Transformation of traditional retailer in the era of New Retail

Deloitte China, October 2017
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Executive Summary

Omni Channel is becoming the new trend in retail. Supply chain need be transformed to cover end to end service from forecast to distribution.

As the retail sector continue to evolve, consumer’s choice of shopping channel has become just as important as their choice of products. Nowadays, consumers tend to select shopping channel that provides optimized customer experience. Because of the changing habit, traditional retailers must figure out new solutions to transform their sales channel into the new era of retail, and promote Omni channel. These actions play a vital role on occupying consumer shopping channels and increasing sales conversion rate.

But traditional retailers are still facing lots of challenges. Efficiency improvement of supply chain management has been identified by most of the traditional retailers as their top priority for new retail transformation.

In the new era of retail, supply chain should set “customer connectivity” and “operation & services improvement” as the new centers, and deepen integration between Inventory and Consumer/Context. Thus, the future of supply chain management shall be driven by data; retailers should break the current distribution barriers and provide cross channel services to both internal and external customers that can ultimately optimize consumer experience and help the company win the competition.

The Chinese retail market is known for its channel diversity, market volatility, quick evolution, and increasing demand on fast delivery and personalized products. Moreover, imbalanced inventory level, high logistics cost, fierce market competition and data complexity have largely increased the level of difficulties for new retail transformation.

In this white paper, we provide in-depth insights on how traditional brand retailers and manufacturers should transform to take lead in the era of New Retail, identify the main challenges of supply chain management and elaborate the optimized operation model.

To help COO better understand the new journey of supply chain transformation, we conducted comprehensive analysis on current Chinese retail market trend, and share our opinions from the views of strategy, planning, inventory, logistics and data analysis. We hope to help the manufacturers and retailers winning the new retail battle.
Section I – New Retail, New Mindset
In the era of New Retail, consumer has more choices of what to buy and where to buy. So the choice of shopping channel has become as important as consumer’s choice on products; Brand retailers should set their strategy to focus on consumer interactions and optimization of customer experience.

**Traditional Strategy**
Company centered: Company defines product & channel
Traditional retail strategy is mainly “sell” products to customers regard their preference. Companies tend to focus on product quality and cost as well as channel dominance (market share) in effort to cover a broader client base and achieve more sales.

**New Retail Strategy**
Customer centered: Company provides product and experiences
In the era of new retail, consumer has less experience of asymmetric information and shopping obstacle. So new retail strategy should focus on consumer engagement, such as user base, customer stickiness, traffic, interaction and experience to improve sales conversion rate.
Break Channel Barrier

In the era of New Retail, shopping channel boundaries are no longer necessary and getting vaguer; traditional brand retailers need to change their mindset and transform traditional sales channel management into a seamless Omni-channel service model.

Traditionally, sales channels are managed separately by different business units with independent sales resource, supply chain model, KPI metrics and operation team.

Most of the companies still hold traditional channel management mindset when promoting Omni channel retail, which only focus on the final purchase point and recognize sales revenues to either online or offline. Traditional KPI constraint and incentive setting has become the main challenges when companies are seeking Omni Channel transformation.

As the boundaries of online and offline channels become vaguer in New Retail; Manufacturers should focus on studying consumers and their shopping patterns to increase consumer interaction through providing end to end services during the shopping journey.

So the operating model that separates online and offline channel can no longer improve consumers’ shopping experience. Instead, integration of internal processes, resources and systems across channels to support Omni channel operation has become critical for brand manufacturers.

Traditional channel management

<table>
<thead>
<tr>
<th>Stage of Consumption</th>
<th>Demand</th>
<th>Research</th>
<th>Compare</th>
<th>Purchase</th>
<th>Receive product</th>
<th>Return &amp; refund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online sale</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Offline sale</td>
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</tbody>
</table>

Omni channel management in new era

<table>
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<th>Stage of Consumption</th>
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</tr>
</tbody>
</table>

Source: Deloitte Analysis

Transformation of traditional retailer in the era of New Retail
Section II – New Retail, New Challenge
Challenges

Traditional brand manufacturers and retailers are facing lots of challenges during the New Retail transformation. Supply chain management has been identified by most companies as their top priority for strategic development.

The Omni channel transformation revolves around “Customer, Product and Context”. “Customer” includes studying user base, digital marketing, and relationship management. “Context” covers shopping context, brick and mortar retail and digital customer experience design. “Product” examines when, where and what product to provide; supply chain transformation aims to provide solutions on “product”, with integration and interaction to “customer” and “context”.

According to the CFFA retail development survey, retailers are unsatisfied with current supply chain management setup, and consider this issue as the top challenge. Thus Omni channel transformation will create a great impact on future supply chain development.

To ensure a successfully transform into an Omni channel, retailers need to set supply chain as top priority to achieve lower cost and better service, and commit funding on capital investment, talent resources, and enhance S&OP.

Source: CFFA retail development trend research, Deloitte analysis

Transformation of traditional retailer in the era of New Retail
To promote new retail supply chain transformation, retailers should get rid of the traditional mindset of competing on product, but to win consumers by providing premium shopping experience.

**Customer Interaction**
- Sell products through channel and distributors, limited interaction with customers

**Supply Chain Model**
- Upstream/Downstream partners, and end customers in supply chain are connected by good flow
- Communication barriers and asymmetric information between upstream and downstream sectors in supply chain

**Traditional supply chain value**

**New retail supply chain value**

- Direct interaction and connection with customers under different context
- Vague boundaries across upstream/downstream supply chain
- Supply chain provide direct consumer service
- E2E supply chain operation is driven by digitalization, from consumer, products, to orders

Source: Deloitte Analysis
Transformation of traditional retailer in the era of New Retail
To-Be Supply Chain Operation Model

The To-be new retail supply chain operation model should be customers oriented, data driven, and provide cross channel services and experiences for both internal and external users.

### Best practice model

<table>
<thead>
<tr>
<th>New Retail</th>
<th>Traditional Model</th>
<th>To-Be Supply Chain Model</th>
</tr>
</thead>
</table>
| Generate sales conversion from user interaction | - Single supply chain model is unable to provide differentiated services  
- Separated supply chain operation model based on production and product characteristics | - Provide personalized services and products based on customer’s expectation  
- Segment supply chain based on target customers and service requirement. Improve capability and allocate resources to achieve seamless support under different shopping context |
| Cross channel integration | - Separated sales channels with own KPI indicators, function, and resources such as HR and inventories also kept independently  
- Lack of incentive for cross channel collaboration | - Encourage cross channel collaboration and resource sharing through process and performance incentive  
- Data sharing, cross channel visualization between upstream and downstream business partners  
- Standardized business process; provide variety of shopping options to customer |
| Personalized & responsive service | - Supply chain is defined as internal supporting function  
- Lack of flexibility to respond customer’s demand and request | - Position supply chain as a business service function  
- Emphasis on service level and flexibility  
- Perform end to end supply chain operation to suit customer’s service need with high transactions, small batch, customized and personalized order |
| Digitized retail journey | - Limited control on customer data  
- Lack of system integration and transparency of data  
- Lack of reliable data source and scientific approach to business decision making | - Enable data collection and digitalization through the entire shopping journey  
- Capture data throughout supply chain network to support high level transparency  
- Predictive supply chain analysis and optimization through big data  
- Setup supply chain governance model based on data analysis |

Source: Deloitte Analysis

Transformation of traditional retailer in the era of New Retail
Section III - New Trends and Action Plan
Manufacturers and Retailers are challenged by the retail market macro trend as well as the competition from different Omni channel players; which altogether will have a significant impact on supply chain management.

- **Diversification of retail channels** with the trend of integration across different business models.
- Consumers expect **highly responsive and customized** products and services.
- **Intensification of conflict between demand and inventory supply** reduces Omni-channel profitability.
- Logistics sector is moving towards **service specialization** and **shared economic model**.
- **Data and analytics** drive supply chain transformation and operation enhancement.

Source: Deloitte Analysis

Transformation of traditional retailer in the era of New Retail
Transformation of traditional retailer in the era of New Retail

**Trend #1:**
Rise of companies with multiple channel and business model

Customer’s shopping requirement is becoming more and more diversified. Retailers are moving in a common direction that integrate multiple business model to provide seamless consumer experience across channels.

### Deloitte Insights

- Retailers are applying differentiated strategies
  - Ecommerce giants expand to offline channel, and establish platform and eco sys.
  - Brick and mortar stores expand to online channel
  - Brand retailers expand their direct channels to reach broader market
  - Start-ups compete through flexible and efficient business model
- Common characteristics in different strategy: data driven and customer oriented
- Omni-channel is the future of retail

### Internal challenges of Omni-channel transformation from CEO perspectives

Percentage represents the CEO's agreement rate

- Unable to fulfill consumer demand cross channels: 55%
- Unable to keep up to technology innovation: 43%
- Unable to integrate isolated online and offline channels: 42%
- Unable to reform business model to adapt to market trend: 39%
- Unable to control increasing cost of Reverse logistics for online orders: 36%
- Unable to maintain sales growth of offline outlets: 35%
- Unable to control the execution cost of online orders: 35%
- Store clerks lack corresponding skills: 15%

Source: Deloitte Analysis, JDA retail and consumption industry CEO survey

Transformation of traditional retailer in the era of New Retail
**Initiative #1: Omni-channel supply chain Strategy**

Brand manufacturers and retailers need to consider segmenting supply chain by customer and setting differentiated service level targets. Supply chain shall be positioned as a key winning lever to “directly connect and serve customers”

**Omni-channel supply chain strategy roadmap**

- **Segment by product**
  - High Volatility
  - Low Volatility
- **Segment by customer and services**
  - Less Demand
  - Large Demand

**Customer Classification**

- **Service Level Expectation**
- **Cost to Serve**

**Supply chain strategy**

- **Service Level**
- **Sales Channel**
- **Value System**
- **Operation Model**
- **Supply Network**
- **Resource Allocation**

The top priority of setting supply chain strategy is to re-examine the target consumer and expectation toward different shopping context.

Brand manufacturers and retailers need to consider reallocating resources based on customer demand when implementing Omni-Channel strategy, future supply chain setup should be “customer oriented” instead of “inventory oriented”.

The key of Omni-channel is to connect with consumers directly, company’s business decisions should be based on customer’s demand. If retailer’s Omni channel strategy was focused on “expand sales channel to liquidize inventory”, then retailers may not be able to maintain a profitable and sustainable development.

Thus, in the era of new retail, retailers should set “connect with and serve customer” as their first priority. The future state of supply chain competitiveness is evaluated base on operational capacity and customer service level.

Supply chain must be flexible and responsive to meet fast moving market trend. Retailers should be able to make fast adjustment on product design, category portfolio, sourcing, inventory management and sales channel to maintain high service level.

Supply chain strategy should always aim to drive profitability. Value chain and supply network design has to align with business strategy to maximize investment return on omnichannel.

The return on supply chain investment should be evaluated from overall corporate level. To ensure benefit is correctly captured, proper fund is allocated and quick win is achieved.

**Misconception:**

Consider Omni channel strategy as the same as digitalization and e-commerce strategy, underestimate the importance of offline channel upgrade.

The “wholesale gene” of traditional company would be the major barrier to promote Omni channel. Retailers tend to focus on investing in system & facility, but neglect the importance of changing wholesale business model and KPI system.

Source: Deloitte Analysis

Transformation of traditional retailer in the era of New Retail
Trend #2: High expectation of service

Growing expectation from customers requires brand retailers to respond to market volatility effectively. In the meantime, customized and personalized products/services will be the vital competitive lever in the future.

Constant promotions leads to volatility in demand

China’s e-commerce promotions and shopping festivals are turning to routine business nowadays. The sales volume during consumer moments can increase up to tens of times of regular day. Manufacturers and retailers are experiencing greater inventory and higher order volume than ever before, that leads to significate pressure from warehousing and logistics perspective.

Volatility in market demand

2016 sales fluctuation of anonymous brand on TMALL

2016 sales fluctuation of anonymous brand on TMALL

Order delivery is crucial determinants in consumer satisfaction

Order delivery is one of the important factors throughout shopping experience. Customers are raising more and more expectation on order delivery service in terms of convenience, timeliness, and flexibility. Manufacturers and retailers are developing Omni-channel to integrate resources from online & offline to offer better delivery service, such as ship from store, ship to store and store pickup.

Expectation of high service quality and time efficiency for order delivery

Order delivery is crucial determinants in consumer satisfaction

Importance from expression

Order delivery Package Return Omni-channel

Order delivery is one of the important factors throughout shopping experience. Customers are raising more and more expectation on order delivery service in terms of convenience, timeliness, and flexibility. Manufacturers and retailers are developing Omni-channel to integrate resources from online & offline to offer better delivery service, such as ship from store, ship to store and store pickup.

Demand for personalization and customization will remain strong

Personalization and customization has already been a new trend for retail industry. This new trend will greatly transform supply chain’s organization and operational model into a much more flexible and reliable order fulfilment system. More and more retailers are building up their capability on personalization and customization. These differentiated products/services could influence and lead customer’s lifestyle and shopping preference, thus enhance interaction and improve sales conversion.

Personalization-led lifestyle

Source: Deloitte Analysis
Transformation of traditional retailer in the era of New Retail
To adapt to the highly volatile market demand, brand retailers should continue focusing on supply chain planning with improvement on cross function coordination, forecasting accuracy and supply chain flexibility.

In the era of new retail, planning is still the core aspects in supply chain operation. It requires demand-supply balance not only from time and geographic perspective, but also from channel perspective, i.e. planning to support cross channel sales.

As technology is becoming more and more mature, accuracy of planning and forecast is made possible by big data, artificial intelligence and machine learning.

Some leading retailers break the channel barriers between up-stream and down-stream systems to gain real time visibility of inventory and orders so that to improve forecast accuracy and planning efficiency.

More importantly, companies should build up supply chain flexibility to respond quickly and accurately in the consumer moments such as “Double Eleven”.

Supply chain flexibility should rely on a comprehensive Integrated Business Plan (IBP) that can help to coordinate various business functions, allows data sharing and direct operation changes at each business level.

Manufacturing and logistics supports are equally important on building up supply chain flexibility and fast responsiveness. They can help to decrease minimum lot size, shorten lead time, and add more order fulfillment nodes.

Integration of supply chain and business is another trend in new retail, such as category/assortment planning, smart store inventory replenishment based on sell through data. These require planning team have business sense and market knowledge.

The most difficult part for brand retailers is to break the original governance model by channel. Companies need to establish cross-channel planning functions and processes to execute planning work in an effective and efficient way, and also enforce disciplines of planning.
Initiative #2.2: Omni-Channel Order Fulfilment

Order delivery management

Cross-platform
Cross-channels

Characteristics of Demand

<table>
<thead>
<tr>
<th>Client</th>
<th>Retail</th>
<th>Wholesale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order/day</td>
<td>Large volume without plan</td>
<td>Small volume with plan</td>
</tr>
<tr>
<td>Order line item</td>
<td>Usually a few</td>
<td>Usually a lot</td>
</tr>
<tr>
<td>Ave. order/client</td>
<td>Relatively fewer</td>
<td>Relatively more</td>
</tr>
<tr>
<td>Delivery time</td>
<td>Quick response</td>
<td>According to timeline</td>
</tr>
<tr>
<td>Order accuracy%</td>
<td>High requirement (100%)</td>
<td>High requirement</td>
</tr>
<tr>
<td>Volatile orders</td>
<td>Extremely volatile (promotion)</td>
<td>Relatively stable</td>
</tr>
<tr>
<td>Return</td>
<td>Relatively more</td>
<td>Relatively fewer (planned)</td>
</tr>
<tr>
<td>Delivery model</td>
<td>Mainly express</td>
<td>Logistics</td>
</tr>
</tbody>
</table>

Supply chain operation needs to adapt front-end business changes

Cross-channel order fulfilment requires integration between order and inventory management system; supply chain and logistics needs capabilities to support retail model of “high order volume and small order size”

Order Delivery includes inventory visibility, order capture, inventory allocation and order delivery, covering inventory management, order management, and logistics system.

Omni channel order delivery requires brand retailers to be equipped with series of capabilities in supply chain, including:

- Inventory visibility and order capture across different platforms. The main challenge is to integrate different order portals (including third party), standardize products and price information, and achieve real time inventory visibility.

- Based on visibility, inventory needs to be salable across channels, including inventory promising, order sourcing, order dispatch, and cross channel order settlement.

Warehouse and store’s shipping capability is another factor to consider. It includes analysis over cost, work efficiency, and service level. The logistics system of many brand retailers are not adapted to retail model that known as “high transaction volume but small order size”. On the other hand, compared with warehouse, stores are closer to customers, taking advantages of short lead-time and low logistics cost.

“Ship/pickup from store” requires brand retailers to review their order delivery network setup and balance service level and cost.

Reverse logistics including return and exchange asks for capabilities of order traceability, cross channel inventory adjustment, and flexible finance solution to provide quick refund service.

Major success factors:

- Cross-channel performance tracking and KPI
- Store operations: process reengineering, training and human resource
- Business rules: pricing consistency, exchange policy
- Information system construction to achieve inventory sharing

Source: Deloitte Analysis

Transformation of traditional retailer in the era of New Retail
Initiative #2.3: Customization and Smart Manufacturing

Brand retailers should follow and leverage the trend of customization and personalization to upgrade manufacturing system to more digitalized and intelligent.

### Consumer demand-oriented design and manufacturing

<table>
<thead>
<tr>
<th>Design</th>
<th>Make</th>
<th>Deliver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional</td>
<td>Determine consumer pain points by designer perception</td>
<td>Trial production and production are based on sales forecast</td>
</tr>
<tr>
<td>Customization</td>
<td>Determine consumer pain points by analytics</td>
<td>- Assemble prototype for feedback&lt;br&gt;- Optimize prototyping&lt;br&gt;- Actual demand based mass production</td>
</tr>
</tbody>
</table>

### Characteristics of customization

- Consumer driving
- Visualization
- Modularization
- Standardization
- Flexible production line
- Intelligent scheduling

### Digitalization & intellectualization promote manufacture

- Deloitte Digital Supply Network Framework
- The Development Trend of Intelligent Manufacturing in China

Customization requires supply chain transformation from design to deliver. Customization and personalization not only give product a new definition, but also redefine product delivery in a new way.

Customization also means shortened time to market with quick prototyping, trial sale, and fast iteration. In order to achieve this, supply chain should be transformed in every aspects from end to end.

Industrial 4.0 provides an excellent opportunity for brand retailers to develop next generation smart manufacturing, digital factory and lean manufacturing.

Deloitte digital supply network model reveals the future trend of digital manufacturing:
- From physical to digital: use sensors, wearable devices and internet of things to collect information and digitalize it
- From data to data: transmit data to factory to process and self-learning, use predicative analysis to identify sales demand
- From digital to physical: leverage digital and technology to manufacture customized product by using new material, new process and new technology

Source: Deloitte Analysis
Trend #3: Increasing inventory conflicts

Inventory unbalance becomes the major brand barrier for retailers in terms of omni channel profitability and sustainability. Companies must decide how to balance dispersed physical inventory versus consistent service level.

The traditional retail management model divides the inventory into fragmented inventory pools that allocates to different channels and locations.

A growing number of companies have multiple warehouses to supply inventories. The KPI responsibilities, ownership and physical locations of warehouse have became major issues.

Consequently, out of stock together with slow moving and obsolete inventory is now becoming a common issue among retailers.

Unreasonable inventory deployment decisions will not only lead to increase of supply chain cost, but also affect the service level.

Major issues impacting omni-channel transformation

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High shortage rate</td>
<td>58%</td>
</tr>
<tr>
<td>Increasing Cost Of supply chain</td>
<td>58%</td>
</tr>
<tr>
<td>Inefficient Order delivery service</td>
<td>56%</td>
</tr>
</tbody>
</table>

Inventory is the most severe issue impacting profitability of Omni-channel.

Source: Deloitte analysis, JDA retail and consumption industry CEO survey

Transformation of traditional retailer in the era of New Retail
Initiative #3
Inventory planning and allocation

Brand Retailers should plan and control procurement and inventory allocation from three dimensions (channel, geographic and time). Data visibility, analytical capability and supply chain execution are the foundation of agile inventory deployment.

Inventory planning and allocation should be considered in three dimensions: channel, geography and time.

Channel deployment should consider the production and procurement arrangement based on the needs of the various channels. Channel inventory plan should also consider brand retailer’s channel strategy, category strategy and pricing management.

Geographic determines product mix and inventory depths in warehouses across locations. The purpose of regional inventory planning is to deploy close to market so that to improve service level and control logistics cost. Retailers need to consider forecast reliability, order volume and size, as well as safety inventory, to achieve optimized total ownership cost and better service.

Timing decision needs to consider replenishment cadence and percentage. In Omni channel, inventory deployment should be agile and low cost, efficient replenishment flow design can ease seasonal fluctuation, reduce channel inventory pressure and decrease inventory transfer.

Inventory planning should be based on end to end inventory visibility. Efficiency and service level can be improved if logistics and allocation team can obtain real time sales/inventory data visibility.

The level of supply chain responsiveness and execution capability has the most potential to be improved, since it can largely impact the inventory cycle and safety stock level at each warehouse.

High responsive inventory planning and allocation

Source: Deloitte Analysis
Transformation of traditional retailer in the era of New Retail
**Trend #4**
**Intensification & sharing of logistics operation**

Logistics industry is developing in the direction of increased scale, intensification and refined operation. The future of supply chain management will revolve around operation excellence and value chain control.

**Logistics development trend**
In the future, we will see refined smart logistics with high level of flexibility and intelligence. The commercial value of logistics will be evaluated based on its capacity to serve. Data driven logistics and optimization will become new trend. New Retail requires fast response to fulfill shifting market demand and corporate strategy, and it will shift to adapt to "high volume, small size" and "direct to customer". Currently, companies in both logistics and e-commerce industry are building their capability to serve e-commerce and new retail business.

**3PL increase rapidly**

Global 3rd party revenue scale (billion dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>507</td>
<td>631</td>
<td>662</td>
<td>685</td>
<td>704</td>
<td>751</td>
</tr>
</tbody>
</table>

Source: Deloitte analysis, Deloitte “China logistics industry investment and development report 2015-2016”

**Logistics giants share resources**
The future battlefield for logistics are no longer competing on scale of logistics assets. Logistics infrastructure will turn to a sharing economic model that open to public. Future logistics competition will emphasize more on operations, focusing on customer and value chain control. Such as Cai Niao shared their logistics network to public to consolidate resources and provide value added service. Similarly, JD.com opened its warehouse and logistics infrastructure to the public.

- As industry leaders opening up ecosystem and platform, they provide service on data, finance, management etc.
- Sharing economy is a revolutionary opportunity to boost more agents and solution providers within the industry.

**Regional 3rd party logistics revenue scale (billion dollars)**

<table>
<thead>
<tr>
<th>Year</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>South America</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>176</td>
<td>45</td>
<td>188</td>
<td>174</td>
</tr>
<tr>
<td>2014</td>
<td>158</td>
<td>42</td>
<td>270</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: Deloitte analysis, Deloitte “China logistics industry investment and development report 2015-2016”
Initiative #4
Warehouse and logistics management

Logistics evolution for New Retail

- Data sharing between Store and logistics - Online platform and logistics
- Push orders - Order review and validation - Order release to warehouse
- Logistics infrastructure can leverage social resources - Companies concern more about rationality and necessity of inventory movement
- Cloud-based storage provides omni-channel order delivery service - Diversified local delivery services
- Quick and frequent replenishment to Retail stores - Reduce inventory level of retail stores
- Last mile delivery - Self-pickup will drive integration of logistic service and community commerce

In New Retail, the primary goal for brand retailer is to establish an internal organization structure that can adapt the transformed logistics operation and capability including closer cooperation between logistics and business unit, higher logistics flexibility and better cost effectiveness.

Future logistics services should be more intelligent, and forward looking. Such as the seamless connection between logistics system and store POS system can help logistics department gain visibility on demand and improve service level.

Future logistics channel should also be flat, as the B2C portion has become an irrepressible trend.

Due to the fact that investment on logistics is costly and time consuming, brands retailers may consider a suitable logistics outsourcing strategy to leverage third-party service capabilities. Instead of simply warehousing and logistics service, what brand retailers really require is end to end supply chain solution design and delivery capability, from order capture to delivery.

The integration of the internal logistics operations system with external third-party facilities and operational services is very important for effective 3PL management. This will require effective operating model and reliable technical support.

Source: Deloitte Analysis
Transformation of traditional retailer in the era of New Retail
Data has never been this important as end-to-end supply chain data collection and integration is fundamentally critical for omni-channel retailing; The supply chain continuous improvement will be driven by data and analytics.

**End-to-end data collection and application**

Data collection and analysis is the key strength of leading retailers (especially e-commerce platforms). Future enterprises must obtain two strategic assets, i.e. user base and data, in the future state of omni-channel retailing competition, collecting large amounts of real-time data to support business operation. The trends of retailers’ future data application include:

- Expand data collection from internal to external, from operation data to user and market data, and from structured data to unstructured data.
- Apply real-time data in management, such as production and schedule monitoring, sold products tracing, etc.
- Apply data in predictive analysis, not just the historical summary or performance assessment.

**Data sharing and integration**

Retailers are often unaware of the way to apply data though with data visibility.

One key reason is that enterprises are short of a robust data governance mechanism: data throughout the supply chain is derived from different systems with various data definitions and structures.

Then it’s about decentralized and separated data application. Most traditional brands still apply data for reporting purpose within their departments. Consequently, data is under-utilized to support decision making.

The future trend is that multi-source heterogeneous data in all parts of the supply chain will be integrated into a shared data platform for comprehensive analysis. The analysis results then will be sent or reverted to the functions of the supply chain as needed to support decision making and performance optimization.

Source: Deloitte analysis, Deloitte’s China Logistics Investment Promotion Report 2015-2016
Brand retailers need to be equipped with appropriate enterprise architecture, system integration, IT service capability and data governance to drive supply chain transformation through effective data analytics.

Firstly, brand retailers need to build an enterprise application architecture customized to the omni-channel retailing, including the front, middle and back-end systems covering users, transactions, orders and inventory.

Secondly, brands must have the capability of system integration. As the system integration with upstream and downstream partners is a critical competitiveness, brands shall consider how to build data sharing mechanism through mutual trust. Companies will see their operations more smooth and stable due to data transparency and visibility. Thus, data will promote the further cooperation between enterprises and their partners.

Thirdly, a comprehensive data governance model is also needed to meet the requirement on internal control, financial management and data security. With diversified order sources, shared channel inventories and complex transaction paths, enterprises shall develop the capability to reconcile cross-system data, monitor and address data differences or errors intra/inter-systems.

Fourthly, companies shall focus more on the rapid iteration of their IT capabilities and service responsiveness. While China’s e-commerce giants achieve the disruptive innovation in business models based on their technology strengths, brand retailers shall also develop IT responsiveness to meet the fast-changing business needs.

Finally, data analysis capability and a governance model of data-based scientific decision-making are required. Companies shall conduct data analysis on the following six principles:

1. Define definite business targets
2. Understand data
3. Start with simple matters
4. Leverage existing experience and knowledge
5. Take actions based on analysis results
6. Persist in testing and conclusion for improvement

Key success factor
To promote the digital transformation of business, brands need to establish a customized roadmap based on their capabilities and development stages, and identify relevant targets, strategies, processes and talents.
## Conclusion

Deloitte Supply Chain Management provides one-stop-shopping consulting services throughout the omni-channel value chain, to prepare clients for future changes.

<table>
<thead>
<tr>
<th>Omni-channel transformation of traditional supply chain</th>
<th>Omni-channel supply chain transformation services provided by Deloitte</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply chain strategy</strong>—Brand retailers should consider customer segmentation and segment-specific service target, and align their supply chain strategies to omni-channel business strategies, to transform the role of supply chain from being supportive to capturing market share.</td>
<td>Omni-channel customer insights, omni-channel strategic transformation support, supply chain strategic diagnosis and planning, and omni-channel customer experience design and delivery</td>
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<td><strong>Forecast and coordination plan</strong>—Improvement of tools and technologies helps to make accurate demand forecast. Brands, however, should focus on the improvement of cross-functional coordination.</td>
<td>Demand forecast, sale and operation planning, production planning and scheduling, OTB planning for stores, and planning system design and implementation</td>
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<td><strong>Order delivery management</strong>—Brands need to match inventory with orders for efficient fulfilment, and design reasonable order delivery networks for sound logistics systems.</td>
<td>Order visualization and tracking, order to delivery (OTD) optimization, omni-channel order transaction and tax solutions consultation, order management system design and implementation, and third-party data integration service</td>
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<td><strong>Inventory planning and arrangement</strong>—Omni-channel inventory planning and arrangement are conducted from three dimensions including channel, geography and time, based on end-to-end data visibility and data analysis skills; brand retailers should pay attention to other components of the supply chain beyond their own networks to optimize inventory arrangement for end-to-end supply chain.</td>
<td>Supply network planning and optimization, retail category/assortment management, Store space and shelf optimization, regional product mix design, replenishment and distribution optimization, inventory diagnosis and optimization, and distribution management system design and implementation</td>
</tr>
<tr>
<td><strong>Products and manufacturing</strong>—Promotion of digital and intelligent manufacturing will drive manufacturers to produce more personalized and customized products with intelligent means. Brand retailers are more likely to win in the omni-channel age based on smart manufacturing.</td>
<td>Product life cycle management, implementation of Industry 4.0, digitalized and smart manufacturing strategy planning and solutions, Lean Six Sigma, operational efficiency improvement, and quality visualization and tracking</td>
</tr>
<tr>
<td><strong>Logistics and warehousing</strong>—Brands should develop proper logistics and warehouse management outsourcing strategy and establish partnerships with appropriate third-party logistics service providers. Meanwhile, the warehouse systems should also be rebuilt to align with the supply chain strategy.</td>
<td>Logistics strategy planning and implementation, omni-channel warehousing planning and implementation, logistics and purchasing, and 3PL management and outsourcing management consultation</td>
</tr>
<tr>
<td><strong>IT architecture and data analytics</strong>—Brand retailers need appropriate corporate structures, upstream-downstream integrated system, as well as IT capability for comprehensive data governance and prompt response. Depending on real-time and reliable data, data analytics can improve the efficiency of the supply chain.</td>
<td>IT strategic planning for omni-channel transformation, supply chain IT diagnosis, supply chain structure planning of enterprises, supply chain information system implementation, system and data integration, data analysis and presentation, and supply chain analytics</td>
</tr>
</tbody>
</table>
Transformation of traditional retailer in the era of New Retail

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