ZIPLINE LOGISTICS

THE 5 BEST PRACTICES FOR A CHANGING RETAIL INDUSTRY

Practical supply chain tips that can help CPG brands master retail delivery

Summary

The retail industry has been undergoing an evolution for the better part of the last couple decades, but the velocity and totality of this change were drastically amplified by the COVID-19 pandemic. For the first time, out-of-stocks were brought into mainstream consciousness. Consumers were thrust into a face-to-face confrontation with an issue that retailers have been aiming to eliminate for years. It has been a phenomenon that the largest big-box retail outlets have looked to curb through retail compliance programs designed to incentivize vendors to hit on-time delivery standards. This effort consists largely of fines and fees for late or otherwise non-compliant deliveries, which when applied to brands of all sizes can steadily undercut profitability. Moreover, retail buyers do not look favorably upon vendors that consistently fall short of on-time delivery standards. In fact, 73% of those polled in a recent survey indicated that they had ended relationships with organizations over delivery issues. Conversely, standout CPG brands have one thing in common—a supply chain that is built to withstand the stress of modern retail delivery. This whitepaper will explain what forces are shaping the retail industry and why the supply chain has become a valuable differentiator for CPG brands of all sizes and sophistication. It will also list five best practices for organizations looking to improve supply chain performance and reduce costs while working with a retailer.

Contents

PRESSURE ON RETAILERS EQUATES TO PRESSURE FOR CPG VENDORS

Evolving Dynamics Shape Future of Retail

Despite newly entering mainstream conversation as a result of the COVID-19 pandemic, out-of-stocks have drawn the ire of retailers for decades. As ecommerce providers have cornered more market share and undercut brick and mortar businesses, retailers have taken steps to circumvent lost revenue caused by empty spaces on their shelves.

According to a Grocery Manufacturers Association study, common retail CPG brands average an 8% out-of-stock rate. That means when a shopper enters a physical retail store with a grocery list of 13 items, one of those will not be on the shelf when they go to purchase it.

As a result of this commonly occurring issue, consumers often jump online or look elsewhere for a comparable product. It is estimated that retailers are "missing out on early $1 trillion in sales because they don't have on hand what customers want to buy in their stores," according to a study of about 600 households and several retailers. Furthermore, reports indicate that Amazon attributes 24% of the company's revenue to this phenomenon alone.

This issue has only been exacerbated by the COVID-19 pandemic, during which many shoppers hopped online to buy products they had formerly purchased in stores.

According to a report from McKinsey & Company about COVID-19 influenced consumer spending, "Most categories (of consumer products) have seen a 10 percent growth in their online customer base during the pandemic, and many consumers say they plan to continue shopping online."

This retreat in foot traffic started before the COVID-19 outbreak, but the global event has kicked the trend into high gear. A report published by Digital Commerce 360 cites that, online sales increased by 76.2% over the summer and an additional 43.52% during the holidays in 2020. And digital purchases throughout the year far outpaced their previous trajectory because of online ordering prevalence during the COVID-19 pandemic.

Due to this surge in online spending, stores are switching their strategies to blend digital ordering options with in-store pickups and favoring an omnichannel approach. This trend drives increased product velocity in stores and creates the need for resilient inventories to accommodate online ordering.

Pressures Mount for CPG Brands

During the past decade, competition in the CPG space has increased in fervor and intensity as the sector has revolutionized behind a more values-driven consumer generation. The push toward natural, sustainable, organic, fair-trade, and myriad other purchasing values has opened the door for smaller CPGs to move nimbly into these demographics and capture growing category share.

From 2011-2016, $22B in sales transferred from the largest industry incumbents to disruptive up-and-comers. That has only again accelerated as venture capital dollars have poured into emerging organizations. As a result, small CPG brands grew their market share from 23% to 26% over the same five-year period, which has left the largest enterprises scrambling to regain revenue streams.

This type of disruption in the space has intensified competition. When combined with what is trending on the retailers' side of the equation, there is much more pressure to brands at every point in the organization growth cycle.

Industry incumbents have rethought their go-to-market strategy and began to operate differently, often taking strategic cues from smaller brands in the space. Their positioning now incorporates a staff dedicated to the acquisition, venture capital initiatives, incubators for startup brands, and a focus on innovative consumer-values-driven product launches. Big CPGs shift to favoring these tactics has continued to add pressure to all players in the industry.

Current market dynamics include considerable upward and downward pressure, as new entrants find footing in the competitive landscape and retailers continue to demand-supply chain excellence from vendors.

A survey of retail buyers reported that more than half oversee six or more competing brands in the same category, further compounding the situation. Add that 74% of respondents in the same survey noted that they had ended relationships with vendors over logistics issues, and the pressure on CPG brands continues to ratchet up.

COVID-19 Dials Up Intensity

Consumption patterns have dramatically shifted because of the COVID-19 pandemic. Consumers that were spending considerably on experiential purchases have reallocated their budgets, favoring consumer goods. During 2020, US consumer spending exceeded expectations and eclipsed previous year-over-year periods for much of the latter quarters.

This increase in spending has driven greater sales at retailers; however, those were not coming through in-person shopping. Online and hybrid pickup options gained a large share of channel attention at every major retailer throughout the country.

And with fewer customers visiting brick-and-mortar stores, big box outlets have begun to focus their attention on stock products that are favorable with consumers. That translates to a smaller selection of products for consumers and means that retailers are less interested in brands' wide product array.

Big box providers have continued to reduce their SKU counts in favor of a leaner supply chain containing products that they know consumers want to purchase. With competition in the CPG space already at an all-time high, this has further tightened the screws on organizations of all sizes and sophistication levels.

Full Turn in Buying Trends

Initially, it looked as though big CPG would be the clear winner after the fallout from COVID-19; however, following the initial shock where consumer purchasing fled to the comfort food, trends have reverted to their pre-pandemic state, as startup and emerging brands are again in favor with consumers. If we zoom in on the early pandemic, we can discover an interesting rationale for assuming big brands would emerge victorious from COVID-19.

Enterprise CPGs are further along in their growth cycles with significantly more supply chain personnel in-house. They typically have more sophisticated operations with more entrenched relationships with retailers. It follows that they were less likely to be substantially disrupted by COVID than a brand just getting a nationwide foothold, which means they were more likely to be on the shelf when consumers went shopping. It is a fair assumption to make that these brands with more developed supply chains, buyer relationships, and brand recognition were poised to fair better during the pandemic.

However, that did not necessarily happen. Instead of completely monopolizing the industry and squeezing out small brands, big CPGs just gave the blueprint for how to best thrive in the post-pandemic world—ensure your product is in-stock when consumers are ready to buy.

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Big Box Stores React to Changing Realities

With all that is happening within CPG, retailers do not make the industry easier to master for those without an optimized supply chain function. There has been no substantial relaxation of delivery expectations at the country's largest retail outlets. In fact, many have used the fallout from COVID-19 to raise the stakes.

Big box stores across the country are leveraging strict compliance programs to incentivize brands to meet their on-time delivery expectations. Must-arrive-by-dates (MABDs) and on-time, in-full (OTIF) programs are utilized in every retailer of note.

In 2020, Walmart, often known as a first mover in this arena, increased its OTIF program in stringency. Following the change, vendors are expected to meet a 98% OTIF threshold or face a penalty of 3.75% of the cost-of-goods-sold (COGS) penalty for all non-compliant units. Others in the space are likely to follow suit in order to address their own out-of-stock issues to keep them from escalating and cutting into revenue.

The logic behind the move from Walmart sets them up to ensure products are on store shelves and in fulfillment centers when customers purchase them. By narrowing the assortment of items in each category by reducing SKUs and working with brands that have mastered retail logistics operations, Walmart is setting itself up for the future of commerce.

The culmination of their efforts to ensure products stay on the shelves applies even more pressure to CPG brands. Walmart is positioned to work only with the most retail optimized vendors while using chargebacks to reduce the risk of out-of-stocks.

Despite the pandemic being a temporary disruption, experts do not foresee a substantial reduction in demand for consumer goods. The trends established during COVID-19 are not merely a temporary phenomenon but rather a glimpse of the future of commerce. The behavior of shoppers and retailers alike is here to stay. It is now up to CPG companies to adapt to meet the demands of the marketplace.

THE FIVE BEST LOGISTICS PRACTICES THAT CPG BRANDS CAN APPLY TODAY

We have discussed the forces in the industry from a variety of sources. These have made it difficult to thrive in the current CPG climate for brands that have not adjusted behavior to meet today's retailers' expectations. Without a logistics operation built to withstand the stress test known as retail delivery, your brand stands to lose out on revenue at some of the country's most influential organizations.

But there is good news—a retail optimized supply chain is within reach of all vendors. It just takes diagnostic evaluation and procedural implementation. We will discuss five of the best practices that CPG brands can take to build a successful supply chain.

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Get Clear on Chargebacks and Out-of-Stocks

The best place to start evaluating how your logistics operation is performing at retailers is in the budget. Chargeback costs and out-of-stocks must get correctly allocated to the logistics budget. This will give your organization the most precise performance picture.

Many shippers congratulate themselves after saving $50,000 in upfront transportation costs without ever realizing the organization was hit with $250,000 in lost sales and chargebacks. It is expected that a large portion of the difference between planned and budgeted revenue and actual revenue is made up of chargebacks and out-of-stocks.

Suppose your sales and logistics teams are not aligned in allocating this difference correctly. In that case, you may be running right past dollars to catch pennies in pursuit of cheaper freight costs—damaging your customer relationships along the way.

By choosing carriers based on price rather than merit and the ability to execute shipments, you can leave your organization susceptible to ballooning logistics costs. With cheaper trucks that appear less expensive upfront, you can expect dropped orders, late deliveries, rate hikes, additional fines, fees, and headaches that do not move your supply chain forward towards its goals.

Continually pursuing this route can lead to service failures and add up to substantial chargebacks, among other issues.

Review your customer's fulfillment policies with all stakeholders from sales to operations to get a clear picture of what is at stake and make that the cornerstone of your procurement strategy.

It is improbable that you are saving enough money chasing cheap trucking and fulfillment logistics rates to make up for what you are losing from out-of-stocks and chargebacks. The strategies employed by those in the retail distribution industry will ensure that you never do.

Think Beyond Customer Pickup (CPU)

Those that emerged unscathed from past freight market difficulties, whether that was the 2018 boom, the pandemic, or large-scale natural disasters, all had something in common—control and visibility into their supply chains. When opting for CPU arrangements with retailers, organizations lose both of those competencies and much more.

It is common for CPG vendors to incorrectly assume that a retailer can get their orders to their destinations more cost-effectively and efficiently. CPU agreements surrender critical components of the supply chain. Brands lose the ability to effectively plan delivery and consolidate orders, which can help amortize transportation costs across more orders. Consolidation is an enormous opportunity for brands to help reduce costs, and it is lost in all collect shipping arrangements.

Furthermore, CPU arrangements can jeopardize delivery performance. When transportation costs more than the amount allocated in your agreement, you are left holding product and absorbing inventory cost and losing sales while still potentially getting chargebacks.

Even in less volatile freight markets, implications are wrapped into CPU agreements that extend beyond the sale price.

Not only does CPU allow your retailer to control when or if they pick up your product. It also directly affects whether your shelf space is stocked and gives retailers influence on your inventory costs. This can constrain your space and potentially strain your warehouse partner relationships if you use third-party providers. That inventory and space constraint can have downstream effects on the rest of your shipping and production schedules, causing delays for your other customers.

By controlling when they will pick up your product, retailers are also influencing your production schedule, which can impact your entire operation.

It is much more beneficial for brands to set up effective delivered pricing alternatives, whether through an optimized in-house solution or through a true partnership with a logistics provider built to master retail delivery.

Perform a Network Analysis

The next step to unlocking the potential hidden within your logistics operation is performing a network analysis. This process should be data-driven and is critical in identifying opportunities for improvement.

It is critical to identify:

- Which customers are the costliest to serve
- What makes them costly
- Which customers are not meeting minimum order quantities
- Where there are consolidation opportunities
- Which LTL providers serve locations and customers best
- Where facilities should be located

A properly conducted data-driven network analysis will illuminate these key metrics and others. It will also provide the framework for building a logistics strategy that works in both the short and long-run.

Shippers that can find supply chain synergies by leveraging data analytics and geographic pricing trends stand to succeed with retail deliveries. These forward-looking brands can correctly configure their supply chains properly, setting up warehouse location, product mix, and inventory density. They can also identify and understand preferred carrier arrangements, where those fit within their network, and how those arrangements work within a receiver's network.

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Understand Retail Compliance

Scorecarding has become a nearly universal phenomenon at retailers across the country. Almost every middle market and above outlet is measuring vendor performance via a scorecard. In addition to monitoring, most include a monetary fee structure that penalizes vendors for poor on-time performance. Whether the punitive measure comes in the form of a chargeback or lost shelf space, they are avoidable for those that understand how each retailer's system works and subsequently build a strategy around that information.

What is being measured and the penalties assessed for non-compliance can differ widely among different retailers. Is the target of their measurement days to fulfill? Is it delivery by a certain date or on a certain date? Are you being measured on how long it took you to request a delivery appointment for the due date?

On most scorecards, missing a due date because no appointments are available does not shield you from repercussions. Your retailers and distributors are busier than ever in the post-COVID reality. They do not have time for anything less than perfect retail compliance adherence. If you do not have a strategy to understand their programs better and get in front of due dates, you will likely lose ground to someone that does.

Create a Logistics Strategy that Works

CPGs of all sizes are learning first-hand that supply chain performance is a dependable differentiation strategy proven to win and secure shelf space. Many in the industry are viewing the latest stringency increasing trends at retailers as a weeding out event.

Meaning they realize that they stand to further bolster their presence at retail outlets by merely delivering on-time. Because on-time delivery averages around 70% in the industry, those that have mastered and optimized their supply chains to meet retail customers' demands will succeed.

Logistics has shifted from a cost of doing business to a strategic positioning initiative and a well-founded investment. No longer is logistics just about chasing cheap rates in hopes of short-sighted savings. Industries have undergone a rapid transformation throughout the last decade, and in the wide sweeping changes, logistics has emerged as a competitive advantage.

Those that can exercise control and add visibility to key supply chain processes have begun to fare far better than competitors. As a result, the most forward-thinking enterprises have evolved their view of third-party logistics providers. They have begun working with them on a more strategic level to unlock mutual partnership benefits.

Many CPG shippers have realized that long-term logistics partnerships can offer more visibility, uncover synergies in the supply chain, reduce costs, and increase profitability.

WORK WITH RETAIL LOGISTICS SPECIALISTS

If your goal is to make better freight decisions and improve retail compliance, how do you get there? Zipline Logistics is constructed to work with brands to meet the increasingly rigid standards established by retailers.

Our entire organization is built to solve the challenges of retail compliance for CPG brands. We created a proprietary data platform, KanoPI, that gives customers maximum insight into their transportation spend and performance.

Paired with our niche expertise in retail and grocery transportation, we continuously help brands reach their supply chain goals. KanoPI consolidates diverse data sources, isolates fundamental freight metrics, and offers enhanced visibility into your transportation operation. It includes a track-and-trace platform for real-time order visibility, a document cloud for housing all freight paperwork, and a robust look into key performance indicators (KPIs).

We leverage KanoPI to partner with customers and execute optimal freight outcomes, and continuously identify improvement opportunities. Retail expertise, paired with robust data capabilities, enables Zipline to optimize your logistics network to the fullest extent. Reach out to see the Zipline difference today.

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CONTACT ZIPLINE LOGISTICS

614.458.1144