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## 2021 RETAILER AGENDA: A Major Supply Chain Reset

Results of RetailWire's December 2020  
retail industry study.

Underwritten by:



## Looking ahead at supply chain strategies in 2021 and beyond reveals a focus on end-to-end agility and real-time responsiveness to shifts in consumer demand.

After enduring a year of major disruptions in 2020, retailers learned important lessons about the strengths and weaknesses of their supply chains. Now, looking ahead to 2021, many are making plans to do a major reset of core systems aimed at delivering new levels of agility and responsiveness to future shifts in consumer demand.

In this benchmark study, RetailWire examines the current state of the retail supply chain. The research focuses on lessons learned over the past year and identifies key areas – both overarching strategies and specific technologies – that will enable retailers to improve their ability to recover more quickly from unexpected disruptions and better serve their customers.



### Top Three Study Take-aways

**Fulfillment:** E-commerce migration is driving heightened retailer focus on fast, flexible shipping, greater breadth of fulfillment options and optimizing last-mile delivery.

**Agility:** To respond to abrupt fluctuations in demand, retailers express the need to leverage customer data and expand collaboration with supply chain partners.

**Closing Gaps:** Weaknesses exposed during the trials of 2020 point to the need for real-time inventory visibility, improved forecasting and reduced complexity in omni-commerce systems.

# Top Strategies and Challenges for 2021

The 2020 pandemic was an unexpected stress test for retail supply chains. Sky-high demand for food and essential products stretched retail systems to the breaking point.

Adding to the pressure, non-essential stores were forced to close. Those that remained open were required to implement social distancing rules that created long lines and reduced shopper access to stores.

The result was a **historic shift by consumers to e-commerce and online ordering** for store pickup. This, too, added stress to the supply chain, especially in such areas as shipping, fulfillment and last-mile delivery.

However, e-commerce also offered a lifeline to retailers, one that enabled them to conduct business during a crisis. Retailers with advanced e-commerce and omni-commerce systems, or who could scale them quickly, registered booming revenue in 2020.

So, it is not surprising that maximizing e-commerce capabilities is at the top of the list of supply chain strategies retailers will pursue in 2021, chosen by 69 percent of retailer respondents to our survey. (See Figure 1.)

Several other strategies on the list can be viewed as helping to support e-commerce, such as optimizing fulfillment to improve margins (47 percent), scaling click-and-collect management (35 percent) and accelerating last-mile fulfillment (33 percent).

**Another major trend projected for 2021 is improving agility to respond to fluctuations in customer demand**, which was chosen by 35 percent of retailers. Several other strategies on the list work towards the same ends, such as improving the ability to leverage shopper data (35 percent), expanding digital transformation (25 percent), and expanding collaboration with supply chain partners (25 percent).

Figure 1

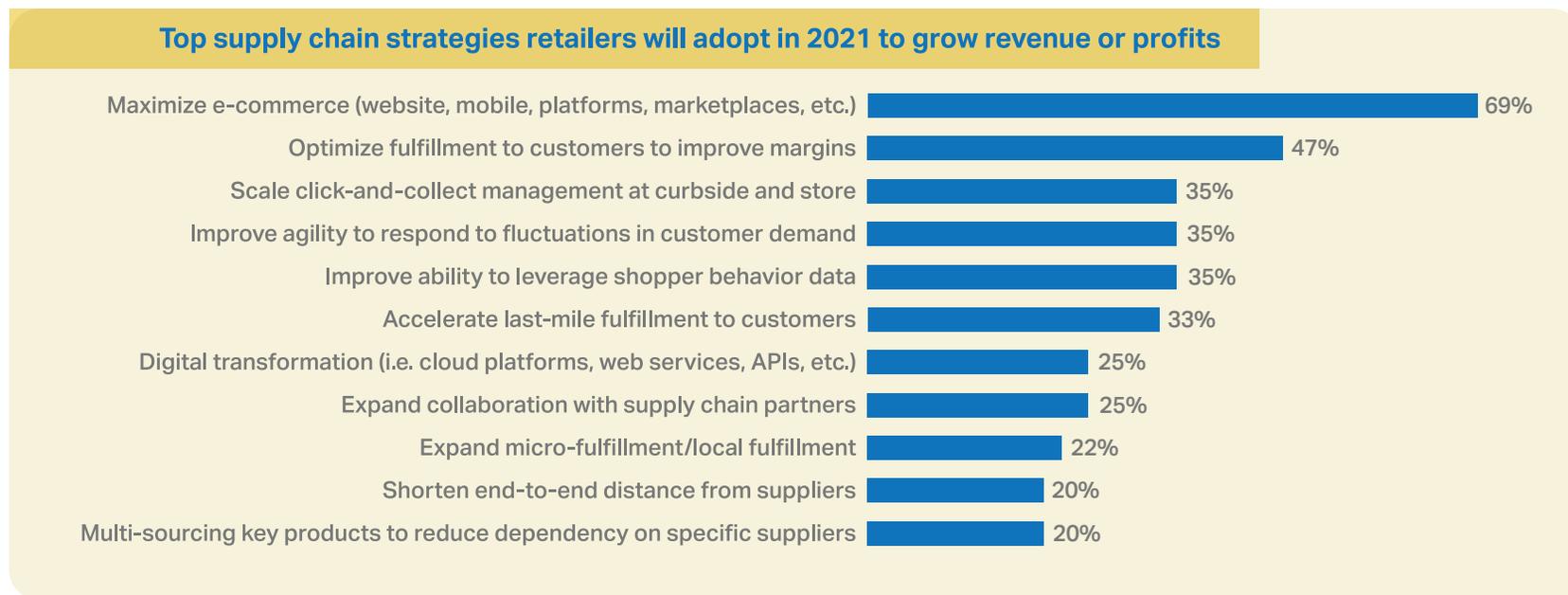


Figure 2



The flip side of strategies designed to grow sales and profits is to pursue those that eliminate obstacles to greater efficiency. The top challenge to resolve in 2021, according to our retailer respondents, is the inability to adjust inventory to rapid fluctuations in demand, which was chosen by 63 percent of retailers. (See Figure 2.)

**Clearly, struggling to cope with extreme spikes in demand for key products during the pandemic made a lasting impression on retailers.** This experience exposed hidden weaknesses in supply chain systems that retailers are now determined to resolve in 2021. Others on the list include: lack of real-time inventory visibility (41 percent), weakness in useful (fast and accurate) forecasting (41 percent), inability to scale new systems (39 percent) and managing disparate systems for omni-commerce (39 percent).



## Top Technologies for 2021

Heading the list for anticipated investments in supply chain technologies in 2021 are real-time dashboards and fulfillment systems, both of which were chosen by 45 percent of retailers as key targets for upgrading or purchasing new solutions in the next 12 months. (See Figure 3.)

Retailers, of course, have some form of these systems already in place. However, most supply chain dashboards, for example, have blind spots and time lags caused by integration barriers between sales channels, internal departments and external partners. **New investments in these systems will likely be aimed at eliminating the blind spots and time lags through digital transformation and cloud projects.**

Fulfillment, too, is a critical investment area because retailers operate in a marketplace dominated by the speed and efficiency of Amazon. **To successfully compete today, retailers are ramping up their fulfillment capabilities to match the promise of two-day, overnight and same-day delivery.** Without capital investment, these goals will be impossible to meet.

Other top supply chain tech investment areas for 2021 include: replenishment (41 percent), distributed order management (39 percent) and advanced analytics (39 percent).

Figure 3

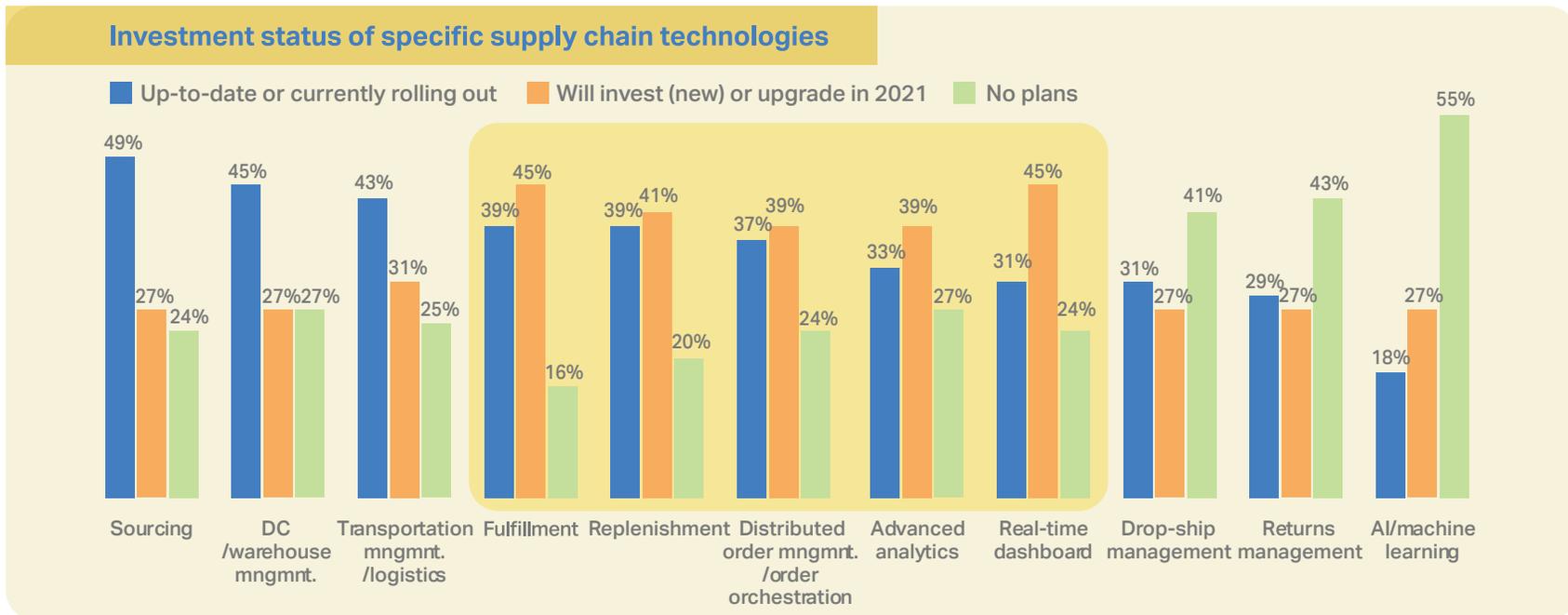
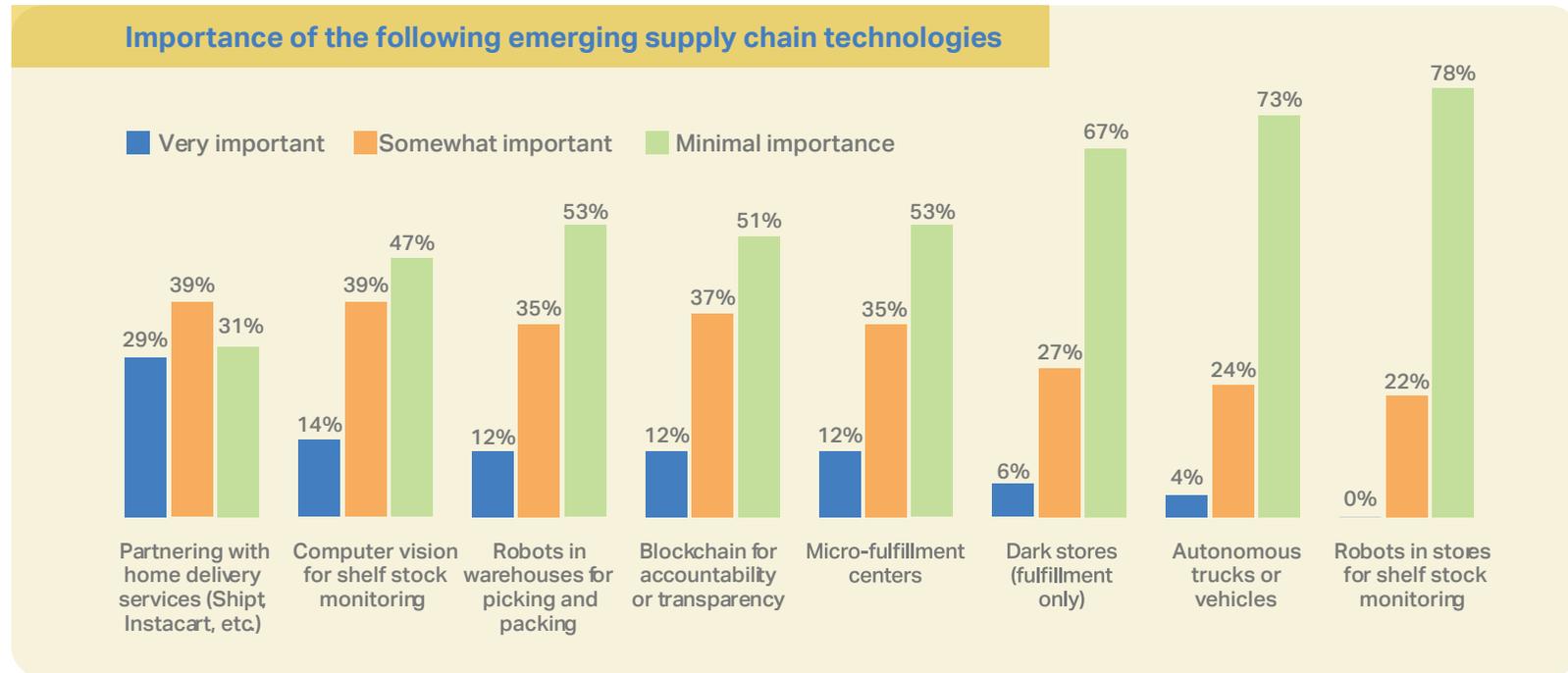


Figure 4



In addition to core supply chain solutions, retailers in the study were asked to provide their views on the importance of several emerging technologies. At the top of the list is partnering with home delivery services, which was chosen by 68 percent of retailers who said it was either “very important” or “somewhat important.” (See Figure 4.)

Following a year when shoppers were forced to stay at home much of the time, it is not surprising to see a large majority of retailers moving toward partnering with home delivery services. **Although retailers have grumbled in the past about high fees and the potential lack of control over customer data, the truth is that home delivery services offer a quick and easy way to serve a rapidly growing number of customers.**

Four other emerging supply chain technologies also achieved high importance ratings from retailers. These are: computer vision for shelf stock monitoring (53 percent rated it “very important” or “somewhat important”), blockchain for accountability and/or transparency (49 percent), robots in warehouses for picking and packing (47 percent) and micro-fulfillment centers (47 percent).

Emerging technologies that are still awaiting mainstream adoption based on study data include dark stores, autonomous trucks or vehicles, and the use of robots in stores for shelf stock monitoring.

## Deep Dive into Fulfillment

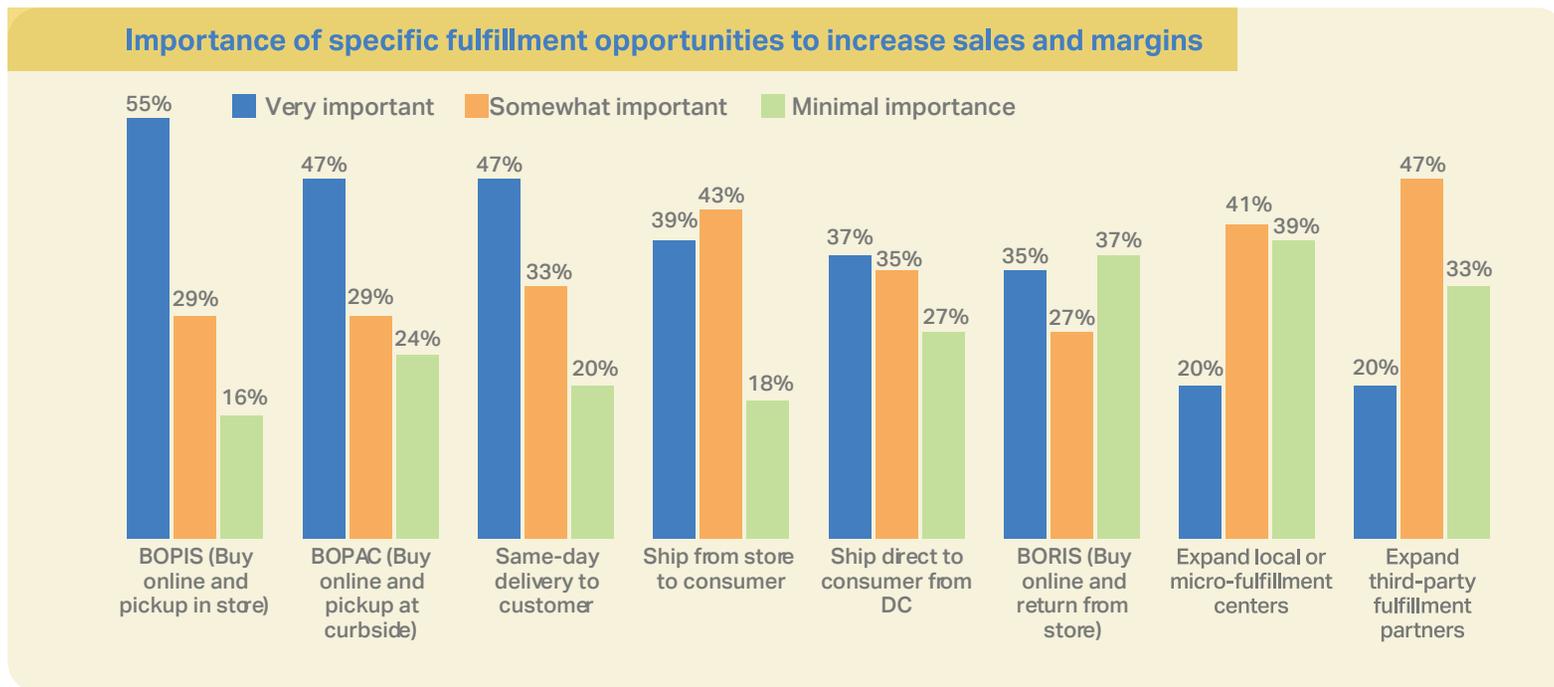
With the heightened need to serve customers at home, retailers are focusing more than ever before on optimizing their fulfillment capabilities, which can open doors to increased sales and margins in a tough economy.

Our study data shows that retailers place high importance on a wide range of fulfillment services and are intent on deploying them. **Topping the list is buy online, pickup in store (BOPIS), which was chosen by a massive 84 percent of retailers** as being either “very important” or “somewhat important.” (See Figure 5.)

Not far behind are the following: ship from store to consumer (82 percent chose as either “very important” or “somewhat important”), same-day delivery to customer (80 percent) and buy online, pickup at curbside or BOPAC (76 percent), which is a fulfillment service few retailers offered prior to the pandemic.

**Even the relatively new concept of deploying hyper-local or micro-fulfillment centers emerges as an important option in the study**, chosen by 61 percent of retailers as being either “very important” or “somewhat important.”

Figure 5



# Cloud, Digital Transformation and AI

Retail leaders have been traveling down a multi-year path toward digital transformation, but do their plans include key supply chain systems? This is a question that we put to study respondents.

First, it is important to understand that an essential part of digital transformation is to migrate key applications to the cloud to eliminate technology walls that have been erected over the years between sales channels, internal departments, external partners and databases. Eliminating these walls is necessary to create real-time dashboards and end-to-end systems that have the ability to effectively respond to abrupt shifts in demand.

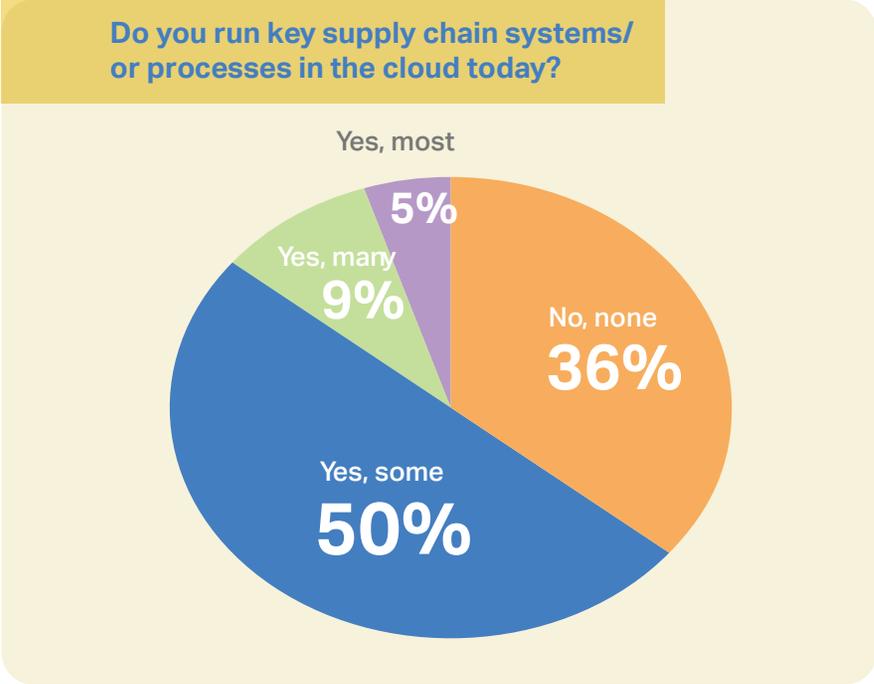
Today, **our study data shows a clear majority of retailers (64 percent) have begun the process of migrating at least some key supply chain systems to the cloud.** Of these cloud adopters, 50 percent have migrated some applications, 9 percent have migrated many and a small number (5 percent) have migrated most. (See Figure 6.)

Looking out over the next 18 months, while the percentage of retailers (roughly 35 percent) who say they will have “no” key supply chain systems running in the cloud remains roughly the same as it is today, about two-thirds see having “some” or “many” systems or processes running within the next year. Further, about one in 10 say they will have “most” applications in the cloud in 18 months time.

This indicates that more than a third of retailers do not have any future plans to migrate key supply chain systems to the cloud. Why? The typical answers reported in the study are “budget related” or “infrastructure limitations” or “not a focus at this time.”

Answers like these carry weight in internal budget meetings when capital is tight. However, this approach also comes with a cost in terms of lost future sales, profits and customer loyalty. Is postponing cloud and digital transformation worth the risk? To some the answer is “yes,” perhaps out of necessity, but not to the huge majority of retailers who are currently in the process of making the transition.

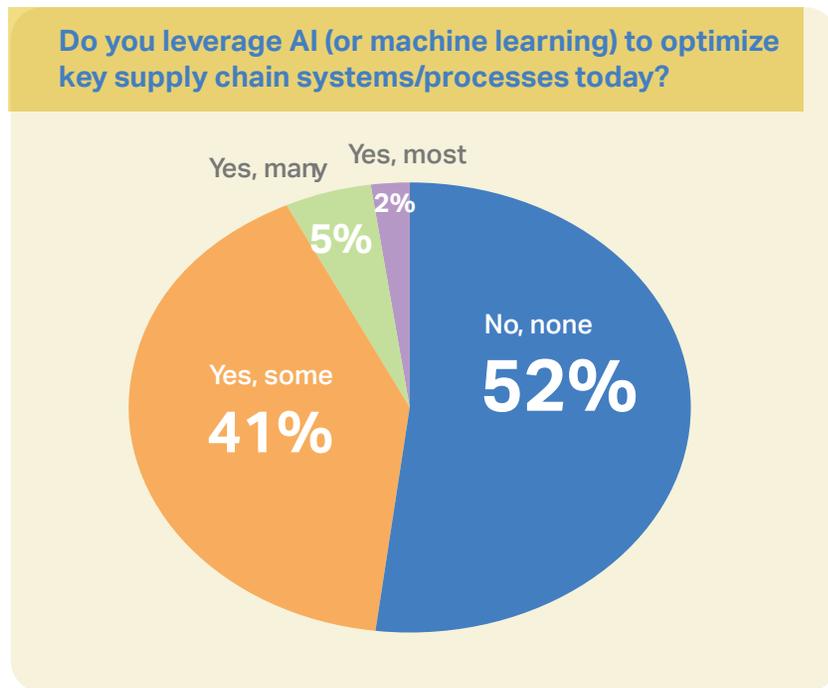
Figure 6



**Another journey retailers are currently making is deployment of artificial intelligence (AI) or machine learning to optimize key systems in the supply chain.**

Today, a slim majority (52 percent) do not leverage AI or machine learning in supply chain systems. However, this means 48 percent have already leveraged AI in "some" parts of their supply chain systems and, of these, 5 percent have leveraged "many" parts and 2 percent have leveraged "most." (See Figure 7.)

Figure 7



## Understanding the Innovation Dilemma

When asked to provide comments on the status of innovative technologies (especially cloud adoption) in their enterprises, study respondents revealed important insights into their planning and execution strategy.

Many comments focused on costs and budgets:

**"The only reason we aren't moving forward is budget related. It makes no sense not to be moving to cloud."**

"No capital."

"Budgets and lack of extra funds."

However, many comments note that, while cost is a factor, so is corporate culture:

"Cost and company vision."

"Company is far away from technology innovation. They are afraid of it."

**"No time to learn new technology."**

"They feel like they need other things first."

"Not needed at this time."

Other important insights include:

"Have questions about data availability and integrity."

"Infrastructure limitations."

**"We are managing elementary challenges first."**

"We are a small company and are satisfied with the performance of our older systems."

"Our emphasis on store-level solutions is to use local servers, but we are migrating other solutions toward cloud access."

Figure 8

**If using or planning to use AI in the next 18 months in the supply chain, which use cases functions are high priorities?**

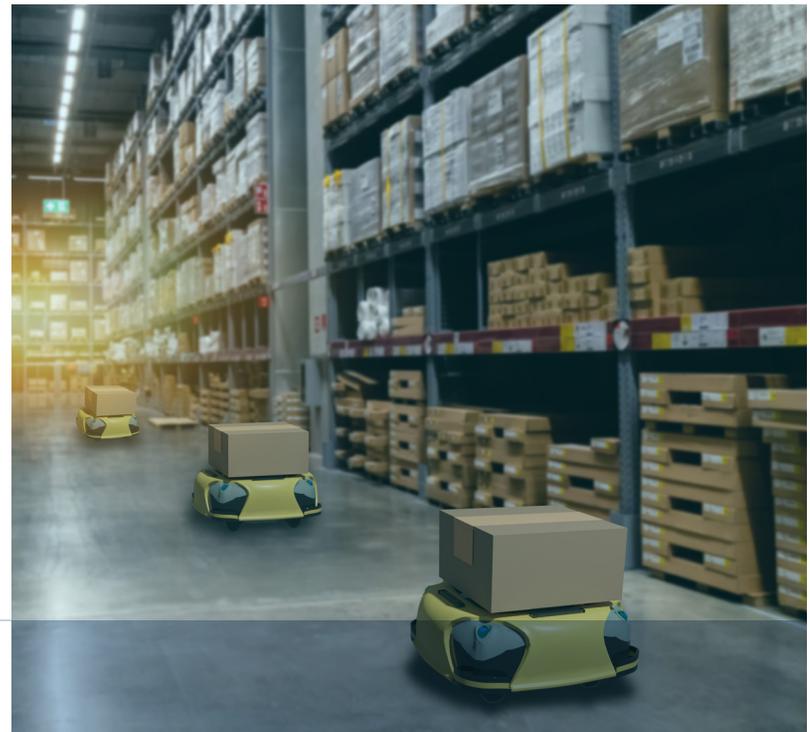


As retailers roll out AI in their supply chain systems, the highest priority areas for deployment are store fulfillment and order management, both of which were selected by 41 percent of retailers. (See Figure 8.)

These processes are part of the transformation of supply chain inventory (products found in planes, trains, trucks, DCs, cases and pallets) into "commerce-ready inventory" (products located on shelves, in store back rooms, in dark stores and in micro-fulfillment centers that are ready for immediate sale).

**Commerce-ready inventory is where the rubber meets the road in terms of converting products into purchases. Leveraging AI to optimize these systems is seen as having a direct impact on sales.**

Investments that leverage AI in warehouse and DC operations (chosen by 34 percent) can go right to the bottom line, and using AI to improve demand forecasting can have a major impact on both sales and profits.



## Take-aways for 2021 and Beyond

Retailers learned a great deal from the chaotic year of 2020. Based on those tough lessons, they are currently in the process of re-evaluating their retail supply chains and instituting changes that will deliver new levels of agility and responsiveness.

- A historic shift by consumers to e-commerce is motivating retailers to focus on improving their capabilities in fast and flexible shipping, expanding the range of fulfillment options offered to consumers and optimizing last-mile delivery.
- Equally important for retailers is the need to improve their ability to respond to abrupt fluctuations in demand by leveraging customer data and expanding collaboration with supply chain partners.
- Several problem areas were exposed during the disruptions of 2020 and many of these are at the top of retailer priority lists, such as resolving the lack of real-time inventory visibility, improving fast and accurate forecasting and simplifying omni-commerce systems.

Looking ahead at supply chain strategies for 2021 and beyond reveals an industry working hard to develop systems that can adapt to sudden changes, recover momentum quickly and, in the process, improve the service it offers to customers.



## Methodology

Polling for this study was conducted during December 2020 and included 217 respondents.

Of the respondents, 40 percent were retailers or wholesalers. Other large groups include consultancies/agencies (23 percent), tech solution providers (18 percent) and brand marketers/manufacturers (14 percent).

The largest segment of retail represented in the respondent pool at 35 percent was fast-moving consumer goods, a category that includes grocery, drug and convenience stores. Two other large segments in the study were specialty (e.g. electronics, furniture, hardware, home, etc.) at 24 percent and apparel (including footwear and accessories) at 15 percent.

Finally, the respondent profile included a broad range of annual revenue sizes that ran from greater than \$5 billion (13 percent) to less than \$100 million (47 percent). The total group of all retailers with annual revenue greater than \$1 billion was 28 percent.

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