White Paper

Identifying Solutions Delivering Results

Retail disruption is here. In an omnichannel world, nimbleness is more important than scale. Are you ready?

Remember when Target used to be a mass merchant?

The retailer, which for decades has specialized in stores of 125,000-plus square feet carrying 100,000-plus products, has been very busy lately re evaluating and reimagining its longstanding business model. Among the more notable moves undertaken over the last year, Target:

- Announced plans to open hundreds of "flex-format" stores that can be as small as 20,000 square feet. One of the key elements of these smaller stores is a greatly reduced product assortment tailored to local needs.
- Began cutting down SKU counts in categories of packaged goods staples to allow for greater focus on priority categories. “We will never be famous for selling bottled water or laundry soap,” chief executive officer Brian Cornell told Wall Street analysts in New York.
- Rolled out a line of 50 exclusive board games in conjunction with a variety of product manufacturers. Category vice president Nik Nyar said the initiative reflects a desire to become "a go-to retailer for toys and experiences other stores don’t have.”
- Undertook efforts to make more than half of the store base ready to handle fulfillment of online purchases this holiday season. The strategy is part of efforts to revitalize sluggish e-commerce sales growth.
- Unveiled the Chobani Café, a 1,100-square-foot portion of a 45,000-square-foot store opening in downtown New York this month that will sell yogurt-based dishes and other meals to improve its appeal with Millennials.
- Continued a plan to spend $5 billion over three years overhauling its supply chain and technology infrastructure. Target hired two former Amazon.com executives to spearhead the changes.

The underlying goal of all this business disruption is to make Target more flexible and nimble in its back-office operations and, consequently, more unique and responsive to its shoppers. Both steps are critical for any company that hopes to survive the evolution to omnichannel retailing.

Target might be a little ahead of the game in addressing these needs because it has long understood the importance of custom product and unique store environments (and also because its financial performance has been a little shaky lately). But other retailers will be following suit. If they don't, you won’t need to worry about supplying them for too much longer.

Scaling back on scale

National retailers devoted much of the last 70 years to building out massive product sourcing and distribution systems that could feed ever-expanding store bases in ever-more effective, economical ways. Consumer product manufacturers were in lockstep, creating increasingly efficient supply chain operations designed to deliver mass quantities of branded products to any and every retailer that wanted them — and then sending even more inventory, via promotional displays, to any retailer that would take them.

Once they got the volume flowing properly, manufacturers then set their sights on cost reduction and ever-greater efficiencies. Primary packaging was streamlined to fit into secondary boxes and onto pallets for efficient shipment by the truckload to stores, where shoppers grabbed one or maybe a few units and carried them home on their own. So, for manufacturers, the end goal was getting the product to the right place at the right time for the lowest cost.

Then, along came the Internet, giving consumers nearly unlimited choice when it comes to the retailers they shop and the products they buy. They don't need to visit a store anymore, because they can have everything delivered right to the house. And they don't even need to accept the product you're offering, because they might find someone else who'll make something similar just for them.

Today's consumer doesn't just want unlimited choice, they want customized, personalized products and experiences. You can't provide those at scale. Manufacturers now, the end goal has become getting the right product to the right place at the right time — although there are far more right places than ever before, and the right time is inching closer and closer to "immediate." The existing supply chain isn't decided to handle delivery of "eaches," one unit at a time, directly to consumers.

To remain relevant in this new marketplace, retailers will need to offer exclusive products and unique experiences that can differentiate them from the competition and maintain the need for brick-and-mortar shopping trips.

In this new environment, those economies of scale that manufacturers have worked so long and hard to achieve aren't going to help make the unique products, pack sizes, displays and product assortments needed to service retailers in the future — or to deliver single units of products to thousands of online shoppers who've ordered home delivery.

Order numbers are increasing as order levels decline. Pack sizes are changing dramatically. Multi-packs and secondary packaging are becoming far more important to both marketing and merchandising. And, with consumers now able to buy products anytime, fulfillment models need to be operating as close to "real time" as possible. It won't be enough to simply incorporate additional practices to address the demands of e-commerce fulfillment. That's only step one. The next, much tougher step will be to restructure the entire supply chain to address the industrywide changes that e-commerce is driving.

Future supply chain success is going to require a modern, flexible and expeditious system that can handle the countless manufacturing and distribution permutations that will be needed to get your products into the hands of consumers. Industry analyst RetailNet Group calls it the "personalized supply chain." Every stage of the supply chain has to change.

This will be no easy task. First, because it will require a pretty substantial investment to re engineer the organization's tangible assets. And second, because it might be even harder to re engineer organizational mindsets that have become nearly as hardwired as the infrastructure. Manufacturers will need to stretch their thinking as well as their resources.

Unilever, for one, appears to understand this: In July, the company acquired Dollar Shave Club, the online subscription service for razors and other grooming products, not for the $200 million in revenue but for the insights DSC has gained interacting with 3.2 million mostly young-male members. Unilever is also in talks to buy Honest Co., which similarly uses online subscriptions to sells a large portion of its diapers, cleaners and personal care products to young mothers. Major change often requires such fresh infusion of perspective.

It also is going to require supply chain partners who can help make the necessary transformations. Like regional distribution centers with digital printing capabilities that make short runs of secondary packaging and product displays cost-effectively possible. Or on-site engineers who can provide the necessary technological expertise on the spot, whenever it's needed.

In today's complex ever changing environment, both manufacturers and retailers need to seek partners with a strong understanding of what it takes to win, and the capabilities to execute, "Concept to Checkout" capabilities. With the rise of e-commerce turning physical stores into fulfillment warehouses maybe the need is now "Concept to Cupboard."

And you can't reach a consumer's cupboard through scale.