WHAT WILL EMERGE FROM TODAY'S RETAIL CHAOS?

Relentless Retail Chaos

Is it too early to suggest that, perhaps, a little consistency is beginning to emerge from retail's seemingly relentless recent changes? It's risky to make an assumption like this given all the retail chaos. No one knows what news will break and be the next industry-changing moment.

Some recent examples? Unilever buying Dollar Shave Club to better understand digital engagement. Walmart buying Jet.com to jumpstart its e-commerce push. Lidl deciding the time is right to enter the U.S., Amazon buying Whole Foods to strengthen its grocery play (and start an unprecedented industry panic in the process). The market for consumer products is changing dramatically. Traditional players are responding as best they can and unexpected competitors keep emerging. Meanwhile, new channels, improved technology, and ever-dropping prices empower the real beneficiaries of change: the consumer. Retail Chaos, indeed.

Retail's Triple Threat Marketplace

The retail industry may never again return to any level of stability. However, there is evidence the landscape is splitting into three key segments — what might be called a triple-threat marketplace. This includes:

1. Pure-play Ecommerce Retailers.

This "new" wave of businesses have the ability to capitalize on changing consumer wants and needs much faster than traditional brick-and-mortar. Amazon dominates this group, of course, but is by no means the only player, especially outside food and beverage. *Sales among this group represented just 8% of total retail sales in the first seven months of 2017 but stole 29% of industry growth. (Amazon accounted for nearly half of that, by the way.)*

2. Hybrid Online/Offline Retailer.

Traditional chains addressing change well enough to retain a portion of their loyal customer base (at least for now) and making positive strides toward an omnichannel business strategy. It's worth noting that *Walmart's share of Procter & Gamble's total sales didn't decrease in the last fiscal year — it increased by about $600 million.*

3. Price-based Retailer.

The last remaining traditional “channel” if you will, although this segment extends beyond packaged goods. Extreme value chains haven’t been hurt too badly by e-commerce, in fact, they seem to be thriving amidst the retail chaos. *According to IHL, of the 4,080 net new stores opened in the first seven months of 2017, more than half (2,451 to be exact) was launched by six extreme-value chains: Dollar General, Dollar Tree, TJX, Aldi, Lidl and Five Below.*

Common Characteristics of Retail’s Triple Threat Marketplace

What each of the three segments has in common, is the unique complexities they add to the traditional supplier operating model: Pure-play e-tailers and the disruption they’ve brought to inventory planning, distribution and fulfillment models. (Are you ready for single-SKU home delivery?)

Hybrids, with the way they’re forcing suppliers to address the demands of omnichannel retailing. (Will your category stay in the store or move completely online?)

Value chains with their unique pack-size and category needs. *(Will you produce that $1 SKU, or concede it to private-label? Can you efficiently manufacturer and ship shelf ready packaging?)*

All three segments wreck havoc on supplier profit margins as retailers battle for price supremacy. Adding to the complexity, retailers do not really stay completely in a single segment. Amazon’s brick-and-mortar push is more a distribution strategy than an alternative channel (but the world’s largest e-tailer now owns hundreds of Whole Foods stores). Walmart may have just opened its 1,000th “online grocery” pickup location, but it’s been making more noise with its efforts to compete with Amazon on price. Retail Chaos within Chaos?

The Not-So-Simple Truth for Suppliers Amidst Retail Chaos

What’s not so complex? How retailers need to respond to compete.
Quite simply, to be successful in today’s triple-threat retail world, retailers must re-evaluate every existing business practice. From new product development to in-store merchandising, and everything in between (and even after). It will require a complete overhaul of the way suppliers and retail partners collaborate and communicate. That, in turn, will demand dramatic changes to all internal business functions. And it won’t be easy.

With so much to be done, with so many new capabilities to learn, and with so much at stake, retailers can no longer treat their vendors as purely tactical. With everything else changing, the traditional vendor-client relationship must change as well.

What's Needed for Success?

Strategic partnerships. Retailers must evaluate who has the resources, the capabilities and the readiness to go beyond just delivering products and services. Retailers need partners to provide marketplace understanding and flexible skill sets. They must find those who are committed to the relentless development of capabilities on behalf of their clients.

Critical to success? Asking the right questions. No longer is it acceptable to make supplier decisions based only on low cost. Moving forward, an evaluation process based on "Best Cost" is required to succeed in today's triple-threat landscape.

"Best Cost" reflects an understanding of today's retail chaos (i.e. the business challenges and solutions to address them). "Best Cost" reflects an acknowledgment of the importance of ROI insights and how best to achieve them.

Finally, ROI moving forward may not necessarily be solely financial but may include multiple results. These include distribution channel relationship enhancement, innovation identification and supply chain optimization. Today's retail chaos, regardless of whether a little consistency is emerging, requires nothing less.