

How the retail
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As consumers increasingly choose to shop online, smaller retailers would need a network of partners to compete against the e-commerce giants.

Over the last few years, e-commerce platforms have accounted for a greater share of personal shopping volumes as customers seek more personalized experiences and speedy delivery. Before the COVID-19 pandemic, global e-commerce giants increasingly posed a serious competitive challenge for traditional bricks and mortar retailers. Now, these retailers, as well as a host of smaller online retailers, are fighting for their very existence - a trend that may accelerate.

According to a recent edition of The EY Future Consumer Index,¹ 37% of respondents globally believe the way they shop will be forever altered over the long term, while 39% say they will shop more online for things they used to buy in stores. In the appliance and technology category, the percentage of global consumers more likely to shop online rises to 55%.

For the most part, the companies most capable of meeting elevated customer expectations are those that have redefined the customer experience by which every company is now measured - personalized products and services,

predictive offers that anticipate future wants or needs based on behavioral preferences, and exceptional service such as same-day delivery. And they keep redefining it. They continue to raise customer expectations to levels that smaller retailers may find too high to reach.

In 2020, looking to capitalize on rapidly evolving consumer expectations in the European Union, Lithuania-based same-day delivery platform Ziticity raised US\$2.68m to fund its expansion plans.²

Retailers that want to meet these levels of service and remain competitive may need to up their game - and they may need to consider finding collaborators to help them.

¹ EY Future Consumer Index: How to capture the real e-commerce opportunity, EY website, https://www.ey.com/en_gl/consumer-products-retail/future-consumer-index-how-to-capture-the-real-e-commerce-opportunity. October 2020.

² "Same-day delivery platform Ziticity raises €2.2 million," E-commerce news Europe website, <https://ecommercenews.eu/same-day-delivery-platform-ziticity-raises-e2-2-million/>. Accessed February 2021.

Collaborating for success

Ecosystems may offer retailers the best path to success, if they choose their partners wisely.

There are several steps in the delivery value chain, from last-mile delivery, to fulfillment and inventory management, to demand planning. When retailers look at these steps in aggregate, they may realize that they lack the critical mass necessary to meet customer demands on their own. They may need to develop a partnership ecosystem to bundle volumes and establish coordinated brand relationships, particularly in metropolitan areas.

In forming or participating in an ecosystem, retailers have the choice of two options: 1) join an e-commerce platform; or 2) create a metropolitan commerce ecosystem - a network of

like-minded retailers, fulfillment and delivery providers working together to build competitive fulfillment capabilities that can sustainably deliver exceptional customer experiences.

Retailers that partner with an e-commerce platform will be reduced to fulfillment providers

For most retailers, building their own e-commerce platform may prove too challenging and cost prohibitive. They may be too far behind in their e-commerce strategy, and now, even with substantial investment, there is no guarantee it will provide the intended ROI. The alternative is to join forces with an e-commerce platform provider, which can appear to be the path of least resistance in meeting escalating customer demands for anytime-anywhere access and speedy delivery. However, there are several issues retailers will want to consider.

On the plus side, the platform provider will give retailers access to a larger consumer base than they could possibly reach on their own, and they will have the potential to quickly "liquidate" stock if their prices are competitive.

However, retailers will lose direct access to the customer. Instead, the platform provider will own and manage the relationship. The platform provider will also mass-customize assortment views for the customer, limiting retailers' ability to differentiate themselves from their competitors. Retailers will also assume all of the inventory risk.

The other major downside to collaborating with an e-commerce platform provider is that this model will relegate retailers to fulfillment

providers rather than curators, with a host of inherent risks. Customers will judge their shopping experience based on operational excellence rather than a differentiated experience, and any margin retailers receive will be diminished by the commissions they have to pay to the platform provider.

A metropolitan commerce ecosystem can help retailers turn the tide and reimagine their purpose

Bricks and mortar as well as online retailers that choose to form a metropolitan commerce ecosystem will have the benefit of retaining a direct relationship with the customer. To build loyalty, retailers will want to

focus on gaining an intimate knowledge of their customers, curating products based on their individual behaviors and preferences, and delivering an exceptional experience through every step of the customer journey.

At the same time, depending on the types of cooperation and levels of partnership, retailers may be able to share inventory risk with the brand suppliers or across ecosystem participants. Additionally, as efficiencies increase and the ecosystem evolves, they may be able to minimize their real estate footprint, while seizing opportunities to support cross-channel propositions with inventory-light city-center bricks and mortar shops.

Ultimately, retailers in a metropolitan commerce ecosystem will be able to reimagine why they exist, the relationships they want to cultivate and what they want to be known for. They will be able to create uniquely curated, exceptionally executed retail experiences that customers will pay a premium for, enabling retailers to build customer loyalty through relevance and achieve more profitable growth.



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Reimagining the value chain

Radical times call for radical change to retailer business models

Building a metropolitan commerce ecosystem will require retailers to reimagine the value chain and embark upon a transformation across strategy, operations, risk, financial, tax and legal. Here are three areas for retailers to consider.

1. Team for last-mile success

The last mile is the most noticeable retailer-customer connection and critical for direct customer access.

Fast, planned delivery of goods to a customer's door requires retailers to set up their supply chain to be able to deliver multiple times a day to guarantee not only short delivery times, but also favorable delivery slots for as many customers as possible. Yet, most retailers lack sufficient sales volume, even in densely populated metropolitan areas, to offer personalized, same-day delivery cost-efficiently.

One option to achieve last-mile success is to collaborate with neutral third-party players, such as logistics service providers. Partnerships of this nature will require contractual and performance parameters that consider service level ambition, compatibility

in terms of logistics and handling requirements, geographical coverage, customer behavior and existing supply chain setup. For reasons of both efficiency and cost, retailers will benefit if existing hub and logistics structures - including IT systems - are compatible.

In addition to selecting the right partners and hammering out targeted customer service levels, retailers need to consider route planning, such as frequency of distribution, maximum delivery times and targeted delivery windows. Artificial intelligence and learning algorithms can help partners in the metropolitan commerce ecosystem to constantly adapt and optimize route planning for maximum effect. This could include creating integrated route planning and delivery loops whereby partners can share open delivery slots on each other's delivery routes.

2. Cooperate on fulfillment for efficiency and profitability

Optimizing the last mile with partners gives the retailer the key to the consumer. However, serving customers profitably requires more than fleets of delivery vehicles and route planning. It takes merchandise. While this is not a necessity, vertical integration is a logical next step in the evolution of the metropolitan commerce ecosystem.

No matter how efficiently the last mile is organized - whether it is fed by merchandise feeders, round trips or pickup campaigns - a supply chain filled with the right merchandise at the right location from the start will always be superior. However, this massive undertaking involves high investments in infrastructure and inventory. This requires a shared fulfillment strategy.

A nationwide hub structure has been a strategy used almost exclusively by the global online giants. Smaller retailers will need partnerships that support the joint use of decentralized warehousing and logistics structures. This will allow retailers to share both the costs and the risks.

However, to achieve fulfillment success, retailers need to know where their last mile starts and how merchandise can get to where it is needed for distribution efficiency in a metropolitan region. Retailers have three options:

1. The milkman.

Using this scenario, delivery partners visit partner hubs at clearly defined intervals to collect the goods and, ideally, distribute them in the same run.

2. The shuttle.

Goods are driven from individual distribution centers or warehouses, or partner stores, to a common departure point, which is where the end customer tour would begin.

3. Joint fulfillment.

This option relies on a dedicated infrastructure that can fulfill the delivery promise to the end consumer and meet the partners' assortment requirements. Partners can either use or build on existing structures or establish a new one.

3. Take things to the next level with integrated inventory management and demand planning

Once metropolitan commerce ecosystem partners have found alignment and successful execution around last-mile delivery and profitable fulfillment, they may want to take the partnership another step further. While last-mile partnerships are low-hanging

fruit, offering a certain level of reward with minimal risk, they may fall short of delivering full value.

To achieve the full benefits a metropolitan commerce ecosystem can bring, ecosystem partners will want to explore joint demand and inventory optimization - and the integrated planning that may be required to achieve them. There is also an opportunity at this level of ecosystem maturity to have brands within the ecosystem play a more prominent role. This may include depot models for multiple consumer-facing retail outlets.

Retailers achieve a much deeper commitment when jointly stored inventory also becomes shared inventory with open access. This step requires a massive amount of trust among partners as it infringes on individual retailer DNA and core competencies - yet the upside in terms of efficiency is significant.

Using this approach, partners would jointly manage not only fulfillment and last mile, but also share large parts of the inventory. This would allow retailers to reduce risk and safety stocks in individual warehouses and hubs, thereby lowering purchasing volumes and reducing the capital commitment for each partner. Supply and demand fluctuations also can be balanced jointly. This can be particularly valuable in times of high volatility, such as the current COVID-19 pandemic.

Given the high degree of transparency and trust required, ecosystem players would benefit from implementing and adhering to a clear set of rules that offers a fair distribution of opportunities and risks, while avoiding misconduct.

When demand peaks for individual products, there still might be substantial strain. Ecosystem players will need to navigate and resolve such issues as who profits from unsustainably low inventory levels and which customers will not receive the product or experience they expect.

Because inventory plays a key role in joint fulfillment, retailers within the ecosystem will want to engage in joint planning and inventory control. In times of ever faster action and reaction cycles, especially in the online channel, this is a challenge. For the synergies of joint inventory to work most effectively, retailers will want to establish allocation principles as part of the planning. There will then need to be a "carrot and stick" approach to execution. Retailers will need to outline the incentives for fostering fair behaviors as well as the penalties for individual planning errors that have a negative impact on ecosystem partners. Ecosystem partners may also want to consider hiring a "trustee" that can aggregate planning and clear transactions.





Becoming a retail contender

A metropolitan commerce approach may be retailers' best opportunity to compete with the e-commerce giants.

In a future primarily driven by digitally coined customer expectations (EY-Parthenon consumer analysis, 2021), retailers may need to find ways to keep pace with global e-commerce giants that continue to disrupt the field of play. The days of doing nothing or going it alone and hoping that things will return to "normal" post-pandemic may have been long gone. Yet, transforming their own business models into a true platform or creating one anew that can compete with the multinational e-commerce platforms may be out of reach for most.

Retailers' strongest options to reimagine their future seem to be either partnerships with e-commerce platform providers or creating a metropolitan commerce ecosystem that can provide all participants with fulfillment and last-mile delivery capabilities that rival the multinational e-commerce competitors.

The metropolitan commerce approach is a radical solution in the face of radical change and the magnitude of the transformation required may be significant. In undertaking this effort, retailers will need to:

- 1. Plan for a substantial business transformation.** Retailers will need to reimagine their business in terms of strategy, risk, operational effectiveness, tax structuring, and governance and accountability.
- 2. Think sales, not merchandise.** Retailers will have to evolve from merchandise-led to sales-led organizations.
- 3. Build trust and transparency.** For the ecosystem to work, all players will need to feed into a collective culture based on trust and transparency.

With the right collaborators, a lot of planning and a giant leap of faith, retailers that chose this path can reimagine themselves as more than merchants or traders. They can become demand generators, offering unique and exquisitely curated experiences that draw loyal consumers in, rather than simply pushing product out.

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