



How supply chain
is shaping the
retail M&A agenda



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Supply chain is becoming a key competitive advantage in the retail sector. Retailers are striving to optimize the omnichannel experience for their customers. Supply chain leaders are pivoting from traditional cost-minimizing initiatives to acquiring and integrating disruptive capabilities they need to reimagine their operations and meet consumer demands for rapid fulfillment.

Supply chain, the backbone of the entire retail fulfillment process, needs to play a pivotal role in a company's inorganic growth strategy. Recent acquisitions show how capabilities like same-day or next-day delivery have become the de facto customer expectation. Going forward, these efforts will likely include more non-retail transactions, such as Target's acquisition of Grand Junction, a transportation technology company, to improve and expand retailers' delivery capabilities.

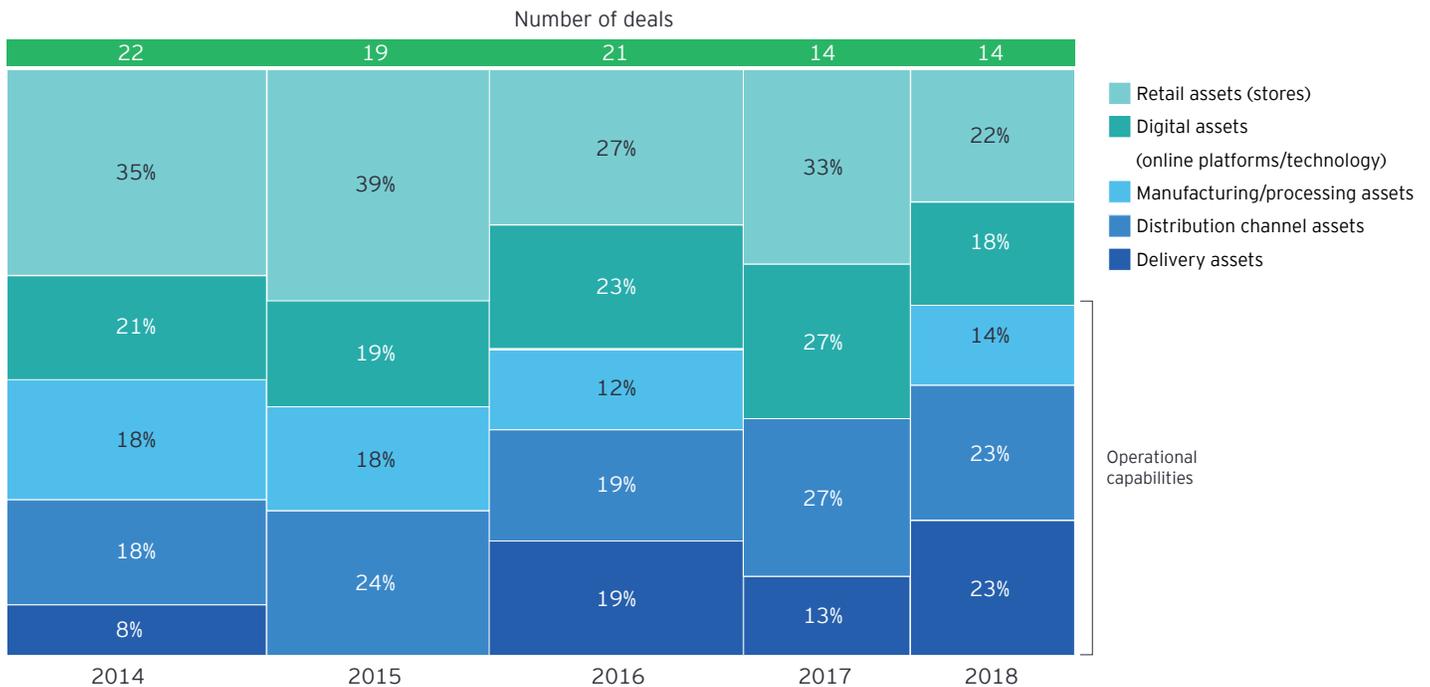
The M&A agenda, once dominated by footprint expansion and scale, is being bolstered by a drive to enhance select operational capabilities that fall under the supply chain purview. For example, Kroger, which earlier prioritized

geographic expansion with acquisitions like Harris Teeter and Roundy's, is now focused on strengthening its operational capabilities. The US grocery retailer has worked with Nuro for same-day and next-day autonomous vehicle grocery delivery and has expanded into adjacent categories by acquiring Relish Labs (Home Chef), which offers weekly meal kit delivery services and recipes to subscribers.

To drive this transformation in the next decade, supply chain leaders can include three key priorities in their agenda:

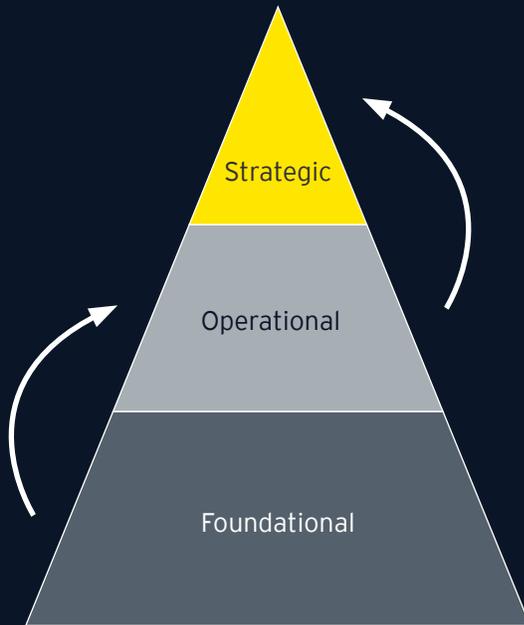
- ▶ Identifying operational capabilities that will differentiate them in the marketplace
- ▶ Optimizing the operating model through strategic relationships/M&A
- ▶ Working with the right experts to build and sustain targeted capabilities

Our analysis of retail M&A transactions between 2014-18 indicates that retailers have increased their focus on enhancing operational capabilities (transaction value > \$250m)



With the advent of an omnichannel fulfillment model, we are also observing a convergence and tighter linkage between digital and operational capabilities.

Retail supply chain capability framework



Strategic capabilities

- ▶ Ability to proactively identify and meet customer demands
- ▶ Cost-effective omnichannel experience

Operational capabilities

- ▶ Flexible and rapid delivery models
- ▶ Agility to enter/exit product lines
- ▶ Multichannel integration of inventory

Foundational capabilities

- ▶ Synchronized supply chain and end-to-end visibility and traceability
- ▶ Analytics-driven decision-making (e.g., assortment decisions)

Building a 'disruption-ready' supply chain

Rapid changes in customer preferences and technology adoption are disrupting nearly every facet of the retail supply chain. The advent of e-commerce and rapidly expanding distribution footprints are forcing traditional brick-and-mortar retailers to continuously evolve their complex supply chain and deliver products to a customer's doorstep. At the same time, the pace of innovation and startups' ability to scale is increasing competition in an already crowded retail industry – resulting in lower margins and loss of market share.

Scouting for short-term options may be appealing for traditional retailers. However, it is important for retailers to rejuvenate their supply chain with longer-term investments in new capabilities. When adopted and integrated carefully, these new capabilities, as shown in the graphic above, can help maintain and grow market share.

The emergence of new technologies like the Internet of Things (IoT), artificial intelligence (AI), machine learning (ML), blockchain and robotic process automation (RPA), when applied to the supply chain, enhances the ability to make true end-to-end visibility and analytics-informed decisions. Yet, many companies either do not have these capabilities or have not effectively leveraged them. Below is a list of key current and emerging supply chain technology capabilities in the retail supply chain.



Key end-to-end supply chain emerging strategies

Inventory management

Manage an agile product assortment that maximizes profitability and delivers on service-level targets

- ▶ AI/ML to predict demand based on historical sales and real-time market information
- ▶ Provenance: both the retailer and customer can track the entire product life cycle (using blockchain) to ensure quality
- ▶ Order processing bots (RPA) to trigger order creation activity, cutting down the cycle time of fulfillment and costs

Asset and network management

Fulfill omnichannel demand in optimal lead time and dynamically manage inventory across all nodes in the supply chain

- ▶ Operations scheduling: ML to schedule operations based on orders and real-time inventory on hand
- ▶ Asset performance management: IoT and analytics to predict machine performance to better plan preventive maintenance and stock spare parts
- ▶ Asset light strategy: evaluate the business case of asset ownership (manufacturing/processing assets, distribution centers (DCs), etc.) and operations, and pursue relationships with contract manufacturers, 4th party logistics and others wherever feasible

Sourcing/procure to pay

Establish and sustain differentiated supplier relationships that deliver unique value to the customer base

- ▶ Smart contracts: transactions among disparate partners that are prone to lag and error can be automated for more efficiency (using blockchain)
- ▶ Invoice to payments processing bots (RPA) for automated payments, resulting in improved accuracy and reduced costs
- ▶ Smart supplier evaluation using social insights (part search and supplier news) to help in the supplier selection process

Transportation/last mile delivery

Cater to new delivery models and enable strategic relationships for last-mile and time-window-based deliveries

- ▶ Automated delivery to the doorstep/store (robots, trucks, drones) to improve delivery times and reduce costs
- ▶ Real-time tracking and performance management with IoT and analytics to optimize routing and reduce delivery time
- ▶ Self-service automated pickup kiosks to reduce pickup wait time and increase access to customers
- ▶ Lights-out DCs with automated systems: storage and retrieval, shop floor vehicles, and loading and unloading of trucks

M&A and alliances as an accelerator

After identifying the differentiating future state capabilities, the retailer needs to assess ongoing internal efforts to define a build vs. buy or partner strategy for each of those capabilities. A company will typically acquire mature capabilities that are readily available externally in the marketplace, especially where the company is not developing those internally. A decision to buy or partner is not easy and requires reflecting on a few critical questions:

- ▶ Do we have an internal champion in supply chain to drive the innovation agenda?
- ▶ What is the level of collaboration between supply chain and corporate development functions?
- ▶ What are the target capabilities or winning plays we are aspiring to achieve?
- ▶ Is the supply chain operating model aligned with an asset-light strategy?
- ▶ Is our organization agile enough to adapt to the changing environment?
- ▶ Is the talent strategy tailored to attract the right people in growth areas?

Inorganic channels for retail: M&A and strategic alliances

Mergers and acquisitions



M&A is a quick way to:

- ▶ Match speed to market
- ▶ Foster diversification
- ▶ Gain market power
- ▶ Develop capabilities for long-term perspective
- ▶ Focus on backward integration to establish better control on the sourcing side of the supply chain
- ▶ Generate supply chain synergies

Strategic alliances



Commercial alliances are leveraged to:

- ▶ Fill a key product gap quickly
- ▶ Fix go-to-market gaps
- ▶ Enhance customer touch points
- ▶ Expand reach in an asset-light way
- ▶ Increase efficiencies/cost optimization



Technology collaborations are focused on:

- ▶ Working on digital innovation in operational functions like supply chain
- ▶ Expansion of omnichannel capabilities
- ▶ Tech-enabled customer touch points
- ▶ Collaboration of skills, technical know-how, resources and other assets

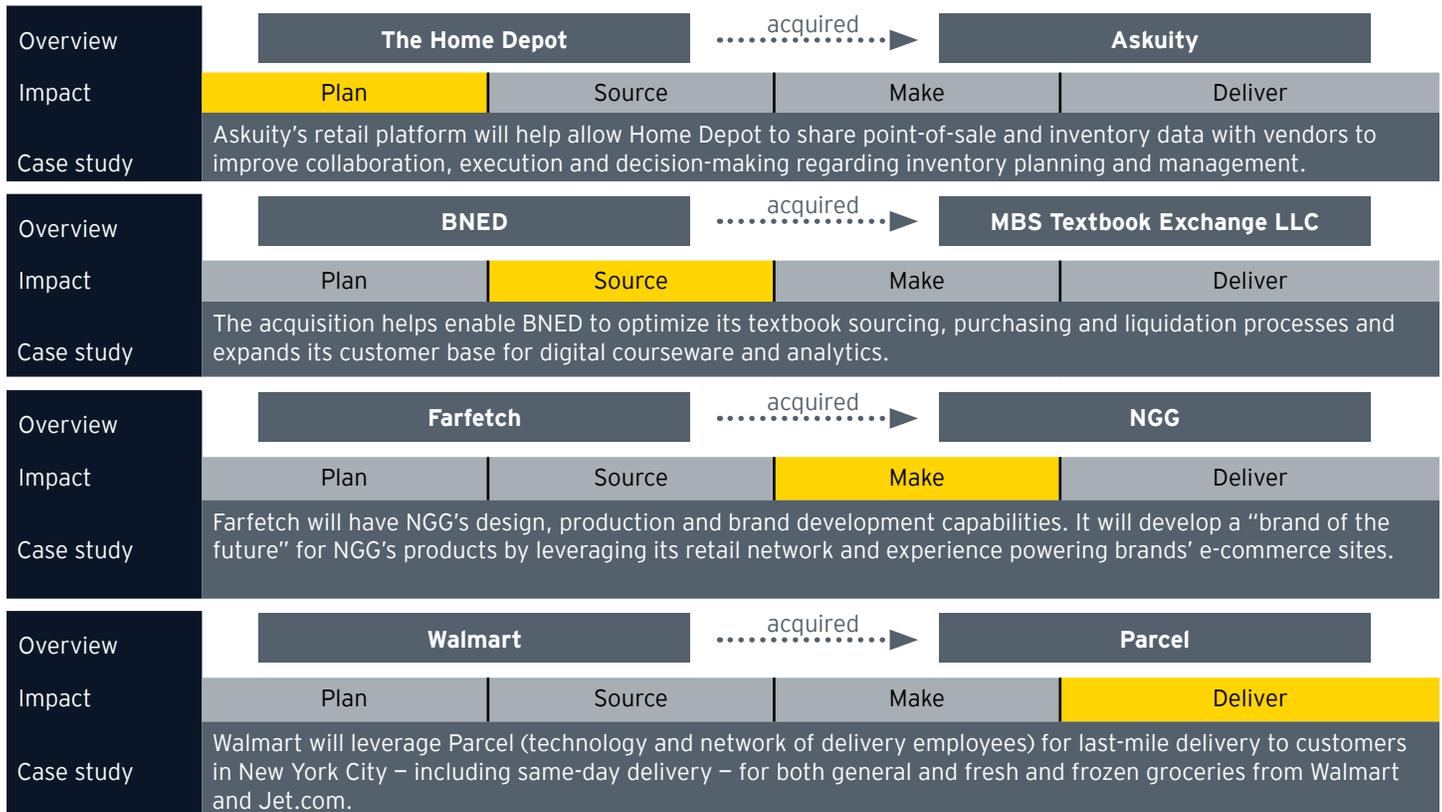
In 2017, a US-based multichannel merchant acquired a leading online same-day delivery platform to accelerate its digital fulfillment efforts. Objectives included leveraging the merchant's network of stores, the proprietary technology platform and the community of shoppers to quickly and efficiently bring same-day delivery to guests across the country.

The buy vs. partner decision requires companies to consider several factors (as listed below) with a well-established change management process for employees. Broadly, an acquisition is a preferred option when the capability is central

to the operational focus of the retailer, [while a partnership is preferred when integrating the two businesses would not produce sufficient synergy benefits to outweigh the costs of the transaction.](#)



An Ernst & Young LLP (EY) analysis of retail transactions over the past five years shows that companies have been aggressively bolstering capabilities in the end-to-end supply chain. Examples include the following:



Once the company chooses the right “buy vs. build or partner” strategy for the complementary capability, choosing the right target comes next. Assessing the parent and target company’s respective operating models and building a joint future state model are central to

identifying the right target during diligence. Other factors such as customer segments and stickiness, cultural fit and leadership vision, financial health and valuation also play crucial roles in filtering prospects.

In 2018, a global multichannel merchant worked with a delivery logistics platform to have end-to-end visibility of its delivery operations. The new last-mile delivery pilot program focuses on fulfilling customers’ online grocery orders and is enabled by a crowdsourced workforce. Drivers sign up for windows of time when they’re available to deliver groceries, and are subsequently provided with order details and navigational assistance during their shift.



Players in key emerging retail trends for partnership



Blockchain (provenance)

- ▶ ShipChain
- ▶ Provenance
- ▶ 300cubits
- ▶ Filament
- ▶ FoodLogiQ
- ▶ ICIX

RPA (PTP, OTC)



- ▶ Automation Anywhere
- ▶ Blue Prism
- ▶ UiPath
- ▶ Pegasystems
- ▶ Automation Edge
- ▶ Softomotive



AI/ML (inventory, DC operations)

- ▶ Convoy
- ▶ Optoro
- ▶ ClearMetal

Lights-out DCs



- ▶ 6 River Systems
- ▶ Fetch Robotics
- ▶ Locus
- ▶ Seegrid
- ▶ CommonSense Robotics



Asset performance management

- ▶ Ayla Networks
- ▶ KONUX
- ▶ Losant
- ▶ Filament
- ▶ Samsara

Automated delivery



- ▶ Zipline
- ▶ Matternet
- ▶ Flirtey
- ▶ Glovo
- ▶ Starship
- ▶ Boxbot



Real-time tracking

- ▶ Aruba
- ▶ BeWhere
- ▶ Geotab
- ▶ DASH7

Conclusion

For most traditional retailers, the road to build a next-generation supply chain is long and will continue to be so for the next few years as new capabilities continue to emerge in the marketplace. COOs, CFOs and corporate supply chain officers will benefit from viewing supply chain as a critical enabler in gaining competitive advantage in the marketplace – not just by driving operational efficiencies and fulfilling customer demand, but also by way of enhancing customer experience and building sustainable business models that can drive profitable growth for years to come.

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