

Retailers grapple with complexities of omnichannel supply chain management

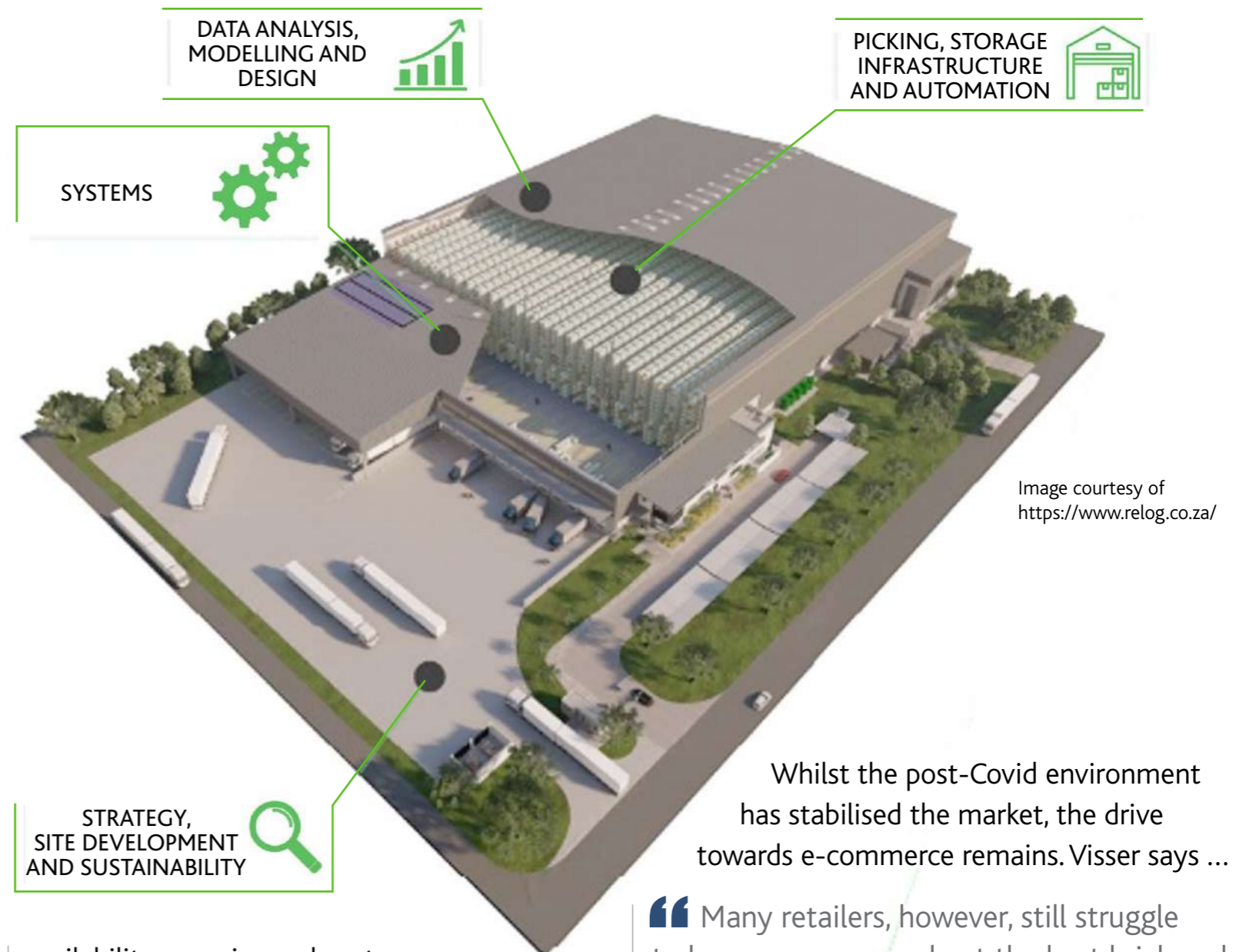
... in the era of e-commerce expansion and reverse logistics challenges

Supply chain management has become increasingly complex in today's fast-paced and ever-evolving business landscape. The rise of e-commerce, shifting consumer preferences, and growing sustainability concerns have significantly impacted retailers' reverse logistics processes. As companies strive to meet customers' demands for seamless returns experiences, the challenges in managing reverse logistics have multiplied.

The growth of e-commerce has revolutionised the international retail industry, with brick-and-mortar shops now adapting to the online realm.

Rand Merchant Bank (RMB) predicts the value of e-commerce transactions in South Africa to surge 150% to R225 billion by as soon as 2025. The outbreak of the Covid-19 pandemic has much to do with this. FNB saw average e-commerce spending grow 30% year-on-year during the first half of 2020 compared to 2019, whilst the average physical spend at a traditional vendor declined 12% year-on-year during the same comparison period.

According to Floris Visser, CEO of Relog, traditional brick-and-mortar retailers have especially been challenged to adapt and add e-commerce to their retail offerings. "Many have opted to service orders direct from their stores, with loads of challenges in terms of



availability, promise and cost recovery – whilst striving to meet ever more demanding customer requirements.”

Whilst the post-Covid environment has stabilised the market, the drive towards e-commerce remains. Visser says ...

“Many retailers, however, still struggle to have e-commerce beat the best brick and mortar stores, and we have seen a definite increase in foot traffic back to stores.”



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Brian Mudhokwani, COO of ISB Optimus, asserts that South Africa's retail industry is undeniably experiencing a profound transformation driven by the influence of e-commerce and technological advancements, redefining the supply chain landscape.

Retailers must now navigate the complexities of operating physical and virtual stores simultaneously. This omnichannel approach requires more comprehensive supply chain solutions, as companies deal with multiple sales channels, inventory management systems, and distribution networks. Reverse logistics, which involves the handling of returned goods, has become an integral part of this multi-dimensional supply chain.

Visser says in South Africa, digitalisation has not penetrated the supply chain as much as one would think. "I see so many processes still fully reliant on paper documentation – with possibly the exception of certain e-commerce vendors. I still get paper invoices with my delivery and sometimes must sign

a paper proof of delivery forms to confirm receipt."

On the positive side, ordering, payment, order confirmation, and shipping confirmations are paperless and delivered via email.

Retailers are, however, increasingly having to balance an online and physical presence while stopping costs from skyrocketing.

Craig Langton, business owner of Last.Mile.Fast Solution says the focus should currently be on gearing up for the future of digital business, as this will determine success. "The ability to offer a low-cost, on-demand service for a middle and reverse-mile solution will be crucial for success in the digital world.

"The biggest challenges faced are the costs of an online presence and being able to offer a reliable solution that is low cost, scalable and adaptable. By integrating an omnichannel strategy, retailers can reach a wider audience by offering e-commerce and mobile commerce (m-commerce) and delivering on-demand delivery."

Navigating the shifting tides of retail in the digital age

According to Mudhokwani, brick-and-mortar stores face their fair share of challenges, including maintaining inventory levels that match consumer demand, integrating with e-commerce channels and adopting sustainable practices. Additionally, physical stores must deal with higher operational costs than online-only retailers.

"Omnichannel strategies, which combine online and offline retail channels, have become critical for traditional retailers," he says. "Integrating these strategies, however, poses challenges in aspects such as inventory management, logistics and customer experience. Ensuring product availability across channels while minimising cost, is a delicate balance that retailers have to strike."

Stephan van der Merwe, marketing lead for Smartload, says that omnichannel strategies ultimately force traditional retailers to break down silos and foster greater collaboration between

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business functions such as e-commerce, retail, supply chain, marketing and IT. "This is necessary for effective coordination between functions to achieve omnichannel objectives," he says. "In terms of communication, systems must be implemented to facilitate efficient communication between sales channels and business functions. Tools such as POS (point of sale), OMS (order management system), and CRM (customer relationship management) systems aid in maintaining inventory visibility and management, order tracking and customer communication, as well as ensuring efficient order fulfilment."

Apart from this fundamental change in how business functions and various sales channels interact with one another, the supply chain operations of retailers certainly have become far more complex with the integration of omnichannel strategies.

Langton says when it comes to the online, it is critical to partner with delivery companies that understand the complexities of on-demand delivery in the last mile.

Anthony Goldberg, CEO of Antel Solutions, says amidst all of the changes seen across the retail sector in recent years, there has been a definite slowing down in the growth of brick-and-mortar stores. "Central distribution has fully evolved, and the specialisation in last mile deliveries has seen the need for large in-store inventories reduce, resulting in more effective use of retail space."

He believes most companies have embraced the option to use brick-and-mortar stores as

Choppies, distribution centre, Denver, Johannesburg <https://www.relog.co.za/>



return repositories to circumvent the cost of paying transport costs for returns. This allows for returns which are still saleable to be sold at the store of return.

Mudhokwani says that e-commerce has changed the game for retail supply chains. "Retailers have to rethink their supply chain strategies completely, as they have to cater to not only in-store shoppers, but also online consumers. In South Africa, as in many parts of the world, consumers increasingly shop online. The supply chains must be more responsive and efficient in handling direct-to-consumer deliveries. This necessitates a shift from traditional distribution models focusing primarily on delivering to stores to a more complex network that includes fulfilment centres and last-mile delivery solutions." He maintains that ...

“ For traditional retailers, strategies like diversifying suppliers, using predictive analytics to forecast demand and implementing real-time tracking of shipments can help in minimising supply chain disruptions. ”

Langton adds that the balance between an online and offline inventory is also constantly shifting based on consumer demand and the need of the retailer to drive footfall in their store.

"Our customer research, for example, presented interesting feedback from a shopper who was frustrated by being unable to buy a product in-store and being forced to wait three to five days for online delivery. Ideally, all qualifying inventory should be available online with the option of on-demand delivery."

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Mudhokwani says that in a country like South Africa, where factors such as labour strikes and energy shortages also have to be considered, having a resilient and flexible supply chain is crucial.

Visser explains that most traditional fast-moving consumer goods (FMCG) retailers set up supply chains to be lean and focused on doing repetitive tasks as efficiently as possible. In the new environment, this has to change. "Omnichannel distribution demands flexibility and requires last-minute decision-making to route packaging through alternative channels. Adding our general low available to promise (ATP) in certain sectors severely increases this complexity."

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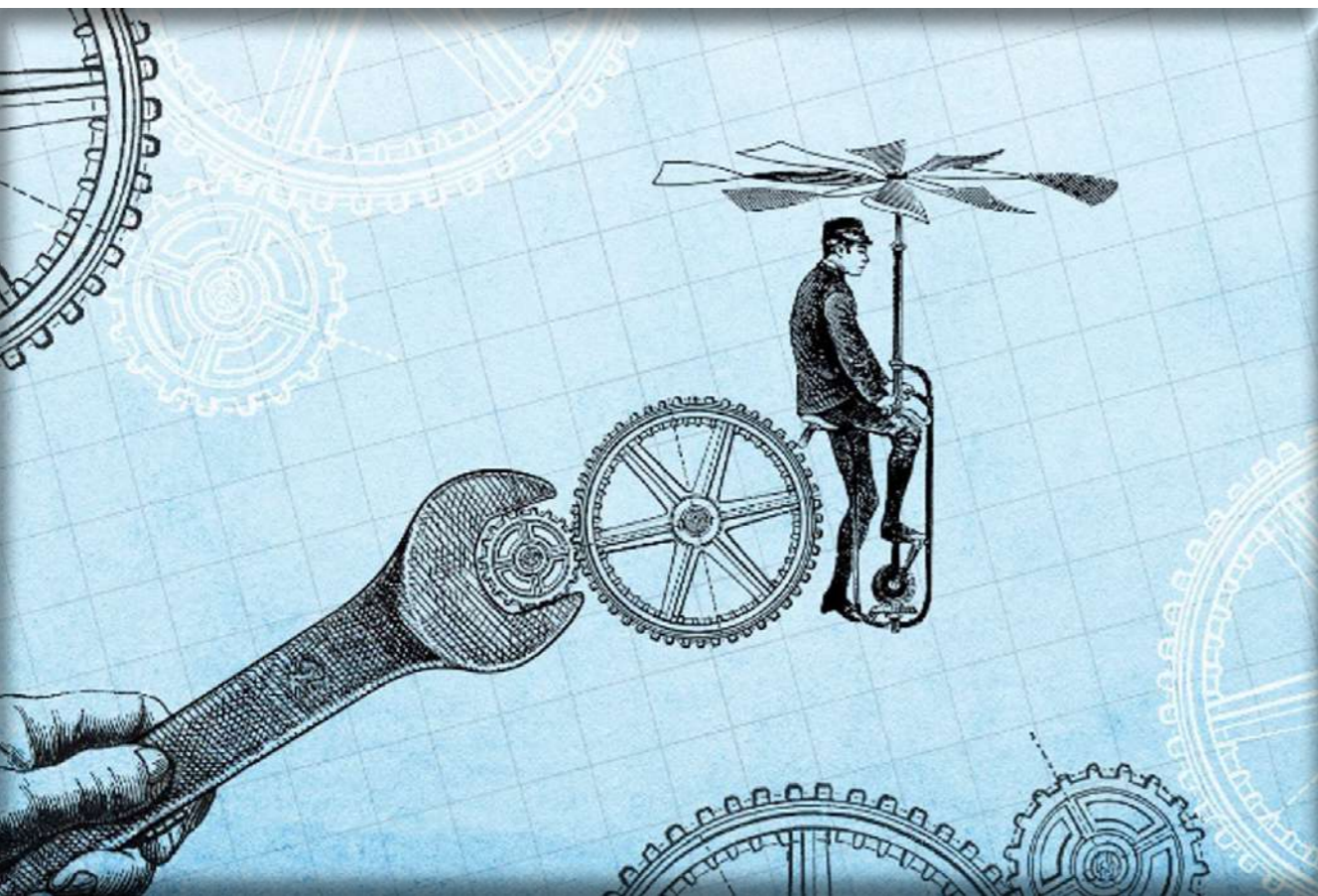


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Unravelling the complexity of modern supply chains with technology

According to Visser, there is a lot of excitement and development internationally around various dark store and automated fulfilment centre technologies and operations, with certain Original Equipment Manufacturers (OEMs) achieving upwards of 600 small item picks in their robotic picking.

This, however, comes at a considerable cost, and South Africa needs more employment. "Sticking to the old engineering 'Keep It Simple Stupid' or KISS principle, we can achieve very competitive results (cost per case) and still meet our customers' expectations," he says.

"Deep analytics, applied correctly, can also add significant insight into operational challenges and the ability to forecast issues before they even occur, allowing management to be proactive and not reactive. It can also reduce the reliance on exceptional management, by taking some of the 'clever' decision-making and automating it. This then requires only process-driven managers to become as, or even more effective as, the system never gets sick, tired or resigns."

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Goldberg says technology plays an essential and crucial role in inventory management for the modern retailer. “The cost of retail space and the consumers’ need for variety and products meeting their needs have forced retailers to adjust supply chains to achieve this goal.

A company not embracing technology would face severe competition and become uncompetitive. It would lose its agility to serve customer needs,” he explains. The simple reality is that when supply chains are efficient, customers enjoy faster delivery times and better in-store availability. Inefficiency, on the other hand, leads to stockouts and delays.

Technology, says Van der Merwe, has enhanced the fluidity of supply chains greatly. “With the greater accessibility of tracking technologies such as the Internet of Things (IoT), supply chains have become more data-rich than ever before. More data means greater insight, which in turn enables more informed decision-making, resulting in seamless inventory management and greater fluidity throughout the supply chain.”

At the same time, says Goldberg, sustainability has become an imperative in doing business. “Companies that do not embrace this concept fully, will be left behind. Brick-and-mortar stores become the shop window for those who want to see the product before purchasing. Sustainability at this level means ensuring supply chains ensure sustainable practices at every level to meet and maintain customers’ needs.”

With margins under pressure, low-cost solutions to replenish, return and deliver on-demand products



Alex Nabaum/theispot.com
<https://sloanreview.mit.edu/>

have become an operational focus for many retailers. Still, traditionally, this has been an expensive undertaking using bakkies and trucks. The introduction of motorcycles in the supply chain has been a positive development.

“Brick-and-mortar stores have been under pressure to optimise stock levels in the current economy, by replenishing stock more regularly,” says Langton, highlighting the need for efficient operations – not only from a cost point of view, but also for sustainability reasons.

“Executing an on-demand collection for the reverse mile promotes a shorter turnaround time for transactions, resulting in a more efficient supply chain.”

From returns to recovery, mastering reverse logistics in the new era

Clothing retailers, says Visser, probably have the highest rates of returns compared to any other commodity group – due to the relatively low adherence to standard sizes across all brands and merchandise. This requires customers to order multiple sizes and return the ones that do not fit.

“This can be very costly if you offer home collections of returns and get two-thirds or more of the goods sold back and then having to inspect each item just to be sure it remains saleable,” he says.

“Offering in-store delivery with an immediate money back or store credit is a great way to



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get feet into the store with the option to either merchandise the stock or return on the next delivery vehicle to the store – avoiding courier costs and such.”

According to Visser, the frustration is the time in a store it takes to complete the returns transactions – simply requesting a home pick is far less time-consuming and, therefore, the option most used.

“Free delivery and returns equally keep customers away from stores, and the neat trick to add to your basket until the delivery is free and then just returning the unwanted goods, free of charge, is one-way customers are punishing retailers,” he explains. “With low margins ranging from 1% to 5%, retailers must be efficient to survive. With high volumes, the slightest inefficiency will quickly add significant costs, which is hard to reverse.”

Goldberg agrees that creating return hubs at brick-and-mortar stores makes significant savings in transport costs and ensures return inventory that can be resold or redeployed in the shortest possible time.

“Notable trends in reverse logistics are that suppliers and retailers are trying to find innovative ways to manage returns to embrace extended producer responsibility and avoid landfill fully,” he says. “Regarding improving sustainability, all parties are looking at all components of the circular economy to reduce costs and encompass sustainable and responsible practices. Innovations in the circular economy are in the direction of repair, refurbishment, recycling, and replacement



Modern supply chain mapping is the process of engaging across companies and suppliers to document the exact source of every material, every process and every shipment involved in bringing goods to market. Accurate supply chain mapping only became possible with the rise of online maps and the social web. The first online supply chain mapping platform was developed at the Massachusetts Institute of Technology in 2008. From the beginning it was clear that online supply chain mapping had a number of key advantages. Image and caption courtesy of <https://sourcemap.com/>

programmes to embrace sustainability and avoid landfill. The right-to-repair movement, for example, is gaining momentum globally.

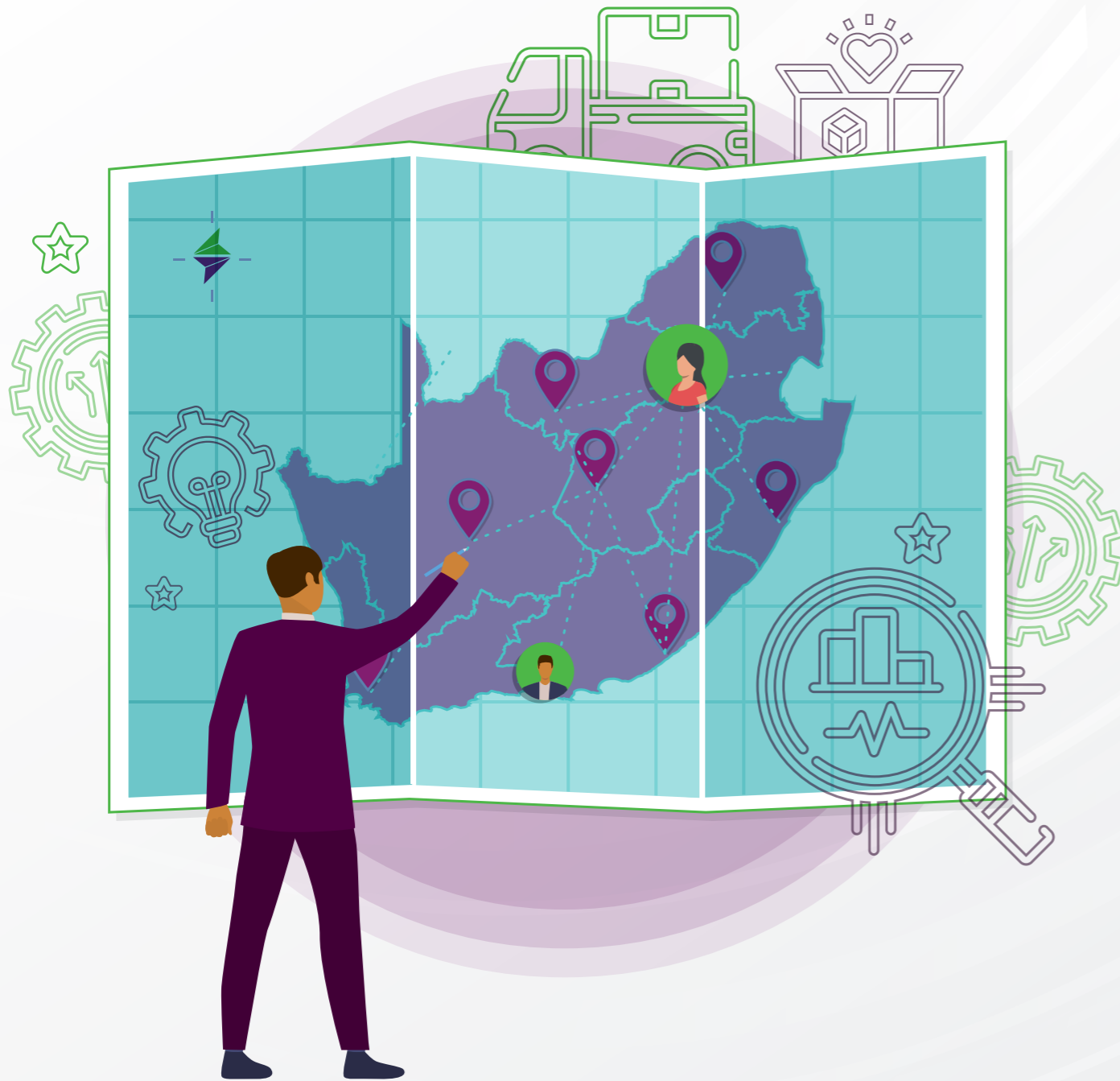
Visser maintains that it is essential to reduce waste in the supply chain.

“Almost everything is run and planned off of crude forecasting tools that use the basic inputs to plan and guess the future requirements. Suppliers plan production and raw material purchases based on retailers’ forecasts, with only occasional updates and no real historical trend analysis being done to refine the next forecast. Over or under-production results in more storage costs, lost sales, or stock in the wrong location, requiring additional transport and delays. So much of our supply chain is reactive that it is frightening.”

That is why supply chain visibility is so important, says Van der Merwe. “Greater visibility within supply chains means more real-time information, which allows management teams to make more informed decisions regarding hindrances such as bottlenecks, or even to anticipate disruptions and mitigate risks.”

Another important factor is strong relationships with suppliers. Open communication and collaborative relationships with suppliers allow for improved supply chain visibility, flexibility and responsiveness when dealing with disruptions, and faster problem-solving. All of these elements ultimately result in a more resilient supply chain.

According to Mudhokwani, the goal is to have efficient systems not only for reverse logistics,



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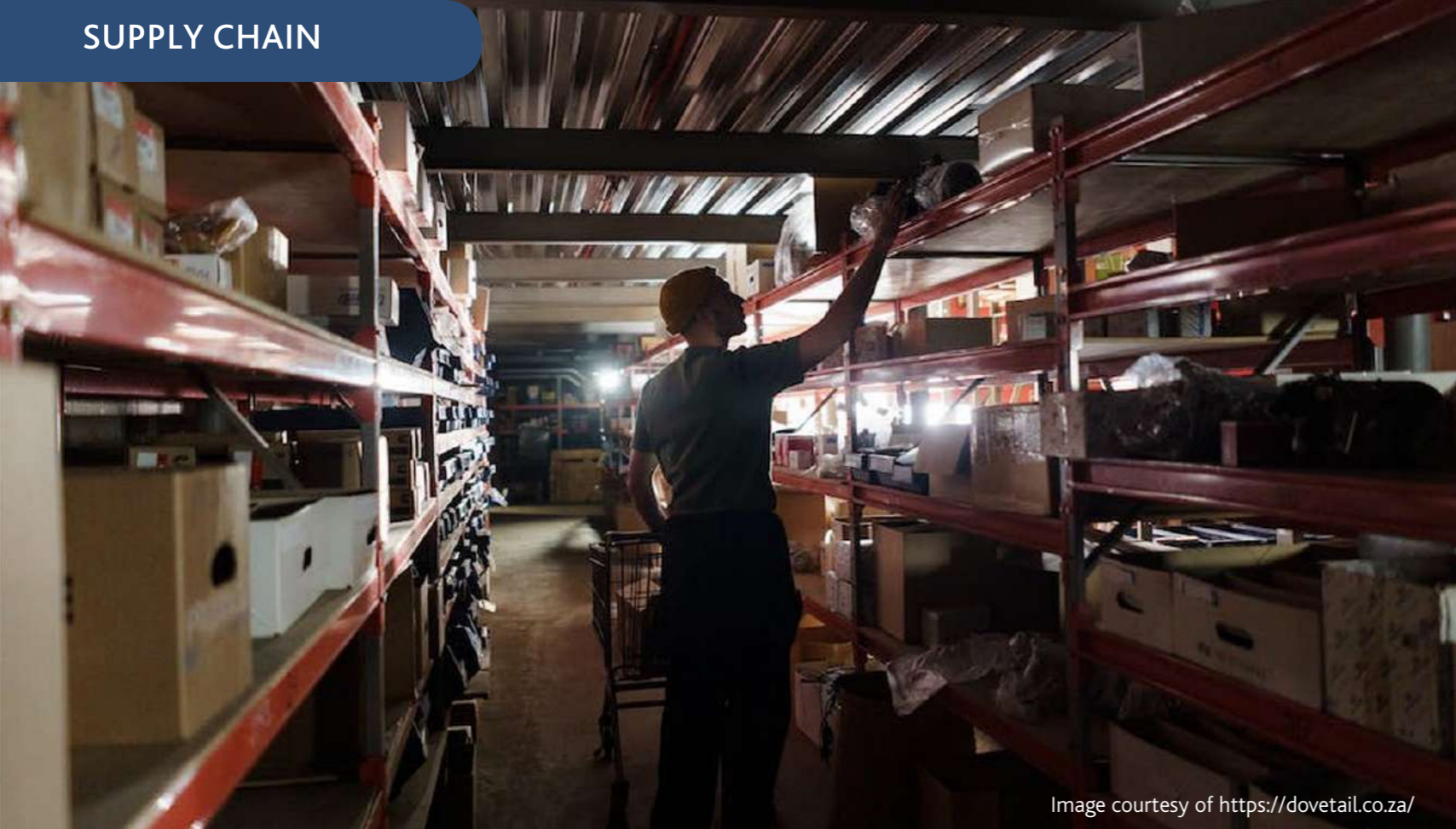


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but also across the supply chain. "It is about leveraging one's logistics services so that goods can be recycled, refurbished or resold. The process needs to be about reducing waste as much as possible and recovering costs."

Langton says traceability has become imperative for understanding the origin of the goods or services sold.

"Transparency from retailers on this is critical to building trust with a consumer purchasing online or in-store. From cost and method of delivery to the store return policies, these all form part of the new norms for customers' information about the merchants they engage with. Research shows that consumers have more trust and spend more with a retailer that offers a transparent returns policy."



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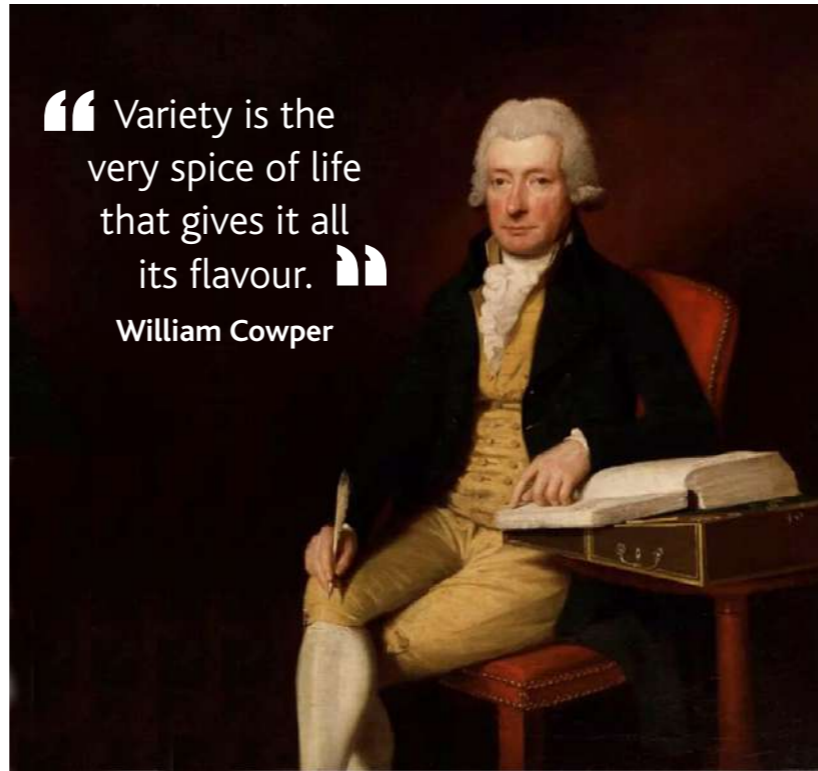
The balancing act of managing inventory growth

William Cowper first said that variety is the very spice of life that gives it all its flavour. While few can dispute this statement, the modern-day retailer's reality is one of excessive variety.

Increased diversity of products, explains Goldberg, requires retailers to maintain larger and more diverse inventories to remain competitive. Further complexity ensures that last-mile deliveries are also efficient and competitive. To ensure customer retention, the additional complexities force retailers to embrace technology at all levels to compete on stock availability and provide the necessary customer services and price competitiveness.

“ Variety is the very spice of life that gives it all its flavour. ”

William Cowper



William Cowper by Lemuel Francis Abbott, National Portrait Gallery, London.

Visser says consumers want choice. “For decades, this has been seen as the first rule in retail to achieve customer satisfaction. But the second rule of availability is where the differentiation lies. All the range in the world without consistent availability is more detrimental than a small range with more consistent availability.”

This is clear if one compares Woolworths to Checkers, for example. Despite Woolworths having a much smaller range, its high quality and good availability continue to see people flocking to its stores.

Langton adds that the growth of online platforms offering an increasing range of products has changed consumer behaviour to engage more

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frequently with merchants that provide a more comprehensive range of products.

This is what makes inventory optimisation and demand forecasting so important, says Van der Merwe. "Retailers have the opportunity to reduce the risk of stockouts or excess inventory by making use of demand forecasting. The accuracy of these forecasts can be significantly increased by improving the quality of the data captured by using automated inventory management systems."

Visser says retailers nowadays have to have deep analytics. "Supply chains and logistics on our large format distribution

operations are too complex for a human mind to comprehend at a micro level fully. That is why deep analytics is so important to understand the impact of disruptions when they occur and the frequency of occurrence, so you can start to pre-empt these and plan better. Deep analytics is also the best tool to identify weaknesses and inefficiencies by highlighting repeat work or processes needing to be followed. It must, however, be done near real-time and at a transaction level."

Goldberg adds that the comprehensive use of data is compelling in inventory management systems fully integrated into the point of sale. Ensuring scientifically calculated backup stocks are available is also essential.

"Of course, ongoing collaboration between all the parties in the supply chain to meet service level expectations is always necessary. This includes strict



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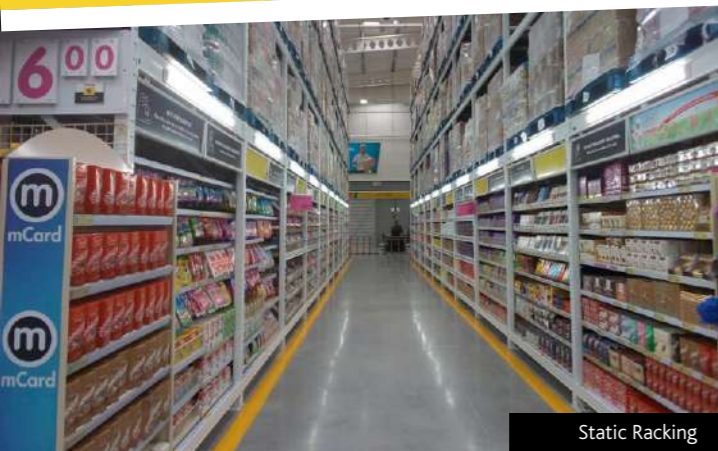
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“Abnormal buying trends, for example, might result in too high a stock position for a certain period, while disjoint from the actual customer could mean a lack of understanding. Not being able to track substitutions or abandoned baskets is another concern as it makes real-world adjustments extremely difficult.”

The experts, however, agree that no matter how complex the current retailer supply chains are, the business is in trouble if they are starting to impact customers. “Customers should not be bothered about your complex supply chain,” says Visser. “They simply need to enjoy their shopping experience and be oblivious as to what it took to get the product to them.”

service level agreements with suppliers, to avoid being out of stock.”

Managing product diversity, explains Mudhokwani, is about continuously analysing consumer behaviour and preferences to ensure that the right products are available at the right time. “Of course, this is quite challenging for retailers in South Africa, where market preferences can be very diverse.”

Both Goldberg and Mudhokwani say implementing automated inventory management systems can lead to more accurate stock levels and reduced labour costs. Still, Visser warns that this can only hold serious pitfalls if one can build in a significant amount of intelligence.

There are, of course, a few opportunities to enhance supply chain visibility in specific commerce sectors, where availability is sometimes challenging. Giving the customer and the staff on the floor the ability to look across and up the supply chain to understand where stock is (coming in tomorrow, just clearing the DC, available at another store, for example) can support sales, but only if that data is accurate and current.

Retailers must continuously collaborate with stakeholders to remain competitive and to offer solutions that drive retailer proficiency and higher profits. Supply chains that are agile, responsive and can swiftly adapt to ever-evolving customer

preferences, technological advancements, and market trends are non-negotiable. **SR**



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