for large scale capital investment is increasingly limited. At the same time, competitor and consumer pressure for ever faster and cheap (often free) fulfillment is making the central fulfillment center less relevant.

The only way to square this circle of low investment, faster fulfillment, and lower cost appears to be the use of local inventory points, traditionally known as stores. To become more resilient, retailers need to adapt to the new shopping behaviors, such as buying grocery online, that are here to stay.



Fulfillment Strategies for Competing in the World of Fast and Free

There have been a range of fulfillment strategies by pure online and omnichannel retailers to compete in this new world of ‘fast and free’—some retailers have maximized their existing capabilities; some have forged strategic partnerships with external ecosystems; and few others have signed up mergers and acquisitions. Examples include:

- Amazon has declared that its investments in faster shipping was starting to pay off, with revenue rising 20% to \$63.4 billion in the second quarter ended in June 2019³. To enable its same-day proposition, Amazon has dramatically increased the number of distribution centers and positioned them close to almost every US city; Amazon’s 50,000-square-foot

warehouse in Manhattan delivers its Prime members anything from a hand sanitizer to a flat-screen TV in two hours or less⁴.

- Target's 2019 Q3 online sales soared by 31%, as 80% of the retailer's online sales growth came from economical fulfillment options, such as in-store pickup and drive-up curbside delivery⁵. Target says as it has shifted away from upstream distribution centers for order fulfillment to its stores, costs went down by more than 40%⁶.
- ASOS extended next day order cut-off times across Europe and added Berlin and Birmingham to their same-day proposition⁷.

- Argos re-invented itself through its fast track delivery service—a seven days per week same-day proposition that turned its larger stores into neighborhood fulfillment centers to support nearby smaller stores with same-day ‘click and collect’ and local home delivery⁸. One of the major reasons Sainsbury's bought Argos was for its delivery network, as it looked to deliver goods to customers quicker than rivals such as Amazon⁹.

Although different responses, all these examples have a common theme—compressing the delivery time and building competitive advantage through same-day proposition, and click and collect.



Delivering on the Promise

Locating and keeping track of inventory across stores is tricky, and few things are more frustrating to a customer than being promised an order that can't actually be fulfilled. Technology can improve store inventory accuracy from an average of 69% accuracy to nearly 100%¹⁰, and more than triple the likelihood of offering omnichannel fulfillment. Having end-to-end visibility of inventory within the wider supply chain will enable retailers to orchestrate their operations for customer delight and corporate success not only through having the right inventory in the right place at the right time, but also making the best possible decisions based on the position that they are in. Supply chain operational control towers are key

to enabling this orchestration, helping retailers make the shift to managing exceptions rather than executing the same operations as last week.

Distributed order management in combination with cost-to-serve models, the customer proposition offered by retailers, and the one selected by customers will enable retailers to optimize for profitability through order fulfillment decision making. Not only does this flexibility allow for fast online order fulfillment from stores, it also enables in-store replenishment from the ecommerce supply chain.

Holistic returns are key to maximizing profitability—accelerating the speed to resell, diverting to discount channels, and considering disposal when necessary; consistent, informed, and rapid decision-making is critical to achieve this and minimize the commercial drag effect of returns.



Enabling Retailers to Lead in a Post-COVID World

Advances in technology are making it easier for retailers to make optimized decisions across their supply chain and store estate, to achieve faster fulfillment and higher customer satisfaction at lower cost. The TCS Business 4.0™ framework enables this through a range of technologies¹¹:

- Big data and AI are helping retailers optimize inventory better by using troves of customer data to predict what people will buy and mapping this to the warehouses near their location so as to optimize warehouse space while also shrinking delivery times, thus reducing the impact of inventory on companies' balance sheet.
- Connected supply chains are helping retailers to orchestrate both stores and supply chains as nodes for efficient omnichannel fulfillment. The supply chain accommodates and adjusts to new internal and external data in an integrated data system by using sophisticated business logic and AI.
- Advances in smaller, more modular robotics are transforming new spaces into low-cost, highly-efficient sortation and fulfillment centers. Rather than having to invest in large machines and conveyer belts that could only fit in a warehouse, small robots or automated units can perform different kinds of sortation in the backstage of a department store.
- Autonomous vehicles and equipment are being deployed in a range of environments to reduce labor requirement in warehouses, transport yards, and transport modes (e.g. ocean freight). The workforce needs to be upskilled to work cross-functionally in a more agile environment and handle high-value activities. Big data in combination with machine learning (ML) enables optimization of store

and supply chain labor through the timely allocation of tasks in a prioritized manner.

- In a world of global, regional, and local disruptions, retailers who use ML and AI will be better poised to balance source cost and risk of supply chain disruption; fall-back processes are vital for economy-critical retail supply chains.

Conclusion

As retailers recover from COVID-19, stores are likely to be a vital component of omnichannel retail. Indeed, at the time of writing, a number of retailers are being restricted to home delivery and buy online, pickup in store.

As the economy normalizes, traditional retailers need to be able to leverage their strengths to fight back against pure online retailers. Stores should be seen as forward inventory nodes in close proximity to the target market; indeed, by opening a

store, retailers have already determined that there is a target audience nearby for their proposition. These legacy decisions uniquely position them to meet the 'I want it now' expectation without making huge CAPEX investments while increasing the average selling price of their inventory by making trapped inventory available to sell. Technology will be a key enabler for business orchestration as real-time insights and personalization through ML algorithms will ensure a profitable future for stores and the high street.

About the Author



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Tim Bateman is a Retail Supply Chain Partner at TCS based in the UK. With 25 years of experience in retail supply chain, Tim helps global clients thrive in the digital age. Tim has lead several large supply chain transformation programs leveraging processes improvements, organizational clarity, and the right technologies.

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About TCS Retail

TCS Retail partners with over 100 global retailers, driving their growth and digital transformation journeys. We are solving their toughest challenges by harnessing our deep consulting and technology expertise, amplified by strategic investments in products and platforms and research partnerships with top universities; a co-innovation ecosystem of over 3,000 startups; and Nucleus, our in-house innovation lab.

Retailers worldwide are adopting the TCS Algo Retail™ framework, a playbook for integrating data and algorithms across the retail value chain, thereby unlocking exponential value. Our solutions and offerings leverage the combinatorial power of new-age technologies to make businesses intelligent, responsive, and agile. TCS' portfolio of innovative products and platforms include AI-powered retail optimization suite TCS Optumera™, unified commerce platform TCS OmniStore™, and AI-powered enterprise personalization solution TCS Optunique™. With a global team of 40,000 associates, we are powering the growth and transformation journeys of leading retailers worldwide.

Contact

For more information on TCS' Retail Solutions and Services, please visit <http://on.tcs.com/TCS-Retail>

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About Tata Consultancy Services Ltd (TCS)

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