

## Retail Logistics – Time to Change your Shelf of Offerings

By Deep Parekh

April 2009 Strategic View – American Shipper

### First In Last Out

As I prepare to present at the CONECT Retail Logistics conference in Newport, RI, I thought this would be an appropriate topic to write about for this month. Retail is one of the few industries where economic downturns hit them first, and take them swiftly to new lows. Recovery too, takes a long time in the Retail business, as people gradually open up their wallets and start spending again. So, during these periods of economic downturn, as we are in currently, what should Retailers do? And how does this impact Retail Logistics?

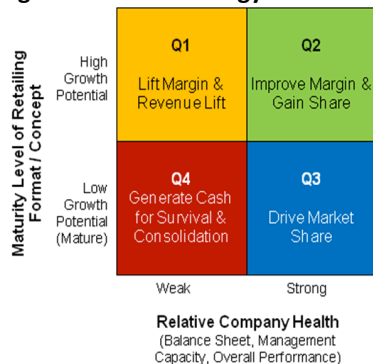
### Intuitive Thinking is Shortsighted

The instinctive reaction of many companies, both big and small, almost exactly mimics the instinctive reaction of most Americans during such periods of economic downturns – the instinct to ‘hunker down’ and ‘weather the storm’. Such approaches are appropriate and understandable when you are talking about regular people and family units, who have only limited degrees of freedom and choice in their economics, but makes little or no sense when you’re talking about multi-million / multi-billion dollar companies with highly paid and skilled executives and enormous resources. Shutting down all non-essential projects, putting off projects, cutting staffing and expenses, pay-cuts etc. are all non-essential and drastic measures which lower morale, stifle creativity, and quite frankly, put Retailers in non-competitive positions. So, what is the right approach? How should Retailers examine their strategy and how should they decide on how to move forward?

### What Are the Choices?

McKinsey & Company recently put forward an interesting framework whereby Retailers can examine their strategies through the lenses of (a) the maturity of their format / concept, and (b) their financial health in terms of their balance sheets, management capacity, and overall performance. We present the adapted framework in Figure 1. We will discuss each quadrant separately. The framework segments Retailers into 4 quadrants:

Figure 1: Retail Strategy Framework



- **Quadrant 1: Sound the warning bell**
  - WHO: High growth potential (immature market / retail format / concept), but relatively weak company health. This could be symbolic of certain e-tailers, who are still in their fledgling stage and not quite mature enough. Others who may be

- in this quadrant also include mature companies in high growth niches, with weak balance sheets.
- WHAT TO DO: These Retailers need to lift margin & revenue, in order to capture the profits that the market has to offer. Methods to do this include:
    - Reduce direct costs, such as shifting their sourcing base to countries with lower cost structures and automating or outsourcing processes
    - Reduce or eliminate 'business waste', by optimizing store workflow, leveraging labor to become more efficient, optimizing distribution, and reducing / eliminating double-handling
  - RETAIL LOGISTICS IMPACT:
    - Retail LSPs are in a prime spot to take advantage of this strategy shift, by offering their expertise and knowledge in locating lower cost suppliers in other countries (who may also be their clients)
    - LSPs can also help with new sourcing networks, reduction of double handling, and consolidating loads on typically LTL products for different retailers
  - **Quadrant 2: Leverage Your Position**
    - WHO: Financially strong / stable Retailers in High Growth Potential formats / concepts. Chains such as Target come to mind for this quadrant, as well as strong regional players. These retailers have the cash to spend on their growth strategy, and can quickly improve margin through carefully culled product ranging, portfolio rationalization, shelf-face optimization. Further, their financially weaker counterparts may have to shut down stores, which drives further traffic and margin, as well as gain in market share.
    - WHAT TO DO: The strategy here would be to update stores by selectively investing in some stores in key markets. Another source of share & margin gain is to identify and pursue acquisition opportunities. This makes even more sense if the focus is put locally, in winning key local markets, to consolidate the position of strength.
    - RETAIL LOGISTICS IMPACT: This is somewhat of a mixed bag – the phrase “what the left hand giveth, the right hand taketh away” comes to mind. Consolidations, acquisitions, mergers mean more pressure for LSPs on cost and terms, but also a larger customer and more services to sell them. We anticipate seeing a lot of these in local markets, where not all competitors are financially stable, and the LSP market is fragmented.
  - **Quadrant 3: Gentlement, Start Your Engines**
    - WHO: These are the Walmarts and Costcos of the world, with strong balance sheets, but mature retailing formats. The option of superficial face-lifts on stores is much too costly for this scale of stores, and the format is too well ingrained to make drastic changes.
    - WHAT TO DO: Sharpen the competitive edge by doing the following:
      - Be clear about communicating values, by adjusting promotions to increase consumers' perception of value
      - Lower out of stocks on shelves for fast-moving products, especially during peak hours
      - Drive traffic to the stores using alternate means and different channels, such as the internet
    - RETAIL LOGISTICS IMPACT: More frequent shipments to more stores may drive some LTL business to a degree, to trade off against on-shelf product shortages. LSPs can add value through load consolidation, or vendor-managed inventory value propositions, as well as through back-end store management services.
  - **Quadrant 4: Get Your Act Together**
    - WHO: Weak financials combined with a mature store concept or format.

- WHAT TO DO: This is survival mode – these Retailers need to generate cash and consolidate for survival. This means reducing working capital through portfolio rationalization, and increasing their return on investment (ROI) from their assets, which will imply closing some stores, and investing more heavily in other stores, where the potential for growth exists once the economy recovers.
- RETAIL LOGISTICS IMPACT: LSPs can help Retailers through network modeling, routing optimization, load consolidation, and offering higher value chain services such as analysis and modeling.

The approach that Retailers will choose will no doubt impact the industry, and the LSPs that service it. There is a lot of opportunity to excel during these difficult times, but only for those who don't just stop all activity and 'weather the storm'. There's money to be made here, and a competitive edge to gain.

*Deep R. Parekh is a Partner with Equus Group, LLC, a Supply Chain Advisory Services and Management Consulting firm based in New York, NY and Sao Paulo, Brazil. He welcomes your feedback and comments at [deep.parekh@equusllc.com](mailto:deep.parekh@equusllc.com), and can be contacted at +1-917-940-7538.*