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Thinking local. Acting local.

Retail omnichannel fulfillment
gets closer to home.

Getting products to customers is at the heart of the retail promise. But there is massive change happening in the retail supply chain—and it's part of retail's responsible reset. Not only has the supply chain become more costly and complex, the center of gravity is rapidly shifting from global to local. So much so that the local level is the new battleground for competitiveness.

The pandemic was a shot in the arm to the retail supply chain that accelerated market and consumer trends already in motion. As stores shuttered and people stayed home, retailers were forced to expand omnichannel options out of necessity and ramp them up at speed. Global ecommerce sales grew by 27.6% in 2020.² With some lifestyle changes and consumption patterns developed during the crisis bound to become permanent, there is no turning back—ecommerce penetration is projected to reach 21.8% by 2024.³

Consumer expectations have profoundly changed too. People want speed and convenience delivered responsibly. They expect transparency about orders, pick-ups and delivery, and are increasingly less forgiving when they don't get it. This creates new complexity that makes it exponentially more challenging for retailers to know where to place products and how best to get them to customers. The high cost of ecommerce fulfillment is also eroding retail profit margins, despite revenue gains from the surge in volume.

Omnichannel fulfillment offerings are gaining ground. In 2018, just **20 to 60%** of retailers offered BOPIS, reserve in store, ship to store, ship from store, mobile app purchasing and deliver to home. In 2020, **80 to 90%** of retailers offered all of these options.¹

The shift from global to local

To respond, adaptive retailers are continually resetting, leveraging existing assets such as stores and the workforce as well as investing in new capabilities. Walgreens stood up BOPIS in 9,000 stores in two months.⁴ Tesco announced that it will make 16,000 permanent hires to support booming online demand.⁵ Target is committing \$4 billion to store and supply chain improvements annually.⁶ Fulfillment is now a business issue tied to brand purpose, customer experience and competitiveness. This is why resetting retail fulfillment and optimizing the supply chain is a CEO conversation. In fact, 45% of retail executives cite an agile and flexible supply chain as the top business value proposition to enhance operational resilience.⁷

Optimizing the supply chain requires a different approach today. For years, it meant balancing cost and service levels. Now retailers must also balance relevance to deliver a targeted value proposition, resilience to flex with disruption, and responsibility to align with consumer and corporate values. But 46% of retail executives say that quantifying the value of investments and initiatives is a top challenge when trying to eliminate these tradeoffs.⁸ This is why retailers must reset traditional supply chain strategies. Building from the global or country level is no longer enough. Truly supporting customers requires flexibility and scalability at the local level. It's how retailers can differentiate themselves and compete. We call this local omnichannel fulfillment.



Strengthening relationships. Powering brands.

Local omnichannel fulfillment can help retailers deliver the value proposition profitably while strengthening customer relationships and the brand. It is grounded in local dynamics at regional, community, neighborhood, street and individual customer levels. It creates fulfillment experiences that lean into transparency, sustainability and involves customers to create connections and customer empathy.

Empathy matters because it creates customer loyalty, which retailers sorely need right now. With more online shopping and more choices during the pandemic, loyalty took a hit. When consumers couldn't get the products they need safely and quickly, many tried new brands. For example, 48% of global consumers have made a permanent shift to buying more locally sourced products.⁹ These shifts will have a ripple effect on customer relationships with retailers for a long time to come.

The retail supply chain is no longer in the background.

Consumers feel the experience of the supply chain more than ever. It's key to the brand—a competitive asset that impacts revenue growth.

Five fundamentals to fulfill the promise

By focusing on five supply chain fundamentals, retailers can begin the journey to local omnichannel fulfillment. This is not a one-and-done exercise. Retailers need to constantly reset and revisit to stay ahead of change as new opportunities and challenges arise.

01

Insight

Crystal ball gazing

Use granular data to predict future demand

02

Network

Nuancing the nodes

Reconfigure the supply chain and store network

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Inventory

Placement puzzles

Microtarget inventory placement

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Ecosystem

Strength in numbers

Pursue creative partnerships



01 Insight

Crystal ball gazing

Use granular data to predict future demand

Data insight fuels local omnichannel fulfillment. The good news is that retailers have rafts of data that they didn't have even five years ago. The bad news is that many struggle to extract insights to use in the future planning of their supply chains. Thirty-nine percent of retail executives point to a lack of actionable data-driven insights as a top challenge to eliminating the trade-offs between relevance, resilience and responsibility in the supply chain.¹¹

In addition, retailers typically rely on historical patterns to forecast future demand. But the pandemic taught us that only unpredictability is truly predictable. With markets and consumer behaviors still in flux, historical trends are unlikely to be accurate, or even relevant. It will be years before it is clear which pandemic-inspired consumer behaviors stick and which fall away.

To help manage the pressures and costs of the surge in ecommerce, Gap Inc. is aligning fulfillment speed with customer value. The retailer is creating a bronze, silver and gold **tiered fulfillment system** based on customer value. “Gold” level customers have the most lifetime value, and they will receive their shipments faster.¹⁰

Narrowing in on customer demand

Even so, retailers must understand future demand to locate, design and build fulfillment centers, the store network and inventory. All of this is especially challenging—and vital—given the high fixed costs of some nodes. Instead of backward-looking, generic analysis, retailers need to get granular and future focused. They need a planning base or a vision of what the future looks like from a finely-tuned consumer lens. The focus should be on predicting and planning to serve profitable, high-value customers—and keep them coming back. Predictive analytics capability is key to determine demand at the local level.

Imagine a grocery chain wants to understand what to invest in around home delivery and store pick-up to grow future online sales. While they need to understand macro consumer trends in their geography, they also must understand customer demand projections at a more granular level such as block group or postcode. This analysis is critical to know if their current fulfillment facility has the size, location and capabilities to meet future demand. Doing this requires sophisticated retail analytics know-how to solve for all the variables of this new omnichannel world. Retailers can use advanced, predictive analytics using internal and third-party data sources to better forecast demand, accounting for changing customer behaviors and market dynamics at that local level. What changes the game is using analytics in predictive way to address issues before they become problems.

02 Network

Nuancing the nodes

Reconfigure supply chain and store network

The days when fulfillment meant getting a product either to a store or to a customer's home are over. There has been an explosion of nodes in the network: distribution centers, micro-fulfillment centers, stores and showrooms. This list goes on.

Despite this complexity, retailers are acutely aware of the value of a more agile and flexible supply chain. Almost half (45%) call it the top business value proposition to enhance operational resilience.¹³ This expanded network can support demand through many potential nodes to support flexibility and profitability while creating exciting opportunities. Retailers can scale up or down using existing assets without capital investments to expand the real estate footprint. They can also deliver customer promises they couldn't even dream of before because they are not constrained by a finite network.



Best Buy is experimenting with a new use for its stores—assigning some in strategic locations as **ship-from-store hubs** that will process a higher volume of online orders. The CEO has described this as a move to meet customers where they are and take advantage of stores as powerful assets.¹²

Powering a very different network

To take advantage of these opportunities, retailers need network structure analysis to best configure the network to meet demand profitably: the mix of nodes; the size, location and capability of each node; where investments should be made and in what priority. There are no one-size-fits-all solutions. Approaches depend on volume, order patterns and service requirements. With automation, retailers can address complex product flows through the network, cutting costs and creating efficiencies. The industry is already seeing significant investments here. In just one example, Walmart is using automated micro-fulfillment technology to streamline how it fulfills orders at the store level.¹⁴ This trend opens up new possibilities for using new types of distribution centers and micro-fulfillment centers. These facilities can leverage varying levels of automation depending on the role as determined by customer and product segmentations analysis.

More retailers are cutting down on shopping floor space and augmenting it with distribution space. It's the next evolution of how stores are playing a more serious role in the supply chain. With more stores becoming fulfillment locations, retailers must thoughtfully integrate them with distribution networks, which have traditionally been separate. This means navigating the impact on customers and store associates. The physical space has to be optimized so that pick-up zones don't interfere with shopping, and personal shoppers don't impact the store experience. While more roles create job opportunities, retailers need to ensure they have the right mix of people picking orders and helping customers.



03 Inventory

Placement puzzles

Microtarget inventory placement

With a more complex network model, inventory management is more challenging and closely tied to the retailer's overall strategy. Placing inventory in the various nodes opens up different availability and service levels that have to be assessed through consumer, product and cost lenses. Questions swirl around how much of which products to place in which nodes and when. It is dizzying. In addition, the use of stores and micro-fulfillment centers limits the size of inventory storage footprints.

Microtargeting of inventory placement is a key tenet of local omnichannel fulfillment. Doing this well requires order management solutions that use logic and business rules to govern inventory placement decisions. This is because order management is no longer a simple decision tree to understand the best node to fulfill from. It takes real-time algorithms that solve for multiple variables and changing priorities related to the order, customer and fulfillment node. Order affinity analytics solutions provide important insights here. They enable decisions based on past purchases or purchasing patterns of like-minded customers. These approaches should be integrated with demand planning to connect the dots between what customers want to buy and stock availability. Retailers that excel here can improve sell-through, reduce split shipments, increase turnover speed, and support their sustainability agenda.

In Nike's Los Angeles warehouse, **predictive modeling tools** are helping the company ensure that the right inventory is available for fast shipping to customers. The company is leaning into technology from its 2019 acquisition of predictive analytics firm, Celect, to do this.¹⁵

Giving customers what they really want

Retailers can also improve how substitutions are handled with technology-driven approaches to managing inventory. With more people relying on personal shoppers to make selections on their behalf, this is a growing issue, and grocers feel the issue more acutely because orders typically include many items. Ensuring that online demand is considered in forecasting and replenishment is key to driving down substitutions and increasing customer satisfaction. As online continues to grow share, this gets more important and can impact offline availability as well.

Returns management is critical to managing inventory efficiently, and it continues to get more complicated. Retailers can make inroads with predictive analytics and machine learning. In our experience, machine learning can predict reasons behind returns—everything from price adjustments and quality issues to quality concerns and wrong item. The more retailers know about these reasons, the more they can proactively prevent similar patterns from happening in the future and carry the stock that consumers will buy—and keep.

04 Delivery

Bringing it home

Reinvent last mile fulfillment

The surge in ecommerce and customers' appetite for fast delivery is exacerbating last-mile challenges. It is one of the most expensive parts of the retail supply chain, accounting for 41% of supply chain costs.¹⁷ More online shopping means more delivery vehicles on the road—and more carbon emissions in the air. The World Economic Forum projects a 36% jump in delivery vehicles in the top 100 cities in the next decade if nothing changes. This will increase carbon emissions by nearly one-third.¹⁸

These issues combined with the tough lessons from the delivery breakdowns of the 2020 holiday season make the need to evolve last-mile fulfillment crystal clear. Traditional carriers only have so much capacity. While retailers will continue to rely on them, they also need to reinvent last-mile fulfillment, making it more cost-effective, agile and sustainable.¹⁹



Picnic, a Dutch online grocer, delivers to customers on scheduled routes. **Running delivery** like a public bus or “Milkman 2.0,” means the company chooses optimal routes. The concept has caught on—the company has a waiting list thousands of shoppers long.¹⁶ There has also been a surge in rapid delivery startups in grocery as companies look to cash in on consumers’ hunger for fast and easy food delivery.

Making customers part of the process

In this spirit, there’s been an expansion of gig economy delivery services from grocery into other retail segments. Best Buy created its own mini gig economy, turning to employees to deliver items in their local areas over the holidays.²⁰ Retailers are also standing up their own on-demand delivery services through acquisitions. Target acquired Shipt several years ago and recently acquired a last-mile platform that supports batched delivery.²¹

There’s also a move to use delivery partners with sustainable fleets. The growth of green transport solutions gives retailers many choices as some bring formerly outsourced last-mile delivery capabilities back in house.

How retailers handle the last mile can make or break customer relationships. Customers demand transparency in fulfillment—it’s table stakes now. The more that retailers provide real-time order tracking and honesty when there are problems, the better. Retailers can make customers part of the solution for a faster, cheaper and greener last mile with convenient pick-up options. Incentives and special experiences can bring people into stores. In addition to leveraging the store network, retailers can turn to multi-tenant fulfillment hubs that are popping up in unused or underused urban spaces such as parking lots or dead shopping malls. With ecommerce booming, customers’ last-mile experiences can be the most visible touchpoint in the journey to purchase. The pressure is on to get them right.



05 Ecosystem

Strength in numbers

Pursue creative partnerships

To operate effectively, efficiently—and at speed—in this fulfillment landscape, retailers need partnerships. This includes very different relationships that have not been seen before with on-demand warehousing, transportation and last-mile fulfillment partners. But it also includes creative partnerships in other important areas. The goal is to leverage partner expertise and networks to stand-up new capabilities quickly without the time and investment it takes to build the solutions from scratch.

Retailers should be in the business of adopting, not developing technology and digital solutions. Not only is speed of the essence, but retailers can't afford to stray from their core competencies, especially now. The good news is that there is so much available and reliable capability—from order management systems and carrier management systems to industry-specific cloud solutions. There is no reason that retailers shouldn't invest in existing capability to win in a compressed innovation cycle. Partnerships with analytics providers are also very important given the talent shortages that exist in this critical area in this industry. The key is to find partners with both a data science and a retail background to build or upskill the internal team.

Walgreens has offered **same-day delivery** since 2015. Not surprisingly, the US retail pharmacy has invested more in this capability since the COVID-19 crisis. The company partners with delivery companies Postmates, DoorDash—and more recently, Instacart—to enable and expand this service.²² In the UK, Sainsbury's has announced it is extending its partnerships with both Uber Eats and Deliveroo to expand rapid delivery capabilities.²³

Choosing partners around purpose

In arrangements that would have been unheard of even five years ago, retailers are partnering with non-competitive retailers to expand their fulfillment capabilities to provide last-mile services in ingenious ways. It is a win-win-win approach for both of the retailers and customers where customers get convenience and retailers can keep lower costs. With record demand for industrial space, retailers are getting creative about convenient fulfillment spaces, locating them in vacant office parks, and even on the site of old golf courses.²⁴ Reef Technology is an infrastructure provider that started out offering unused urban spaces—think parking lots—primarily to the restaurant industry. The company offers this infrastructure to retailers as well.²⁵

It goes without saying that retailers must choose their partners wisely. In many of these arrangements, retailers are essentially “outsourcing” an important fulfillment touchpoint to another company. Will the pairing feel authentic and on-brand for the customer? Will the retailer surrender an important part of the customer journey to another provider? Are there consequences to doing that? The strategy has to be well developed, and as always, true to the business strategy and the brand purpose.

Filling a tall order

At the height of the pandemic, customers were unhappy if a product was out of stock, an order was delayed, or a substitution was off target. But they were understanding. After all, the world was in crisis. Moving forward, customers will not be so tolerant.

Retail fulfillment is no longer in the background. It is part of the brand experience. It is more visible to customers than ever—and they have high expectations for speed, convenience and transparency. At the same time, fulfillment is more costly and complex for retailers. It's a complicated problem with no easy fixes.

To deliver for customers without all the costs, retailers need to reset and center fulfillment practices in the local area. This is the heart of local omnichannel fulfillment. It requires new ways of understanding future demand, configuring the network, placing inventory, enabling the last mile and working with partners. And driving change here is a continual process. It's complex, but through it all, the customer is the compass.



Top actions for resetting fulfillment

01 Insight

Let go of one-size-fits all demand planning strategies.

Get granular insight into customers at local and individual levels.

Blend internal and third-party data for future-focused forecasts.

02 Network

Conduct network structure analysis to rethink the network.

Use automation to improve product flow through.

Balance store footprint for shopping and fulfillment.

03 Inventory

Connect demand planning and inventory management analytics.

Use advanced technologies to improve substitutions.

Feed insights from returns analytics into inventory management.

04 Delivery

Explore the possibilities of gig economy delivery services.

Incentivize customers to select cheaper, greener delivery options.

Be 100% transparent about delivery status with customers.

05 Ecosystem

Harness proven technology innovation. Adopt don't build.

Turn to partners to build retail analytics capabilities.

Align partnership decisions with the brand purpose and customer need.

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