

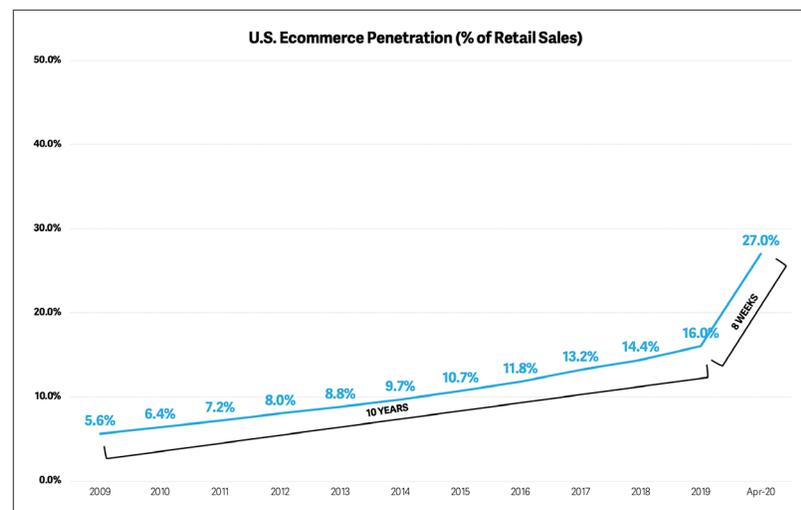
Shift in eCommerce Requires a Quick Pivot to Agile Operations





The shift to eCom has been a gradually growing trend over the last decade, but with disruption came a sudden and rapid acceleration.

- Target saw digital sales rise 141% YOY in Q1. Having invested heavily in developing eCom capabilities including home delivery, in-store, and curbside pick-up they were well positioned to take advantage of the disruption that made them an essential business, shipping 80% of eCom orders directly from stores.
- Market-leader Amazon reported a 26% increase in sales in Q1, offset by a 29% decrease to profits as operations strained under the weight of surging online orders.
- Walmart also reported record-breaking eCom channel growth of 74% in Q1.
- U.S. eCom as a percentage of retail sales has shot up from 16% to 27% in just 8 weeks from March through April.



Source: Bank of America, U.S. Department of Commerce, Shaw Spring Research

“How did you go bankrupt? ... Gradually, then suddenly.”

Ernest Hemingway
“The Sun Also Rises”

RESPONSIVE FULFILLMENT REQUIRES FLEXIBLE ECOM OPERATIONS

This sudden shift in eCom requires a pivot to more agile operations capable of flexing up (or down) in response to demand without crippling the business financially. Operating strategies that support hyper-localized inventory and efficient last mile deliveries will be key. This is more

than a temporary shift but rather a gain in momentum of structural changes that were already underway prior to the pandemic. As it often does, the change happens gradually, then suddenly. Customer expectations have been changing gradually, but now new capabilities like contactless fulfillment and curbside/store pick-up are becoming table stakes which will continue beyond the current disruption.

How do you do that while keeping workers safe? Protecting workers with PPE, physical distancing measures and higher levels of sanitization comes at a higher cost of labor in your operations. Re-engineering processes to design for safety and health reduces productivity which also adds cost and slows down operations. Speed will continue to be a critical factor as Amazon and others continue to raise the bar. Finally, servicing peak demand will require re-calibration as the needle has no doubt shifted on this as well. If you now find yourself with peak-level volumes outside of peak season, think ahead to what that will mean when that time of year rolls around.

NEW COMPETITORS RISE FROM DISRUPTION

With disruption comes new business models and emerging technologies; so too, you can expect new competitors to rise up seeking market share. Partners can become co-opetition. Fast-moving innovators are ready to take advantage of opportunities.

Facebook/Instagram recently added Shops, a new eCommerce feature on the platform. Google is taking another run at eCom with the acquisition of software start-up Pointy, aimed at helping merchants give more visibility to products and inventory on the Search platform. Specialty grocery start-ups are stepping in to meet unprecedented demand where traditional grocers have been unable to completely fill the need.

Traditional CPG companies are getting savvy and experimenting with eCom channels for a more direct and personalized relationship with the customer. Pepsi recently launched snacks.com and pantryshop.com where shoppers can order an assortment of food and beverage products for home delivery shipped direct from the manufacturer. Unilever's acquisition of Dollar Shave Club just three years ago signified the gradual change. Today, P&G is actively increasing its direct-to-consumer (DTC) portfolio as a crucial part of its strategy for growth, picking up brands such as Billie, Native, First Aid Beauty, Snowberry New Zealand, and

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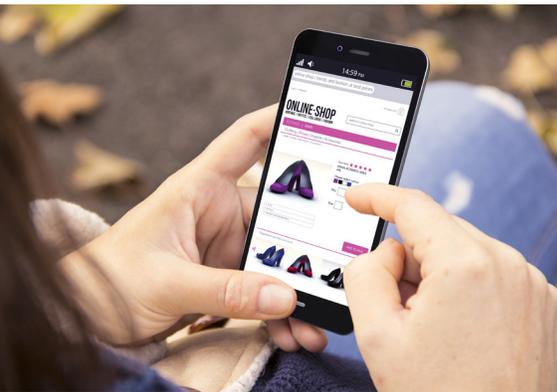
Bevel. And let’s not overlook the “Giants” (Amazon, Walmart, Target, and Costco) which were clearly given a further boost by this most recent disruption.

AUTOMATION IS THE KEY TO BUSINESS CONTINUITY

Disruption has revealed stress points in operations that must be shored up quickly for business continuity. As noted previously, adding labor increases risk and cost. Business leaders will need to lean on automation, AI, and robotics for recovery and resilience. Market intelligence firm IDC estimates, “40% of companies world-wide are increasing their use of automation as a response to the outbreak.”¹ Automation doesn’t mean that labor goes away entirely. Rather, it frees up workers for more critical, creative, and rewarding tasks that can be performed safely as technology is charged with the more mundane and repetitive tasks. Automation is most effective when coupled with intelligent software that uses data science to drive real-time insights and optimization.

GRADUALLY HAS BECOME SUDDENLY

The time for transformational change is now; gradually has become suddenly. Supply chain leaders must pivot quickly yet future proof their organizations to make them robust and resilient to the next disruption. Without immediate action, the organization is at risk as others step into the gaps. Leaders are in a position to make or break the future of their organizations by what they do next and how quickly they act. Flexing eCom operations to meet demand comes with challenges, but it also offers significant rewards for future-focused leaders prepared to move beyond incremental change. Agility, business continuity, competitive advantage, and resilience will be the earmarks of winners that emerge from disruption.



¹ <https://www.wsj.com/articles/businesses-expected-to-lean-on-automation-for-recovery-11589967002>

FORTNA CAN HELP

Business continuity depends on the ability to flex and be responsive to change. Fortna can help:

- Assess operations for improvements that will enable you to pivot operations to service demand immediately
- Re-design operations to align with business goals and balance cost and service expectations while enabling agility to respond quickly to future disruption and accelerated channel shift
- Evaluate and implement automation technologies to reduce dependence on labor and allow workers to operate within health and safety guidelines
- Develop a business case for investment that is based on business results rather than technology outputs
- Integrate systems to leverage inventory in real-time and fulfill orders cost-effectively across the network

For more information, contact The Distribution Experts at info@fortna.com.

THE DISTRIBUTION EXPERTS™

Fortna partners with the world's leading brands to transform their distribution operations to keep pace with digital disruption and growth objectives. Known world-wide as the Distribution Experts, we design and deliver intelligent solutions, powered by FortnaWES™ software, to optimize fast, accurate and cost-effective order fulfillment. Our people, innovative approach and proprietary algorithms and tools, ensure optimal operations design and material and information flow. We deliver exceptional value every day to our clients with comprehensive services including network strategy, distribution center operations, material handling automation, supply chain systems and warehouse software design and implementation.

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