

# Retail Supply Chain OUTLOOK

THE TOP FIVE PREDICTIONS FOR 2017.



> By Jessica Dankert

**The retail industry continues to experience dramatic change**, with technology and shifting customer demands creating significant challenges and unprecedented opportunities. This is especially true in the dynamic world of supply chain where five macro trends are unfolding. They include:

**1. Last Mile is the Last Frontier:** In 2013 when Jeff Bezos announced that Amazon was preparing to make deliveries by drone, few people took the statement seriously. Since then, Amazon has conducted tests in the UK, and back in July 7-Eleven announced the first drone delivery of a Slurpee. These are more experiments than long-term strategy shifts, but they underscore the reality that retailers are open to all kinds of last-mile solutions. As technology advances and shopping patterns evolve, 2017 will feature intensified experimentation. Expect to see more options to get products into customers' hands, more partnerships across retail brands, and more engagement with new startups, focused on doing the last mile consistently well and profitably.

**2. Uncharted Waters in International Transportation:** 2016 was a busy year on the high seas. Years of financial uncertainty, caused by dropping rates and unused capacity, came to a head last September with the remarkable collapse of Hanjin Shipping, the world's seventh-largest carrier. Though it had been 30 years since the collapse of a major shipping line, it was the beginning of a wave of industry consolidation. Mergers, acquisitions, joint ventures—the consolidation will continue and it will impact the costs, service, and responsiveness of every supply chain with an overseas component. When the dust settles, expect to see around half as many distinct carrier lines, and fewer terminals in each port. Meanwhile, U.S. ports continue to grapple with congestion compounded by bigger ships, operational shortcomings, alliances and infrastructure limitations. Ports, carriers and terminal operators are aware of the problem, but developing solutions remains a challenge. Consolidation can help streamline operations by reducing redundancies. Technology, in the form of apps, widespread GPS, U.S. Customs AMS data used for operational planning, ports' experimentation with data tracking and visibility platforms, is expected to drive productivity gains. Tracking and reporting of standardized metrics is moving closer to widespread adoption, and infrastructure improvements are a top priority for the Trump administration.

**3. Trade Trouble:** International trade is a critical element of the retail supply chain, but 2017 is poised to be a year of uncertainty for America's role in the world market. After

the presidential election, prospects dimmed significantly for the future of the Trans Pacific Partnership (TPP) agreement. With TPP sidelined,

U.S. consumers will lose out on considerable savings that would have resulted from the easing of tariffs on common household goods, and the Trump administration has indicated an interest in increasing protectionist tariffs, which will directly affect retailers and their customers. Likewise, while the opportunity for comprehensive tax reform in 2017 is a promising development, the specter of a border adjustability provision would mean higher prices for consumers on family essentials. Such a measure would hamstring global supply chains and hit consumers in the pocketbook.

**4. Incorporating Innovation:** The retail industry remains ripe for exciting and innovative advancements. This is the dawn of (R)Tech—retail's counterpart to fin-tech or health-tech: the convergence of traditional retailing married to the flexibility, agility, and dynamic pace of technology firms. Many top retailers have established labs in Silicon Valley, launched venture capital funds, or created the role of "Chief Innovation Officer." An annual study by RILA and Auburn University found that supply chain is one of two functional areas where retailers plan to significantly increase financial investments in 2017, making it fertile ground for adoption of new processes and technologies. Virtual and augmented reality, robotics, next-generation sensors, smart shelves and machine learning in data analytics will enable the supply chain of the future. In 2017, expect to see this heightened focus on innovation spread beyond just a handful of large brands, as more retailers embrace incremental innovation.

**5. Reverse Logistics' Time to Shine:** Returns and reverse logistics may not be sexy, but that will change in 2017 as reverse logistics becomes a critical strategic matter instead of an afterthought. The nature of e-commerce shopping habits and customer-friendly return policies created an environment in which an estimated 30 percent of online purchases are returned, compared with only about 9 percent of in-store purchases. Research by Genco/Fedex indicates that in 2017, industry-wide returns are projected to outpace e-commerce sales by approximately \$20 billion. Any retailer not paying significant attention to how it handles returns and reverse logistics is going to regret it. **RL**

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