

# Creating an Integrated Supply Chain in Retail Grocery

With the ongoing expansion of online retail, consumers want more convenience and a wider selection of fresh products, which have shorter shelf lives—putting more pressure on the entire supply chain. This pressure is pushing retailers' cost and service metrics in the wrong direction and boosting tension between retailers and their CPG suppliers.

But what if they dealt with this pressure by looking at the supply chain together and using digital tools to collaborate?



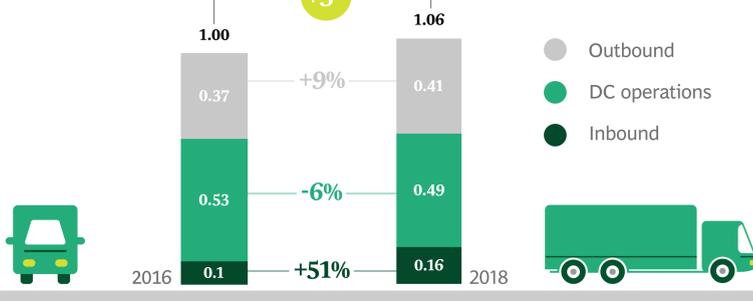
## A TRUCKING CAPACITY CRUNCH HAS RAISED LOGISTICS COSTS

Growing demand for fresher products means trucks often leave the distribution center (DC) with less than a full truckload—even as drivers are harder to hire.

*Inbound and outbound retail logistics costs have increased over a two-year period*

### TOTAL RETAIL LOGISTICS COSTS PER CASE

Median cost per case (\$)



*There's room to improve outbound freight utilization*

Outbound truckload utilization is far lower than inbound

2018 median capacity utilization (by weight)

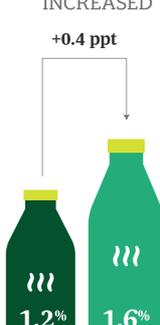


## SPOILAGE AND SHRINKAGE HAVE INCREASED

Fresher products have a shorter shelf life and need to be delivered quickly, but it's not always fast enough. Meanwhile, rush deliveries come with an inevitable rise in shrinkage—that is, breakage and loss.

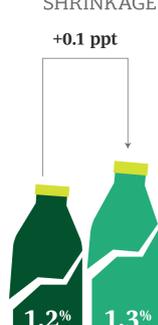
SPOILAGE HAS INCREASED ...

+0.4 ppt



... AND SO HAS SHRINKAGE

+0.1 ppt



## SERVICE LEVELS ARE FALLING AS IT BECOMES HARDER TO GET PRODUCTS TO THE SHELF ON TIME

Most grocery retailers are now missing internal store service-level targets, as reflected by on-shelf product availability.

*Majority of retailers missing service levels...*

Actual vs. target performance, 2018 (% respondents)

Below Target Above

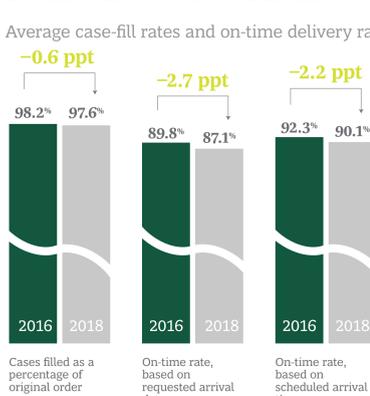


## RETAILERS AND THEIR CPG SUPPLIERS ARE NOW AT ODDS AS A RESULT

On-time delivery rates have fallen, but CPG suppliers say it's not completely their fault: retail order volatility has risen, order lead times have shortened, and order quantities have shrunk. It's increasingly difficult for them to forecast and meet these mounting service demands.

SERVICE DECLINES PARTIALLY DRIVEN BY REDUCED CPG SERVICE LEVELS

Average case-fill rates and on-time delivery rates



WHAT IS THE KEY CAUSE OF SERVICE LEVEL DECLINES?

22%

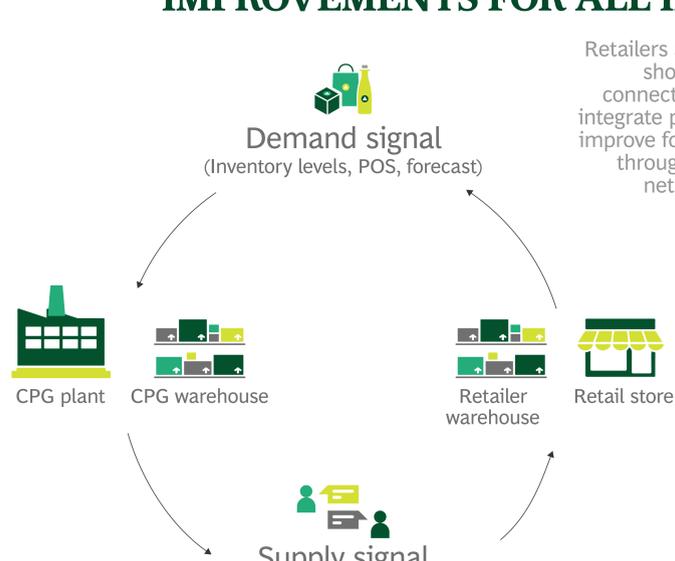
Demand forecasting was the most prominent cause cited by CPG companies

44%

Manufacturing reliability was the most prominent cause cited by retailers

## COLLABORATION UNLOCKS IMPROVEMENTS FOR ALL INVOLVED

Retailers and CPG companies should work together to connect their supply chains, integrate planning efforts, and improve forecasting—not only throughout the retail store network but at the CPG supplier level.



## DIGITAL TECHNOLOGIES SUPPORT COLLABORATION

Retailers and CPG companies should use digital technologies to share more internal and customer information, thereby improving demand forecasting and product allocation.

*Most retailers have begun to implement technology that would support collaboration.*

DIGITAL TECHNOLOGY	EXAMPLES OF POTENTIAL COLLABORATION OPPORTUNITIES	DEGREE OF (FULLY OPERATIONAL) PENETRATION AMONG RETAILERS
Cloud-based systems	Real-time visibility across E2E supply chain to manage inventory and purchasing decisions	100%
Big data	Ability to forecast consumer demand and manage supply chain decisions, thereby optimizing costs	75%
Robotic process automation	Enhanced decision making through process automation (e.g., inventory-level alerts, thresholds)	50%
Internet of things (IoT)	Ability to track and trace products in real time, enabling real-time demand management	25%
Augmented reality	Better alignment with CPG companies on planogramming and product design, helping to optimize assortment and maximize sales and margins	10%
AI & machine learning	Higher forecasting accuracy to manage inventory levels (including holiday seasons), leading to reduced waste and costs	10%
Blockchain	Increased product journey transparency (from CPG facility to retail stores), thereby developing mutual trust	10%

## THE WAY FORWARD

To address these issues, retailers and CPG companies should take four steps to digitize and further integrate their supply chains.

- Agree on incentives and goals:** Ensure common KPIs and objectives among retailers and CPG companies to address end-to-end performance.
- Embed an integrated process:** Retailers should meet to discuss strategy with CPG representatives—not just from marketing and sales, but from operations too, with discussions going well beyond pricing and promotions.
- Set up an agile operating model:** Enable nimble execution by involving functional experts and a methodology that continuously reviews and improves the total retail and CPG supply chains.
- Digitize the supply chain:** Invest in advanced data analytics capabilities using data sets shared by retailers and CPG companies, and enable digital optimization of the entire supply chain.

Source: A joint study by the Food Marketing Institute (FMI), Boston Consulting Group (BCG), and Grocery Manufacturers Association (GMA) based on a 2019 survey of food retailers and CPG companies. The full report can be accessed at <https://www.fmi.org/forms/store/ProductFormPublic/2019-fmi-supply-chain-benchmarking>.