Supply Chain Disruptions Require New Solutions To Be Implemented By Retailers

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Retail companies have been historically operating in an incomplete assets scenario in terms of logistics capabilities. In a world where the current climate of disruption has heavily affected the supply chain, switch to a more sustainable and complete model might be a lifeline to success.

Retail companies have been historically operating in an incomplete assets scenario in terms of logistics capabilities. Other than large enterprises such as Amazon and Walmart, most retailers choose to outsource them. This is because building and maintaining physical logistics assets is costly and time-consuming.

Additionally, companies need to continuously ensure that assets are compliant with the most recent changes in regulations, including environmental and technological ones.

However, to switch to a more sustainable asset model, might be the lifeline to success, especially in the current climate where supply-chain disruptions make the headlines daily.

Logistics space rates continue to be on the rise due to companies stocking up inventories to avoid unfulfilled orders, while also causing capacity constraints.

Not to mention the industry-wide truck driver shortage which further damages supply chains and last-mile operations.

Therefore, some retailers have chosen the less-beaten path, as far as their logistics operations are concerned. When looking at the past year we can see the following examples:

- **In the middle of 2021**, American Eagle acquired Seattle-based parcel shipping start-up AirTerra for an undisclosed amount. Six months later, in November, it announced the acquisition of Quiet Logistics, for around $350 million. The company operates distribution centres around the United States.
- **In December 2021**, Ashley Furniture's supply-chain arm acquired assets from the intermodal trucking company Wilson Logistics.
- **In January 2022**, BJ’s WholeSale Club announced it was acquiring four refrigerated distribution centres and those facilities-related private fleets of its transportation partner Burris Logistics.

Previously, in 2020, Costco had also bought last-mile company Innovel, specialising in big and bulky deliveries.

To buy is one of the solutions, but 'to make' can be another one, in terms of acquiring logistics capabilities. In 2022, El Corte Inglés took a new step in its strategy of maximising use of its logistics capabilities by setting up a new company: El Corte Inglés Advanced Logistics.

According to the company's **latest financial release**: "The goal is to grow in the logistics business by leveraging the Group's solid existing internal infrastructure used in its own retail business to grow and provide services to third parties." When looking at American Eagle and Ashley Furniture's size and scale, it might be suggested that, by going more sustainable and invest in dedicated logistics, these players are getting into the space that has been traditionally occupied by giants such as Amazon and Walmart. **But what are the benefits of these strategies and are they worth the investment?**

Better Inventory And Labour Management

Starting from the middle of 2021 and up until now, retailers with an outsourced logistics strategy have encountered some roadblocks in achieving enough shipping space and truck capacity, with customers often receiving delayed parcels and being subject to miscommunication.

Couple this with the current warehouse labour and driver shortage and you have a recipe for disaster. **Owning or sub-contracting a logistics company can help prevent these types of problems**, and to manage space and resources in a better way, also resulting in better services to the end customer.

Increased Visibility

Traditional express companies cannot always offer cutting-edge bespoken visibility services to retailers featuring the latest technology available. **Seamless visibility of shipments is not as easy as it might seem**, can be more or less sophisticated, and it requires flawless data-sharing between the parties' platforms sometimes leading to unsatisfied customers.

Using one platform to manage inventory, shipments, and customer service can help manage disruptions.

Even better if the platform is managed by a proprietary logistics company, making communication swift and effective between the parties involved. Furthermore, according to CEO and Founder of Milkman Technologies Antonio Perini, **visibility is achievable if the tracking is done through a single platform**, which is not always the case.

Cost Control And Improved Customer Service

When looking at American's Eagle choice, there are some signs that its strategy is starting to pay off in terms of costs savings. As reported by emarketer, American Eagle built its own logistics infrastructure to reduce the number of packages per order and shorten its delivery windows. **In Q1 2022, the retailer cut down on its number of packages per order and reduced its delivery times by 13%**, while also adding high-profile clients to its portfolio.

Additionally, having a proprietary logistics company helps manage, to an extent, unforeseen cost increases applied by outsourced providers. According to a December 2021 analysis by Shipping Management Platform Reveel quoted in **several sources**, for example,

“while UPS’s rate card increased by an average of 5.9%, the actual impact of its 2022 rates, surcharges, fees and new terms will be a 10.25% increase for most companies.

FedEx’s 5.9% rate increase actually represents a 12.86% for most customers with the addition of new surcharges, fees and terms. Cost varies within the same parameters as UPS, however, FedEx’s Ground Economy will see an average increase of 26% in 2022.”

Capacity as a Competitive Edge

Quoted in this **article by the CNBC**, equity analyst Tarlowe said the investments should “help American Eagle over time to improve its inventory management, mitigate risk for markdowns and ultimately boost profit margins. **The greater economies of scale the company can achieve, the better**, he said”.

Furthermore, part of American Eagle's acquisition strategy is that it plans to remain a customer of both companies it acquired. While the retailer is now owning the two logistics companies, they will also continue to take on other customers.

Under the leadership of Chief Supply Chain officer Shekar Natarajan, the company plans to create a communal supply chain platform that can also be leveraged by other retailers.

So far, the combined network, Quiet Platforms, helped the retailer avoid its first year-over-year decline since Q4 by contributing roughly three percentage points to its revenue’s growth, despite the fact that its retail sales did not meet expectations and experienced a decline, reports emarketer.

Natarajan was quoted in this **CNBC article** stating: “The reality is none of us own our supply chain,” Natarajan said. “We manufacture goods in factories that are shared right across retail. We move them in ships that are shared across businesses. “But shared capabilities — whether they’re technology capabilities, fulfilment capabilities or transportation capabilities — are the future of this industry.”

According to this FreightWaves article, as supply chain disruptions continue and managing overly increasing costs become a priority, **we might see more vertical integrations between retailers and logistics companies**.

Although it is unlikely that we will see all mid-size retailers make the move, it will be interesting to see the alternative strategies they put in place to mitigate supply chain disruptions. As seen, American Eagle’s decision is already starting to pay off as it has also laid out its growth plan. However, it is also worth keeping an eye on ‘new entrants’ and, particularly, El Corte Inglés. Watch this space!

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