PATH TO RETAIL RECOVERY AMID COVID-19

JUNE 2020
AGENDA

1. Overall Impact of COVID-19 on the Retail Industry & Strategies  
   NATALIE KOTLYAR

2. Creating New Retail Excellence After COVID-19  
   ASIF HUSSAIN / ROSS FORMAN

3. Cost Reduction Strategy for Sustainable Profits  
   ASIF HUSSAIN / ROSS FORMAN

4. Customer Engagement and Conversion  
   ROBERT BROWN

5. Efficient Fulfillment & Operational Excellence  
   JEFF PRATT

6. Q&A  
   NATALIE KOTLYAR
With You Today

NATALIE KOTLYAR
Retail and Consumer Products National Leader
nkotlyar@bdo.com
212-885-8035

ASIF HUSSAIN
Director, Corporate Real Estate Advisory
asif.hussain@bdo.com
212-817-1758

ROSS FORMAN
Managing Director, Corporate Real Estate Advisory
RForman@bdo.com
904-396-4016

ROBERT BROWN
Managing Director, BDO Digital, Retail CPG Client Executive
robert.brown@bdo.com
714-913-2581

JEFF PRATT
Supply Chain Practice Lead, Managing Director
jpratt@bdo.com
440-725-9203
Overall Impact of COVID-19 on the Retail Industry & Strategies for the Path to Recovery
Impact of COVID-19 on the Retail Industry

BUSINESS DISRUPTION

Retailers must navigate:

- Global supply chain interruption
- Stay-at-home orders and mandated store closures
- Exacerbation of existing financial distress
- Pressure to transform business models and operations
- Difficult decisions around cost-cutting and staff reductions

As a result of COVID-19, in 2020 ...

- 47% of retailers expect some downside revenue implications
- 44% of retailers expect production delays
- 42% of retailers are concerned about the impact of consumer confidence on revenue
- 40% expect inventory shortages throughout the year

Source: statista
Impact of COVID-19 on the Retail Industry

SHIFTS IN CONSUMER SPENDING HABITS

Retailers must adapt to:

- E-commerce/Digital adoption
- Declining in-store foot traffic
- Greater consumer spend on health and hygiene products
- Less spend on luxury apparel and other non-essential goods
- Tightened purse strings due to recession

2020 U.S. Retail Sales Outlook

- E-commerce sales are estimated to increase by 18%
- Total retail sales are estimated to decrease by 10.5%
- Brick-and-mortar sales are expected to fall by 14%
- Food & beverage and health & beauty are the only categories not expected to see a drop in sales

Source: eMarketer
Strategies for the Path to Recovery

Prepare for Both the Short- and Long-Term:

- Evaluate crisis protocols and risk profiles
- Develop contingency plans
- Leverage and maximize financial relief options
- Renegotiate with lenders, vendors and landlords
- Consider potential business and supply chain restructuring needs

People-First Mentality:

- Reassure and support employees
- Keep consumer base as informed as possible
- Communicate new health and safety measures
- Strengthen digital capabilities and presence to enable seamless CX
- Monitor for updated guidance from the CDC and WHO
Creating New Retail Excellence After COVID-19
COVID-19 Pandemic Amplifies Retail Woes

Several prominent retailors have announced store closures:
- 450 Pier 1 locations
- 230 GAP locations
- 200 Walgreens closures
- 130 locations for 24 Fitness
- 125 Macy’s locations

Total retail sales in the U.S. to fall more than 10% in 2020, will not rebound to pre-Covid-19 levels until 2022.

U.S. retailers could announce between 20,000 and 25,000 closures in 2020, 55% to 60% of which are located in America’s malls.

Retail rent collection plunges to 58% in April.

More than 1 in 5 large national chains aren’t paying.

May retail sales spiked 17.7% from the previous month. Still, sales in May were down 6.1% compared with last year.

67% of property managers said they have tenants who would have difficulty making rent payments.

Sources: Deloitte, JLL, CNBC, NAR, Coresight, WSJ, CNN, Business insider
## COVID-19 Impact on Retail Channels

<table>
<thead>
<tr>
<th>Primary mode of business</th>
<th>Apparel &amp; Footwear</th>
<th>Home &amp; Furniture</th>
<th>Electronics</th>
<th>Health &amp; Beauty</th>
<th>Food &amp; Grocery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainly Brick and Mortar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faces sharp sales decline due to lockdown restrictions and/or missing consumer footfall in non-grocery categories</td>
<td>Red</td>
<td>Blue</td>
<td>Green</td>
<td>Blue</td>
<td>Brown</td>
</tr>
<tr>
<td>Omni-Channel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Struggle with the rapid move towards the online channel and need to ensure eCommerce operations are in “crisis mode”</td>
<td>Blue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>eCommerce Pureplay</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Can partly capture lost sales from brick and mortar, but deal with atypical demand patterns (e.g. sanitizer, health products)</td>
<td>Yellow</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Legend
- **Store lockdown**
  - Severe impact, with 70-100% reduction in sales
  - Need for short-term measures to ensure business continuity

- **eCommerce shift**
  - Reduction in consumer demand and/or shift to online channel
  - Need for eCommerce operations in “crisis mode”

- **Grocery panic**
  - Change in demand patterns
  - Risk of supply chain disruptions
  - Need to stabilize operations
## Post-COVID-19 Retail Environment: Operating in the New Normal

### Consumer Shopping Patterns
- Stores will reopen to vastly different buying atmosphere
  - E-commerce slated to grow as more households continue to order online and order curbside pickups. Remote working has triggered new online shopping behavior.
  - Consumer across age groups have shifted to online and digital purchasing.
  - Brand loyalties have shifted in profound ways.

### Operational/Regulatory Implications
- Retailers across the board are having difficulty adapting to new regulations regarding social distancing and sanitation.
- The increased cost for signage and supplies amid shorter store hours and limiting customers for social distancing weigh on margins.
- Product scarcity has upended brand loyalty for many retailers. Consider this an opportunity to redefine core consumer segmentations.
- The need for flexible labor has been exhaustive across industries. Consider establishing partnerships or acquisitions to meet consumers where they are.

### Real Estate Ops & Strategy
- Brick and mortar center owners will need to increase budgeting for sanitation and maintenance.
- Retailers with physical presence may require redesign of parking lots and center layouts to facilitate pickup capacity.

### Businesses will need to lure clients back
- Change in spending patterns during the near term as those without jobs reduce discretionary consumption. Consumers are demanding value for money across retail sectors.
  - Greater than 25% of U.S. consumers are worried about making payments.
  - 43% of U.S. consumers are consciously delaying large purchases given the economic fallout from the coronavirus and related job losses.

### Logistics and inventory management will act as a major differentiator in the retail industry.
- Additional sales and incentives will need to be provided to win back customers lost during COVID – putting further margin pressures.

### As more companies run into financial difficulty, shuttered locations will provide retailers in expansion mode an opportunity to seek better locations.
- It may be in the best interest of many retail center owners to assist valued tenants through the short-term hardship in ways that are beneficial to both parties. A number of retailers will not survive these economic disruptions, resulting in higher vacancy rates. Quality tenants may be more difficult to find a year from now.
- By the end of 2020, the average asking rent is forecasted to fall between 7% and 9.4%.

---

Source: CoreNet, Datex, CNN, CNBC, WSJ, ICSC
COVID-19 Shifts Consumer Preferences and Retail Real Estate Use

**Pre-COVID-19**
- Retailers retained Non-performing stores due to the synergistic relationship with online sales in the catchment area
- In-store and Online sales benefited cumulatively from integrated operation
- Many retailers operated non essential store fronts to enhance their brand
- Some retailers took only marginal steps to enhance the shoppers experience

**COVID-19 Catalyst**
- In store sales suffered greatly due to COVID Shutdown, online sales remained the one only Point of sale
- Retailers closed non performing stores as part of a broader crisis mitigation response
- Retailers forced to respond to supply chain disturbances and incur financial consequences
- Brands/ retailers leveraging social media influencers and livestreaming in their digital marketing strategies

**Post-COVID-19**
- Enhanced online marketing, technology and sales with flexible delivery and payment options for customers purchasing power
- Physical stores will transition from POS to an experience-based model leveraging Digital
- Extended options to better serve customers—including “try before you buy” and clothing customization
- The use of augmented and virtual reality technologies to upgrade the shopping experience
# Need for Organizational Fitness and Agility for the New Normal

Retailers will need to first adjust to the new normal, and eventually seize opportunities to transform themselves for long term profitability and growth through operating model transformation.

## Short term

- **Accelerate cost and cash containment strategies**
  - Consolidate efforts to achieve a leaner organization coming out of the crisis. Assess the location and profitability of your store network and accelerate the potential for the store closures.

## Mid term

- **Re-align organization for agility**
  - Accelerate automation, GBS, outsourcing etc.

## Long term

- **Transform operating model**
  - Overhaul operating model based on differentiating capabilities in order to reorganize for growth.

## Mitigate Risk & Transform Retail Operating Model

- **Implement continuous cost improvement**
  - Implement processes to ensure a strong focus on controlling costs and expenditures across the organization - maintain organizational fitness.
need for organizational fitness and agility for the new normal

retailers will need to first adjust to the new normal, and eventually seize opportunities to transform themselves for long term profitability and growth through operating model transformation.

**Short term**
- Hold visioning workshops with the right balance of leadership/staff/customers

**Mid term**
- Perform a gap analysis from the ideal to the current state, identify enablers
- Create scenarios from the basis of what if we had a blank slate with retail channels and store formats

**Long term**
- Draft a priority matrix to support decision making - strategic and operational
- Quantify costs to achieve and timing to address gaps identified

**Start the Process With Insights & Scenario Planning**

Capture and incorporate customer feedback and purchase trends

[Image: Diagram showing the process with icons and steps related to visioning, gap analysis, and scenario planning]
Cost Reduction Strategy for Sustainable Profits in Retail
Cost Reduction Strategies For Retail: Key Levers for Savings

Sustained cost savings is hard, but imperative in a new Retail environment - pace of cost transformation must be accelerated to gain or maintain competitive advantages relative to the competition

Only 9% of U.S. retailers increased productivity for 5 consecutive years between 2012 and 2018

For those retailers, returns rose by 25% per year, more than twice the sector avg. of 10%

<table>
<thead>
<tr>
<th>Key Retail Spend Category</th>
<th>Cost Reduction Strategies</th>
<th>Payoffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>SG&amp;A</td>
<td>Reduce or consolidate physical footprint, associated occupancy costs</td>
<td>8-15% of Addressable Spends</td>
</tr>
<tr>
<td></td>
<td>Consolidate suppliers, and renegotiate lower rates</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increase effectiveness/return of marketing and advertising spending</td>
<td></td>
</tr>
<tr>
<td>Wages - Retail Centers</td>
<td>Redesign activities, and automate operations</td>
<td>10-15% of Gross Labor Spends</td>
</tr>
<tr>
<td></td>
<td>Restructure management responsibilities, schedules</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Optimize labor to achieve desired service level and new operating models</td>
<td></td>
</tr>
<tr>
<td>Wages - Corporate</td>
<td>Redesign and automate processes and functions</td>
<td>15-30% of Headcount Costs</td>
</tr>
<tr>
<td></td>
<td>Eliminate low-value activities and duplication</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consolidate work in shared-service centers and centers of excellence</td>
<td></td>
</tr>
<tr>
<td>Supply Chain</td>
<td>Use automation and tracking to streamline procurement paths</td>
<td>10-20% of Supply Chain Costs</td>
</tr>
<tr>
<td></td>
<td>Simplify procurement paths through network</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Optimize inventory/working capital</td>
<td></td>
</tr>
</tbody>
</table>

Sources: BDO, Bain
Opportunity to Pause and Rethink Cost Base: Post-COVID-19

Pandemic is a seminal 100-year event that offered a radically differently way to work, consume and interact - shaping a new normal that may last into perpetuity.

It offers retailers a unique opportunity to PAUSE and rethink how they operate as a business - while successfully catering to new and existing segments.

Each strategy pathway explored has important implications on retail operating models, cost structures and shareholder value - at stake is future profitability and potential to save costs that could be repurposed for further growth.

Pre-COVID Cost Structure

Post-COVID Cost Structure

<table>
<thead>
<tr>
<th>Category</th>
<th>Pre-COVID</th>
<th>Post-COVID</th>
</tr>
</thead>
<tbody>
<tr>
<td>COGS</td>
<td>Store Wages</td>
<td>Store Wages</td>
</tr>
<tr>
<td></td>
<td>HQ Wages</td>
<td>Savings &amp; Cost Avoidance</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>Supply Chain</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Savings Can Fund New Initiatives in Digital & Omnichannel Expansion

Illustrative Example

Retail CFO’s need to reevaluate current cost baselines and leveraging lessons from COVID, run scenario-driven cost savings to create new budgets and execution roadmaps that deliver short and long term value.
COVID-19 has forced many businesses to fundamentally rethink their cost base in order to survive.

An incremental, contingency-driven traditional cost reduction strategy will miss the opportunity to objectively reimagine the cost base from the bottom-up.

A traditional cost reduction approach may simply reallocate costs across key spend categories, and even lead to a rise in short term operating costs to cope with COVID challenges.

A blank-slate, ZBB approach may hold the answer to materially redefine operating costs - retailers must be able to sustain operating cost efficiencies rather than reallocate costs between categories.

The ZBB process has evolved, allowing CFO’s a rapid deployment model that can lead to immediate payoffs starting with the current budget cycle.
Retail Occupancy Cost Reduction Offers Immediate Paybacks

Today’s Context for Retail Real Estate:
- Retail sales plunge a record 16.4% in April
- Only 44% of national retailers made full rent payments in April
- Rent expenses are the key driver of operating costs for most retailers, followed by salaries and fit-out costs

Retailer Occupancy Costs as Percentage of Sales
- Mall Tenants: 9-16%
- Shopping Center Tenants: 8-12%

Drives for Real Estate Scenario Planning
- Understand impacts to operations and portfolio based on:
  - Site closures
  - Consolidations
  - Rent restructure

Renegotiate Leases
- Renegotiate Leases, not just seek abatement/rent relief. Develop a priority matrix based on:
  - Lease Expiration
  - Number of Leases With Same Landlord
  - Profitability
  - Annual Rent

Conduct CAM Audits
- Recover past overcharges on common area maintenance costs, negotiate reduced CAM charges based on partially operating sites

Conduct Vendor Contract Analysis
- Perform vendor spend analysis to ensure capturing economies of scale on:
  - HVAC Maintenance Contracts
  - Janitorial Contracts
  - Security Contracts
  - Repair contracts

Conduct Construction Audits
- Implement a construction audit and management program for cost recovery and have stricter oversight on construction spends - seek concessions in COVID environment

Sources: CoreNet, ICSC
Optimizing Retail Footprint & Workforce Utilization

- Capitalize on market conditions to renegotiate, close, consolidate locations
  - Request reductions to operating expense and estimated payments for services
  - Focus on Rent Relief versus Abatement - attempt to mitigate any further commitments such as: Extension of term, Interest, release of security deposit to offset rent obligation

- Complete comprehensive scenario planning for objective, data driven assessment of options
  - Near Term - Address lease expirations by creating a Decision Matrix:
    - Historical Low utilization/High Occupancy Cost Per FTE - Terminate lease
    - Continued predicted high demand/utilization - Enter short term extension
  - Long Term - Optimize Portfolio Footprint - Analyze data post reentry to determine impacts on space needs
    - Percentage of primary Work-From-Home
    - On-going need for workplace social distancing strategies such as:
      - “six-foot office” requirements
      - Staggered/Work shifts
      - Alternating workstations/offices

- Develop post Coronavirus real estate/workplace strategy that prioritizes agility
  - Workplace Flexibility and Resiliency as a priority
  - Enhanced distributed workforce support capabilities
  - Acceleration of Digital capabilities and support

Conduct SG&A Diagnostics

- Evaluate and prioritize critical versus unnecessary spend across all cost categories and freeze or limit unnecessary spend
- Reevaluate policies, procedures and governance for SG&A spend
- Complete back office organization restructure through optimization across people, process and technology
Customer Engagement and Conversion
The (Rapid) Revenue Impact from COVID

With Physical Retail Locations Mandated to Close for Safety, Consumers Shifted Rapidly to Online and New Fulfillment* -in a Massive Way

*non-proprietary data

COVID accelerated structural changes across society which immediately impacted retail:

- Immediately shifted more behavior toward online interaction, e-commerce, influencers, and social as a new retail channel
- Accelerated adoption of direct-to-consumer (D2C) companies
- Forced traditional brick and mortar to rapidly consider a Digital Presence to their Model

Retained Sales Trend Pre Post COVID Outbreak

- Online
- Offline

COVID Outbreak/ Retail Shutdown in US

Source: NRF
We Witnessed an 91% Increase in Consumer Digital Presence Related to Retail

ECOMMERCE
- 52% weekly Advertising spend growth rate, 8.8% increase in conversion, bettering some Black Friday and Cyber Monday results for Retailers
- 64.6% more likely to purchase CPG products from brands online

SOCIAL MEDIA BEHAVIOR
- 50% Increase in Facebook Messenger Traffic
- 25% getting their news from social media, 32% spending more time consuming
- 47% are turning to online news for information
- 42% spending more time socializing virtually as a family/household
- 42% of respondents are spending more time watching streaming services

ONLINE STREAMING
- 46% increase in connected device usage
- 59% increase in game console usage
- 53% watching more shows and films on streaming services
- 80% watching more video-based content (broadcast TV, online videos, etc.)

KEY INSIGHT
- With stay-at-home orders still in effect across the nation, people are continuing to purchase from brands digitally, but with new purchase, pickup and delivery options
- Advertisers are shifting messaging and budgets from OOH (out-of-home) spending to OTT (over-the-top) to ensure their placements shift in tandem with online consumer trends

SOURCE: eMarketer
Digital Presence Has Changed the Customer (Retail) Experience
CREATED BETTER CUSTOMER ENGAGEMENT & REVENUE CONVERSION AND SATISFACTION

A VERY SATISFYING ONLINE CUSTOMER JOURNEY

NOTE - A New Model Emerged - Buy-Online-Pickup-In-Store

Source: Nielsen
Better Customer Engagement, Revenue Conversion and Satisfaction?

THE STATISTICS

- A survey of 250 retail companies ($100 million in annual sales) indicated the importance of a buy-online-pick-up-in-store (BOPIS) to survive. BOPIS orders accounted for up to 50% of total online revenue, during the Pandemic.

  - Lowe’s - 60 % of Online Revenue is BOPIS
  - Home Depot - 43% of Online Revenue is BOPIS
  - Nordstrom’s - 30% of Online Revenue is BOPIS
  - Kohl’s - 36% of Online Revenue is BOPIS
  - AutoZone’s - 50% of Online Revenue is BOPIS

Shop anytime, anywhere, in more ways than ever (online and offline) - Amazon.

KEY INSIGHTS

- Retailers indicated that their biggest reason for offering BOPIS was to remain relevant (versus Amazon) by capitalizing on the digital conversation and to replace lost storefront revenue
- BOPIS is an integration of digital, brick and mortar and supply chain
- BOPIS IS AN OMNICHANNEL STRATEGY
Successful Digital First Retailers Focused on 6 Key Content Strategies

- **Uniform Digital Content** - delivered across multiple channels, with uniform layout and tone
- **Engaging Consumers in Real Time** - Fresh content, delivered through all channels and social conversations, with measured analytics (Shopper Analytics)
- **Relevancy** - Continuously delivered compelling messages, and reinforced value propositions on cleverly arranged campaigns that did not become intrusion
- **Interactive** - Content was created across print, online, video and with AI powered chats and bots
- **Brand Supportive** - consistently monitored brand conversation or positive and equally negative feedback and responded immediately to feedback
- **Social Response / Outcome Driven** - driven to request likes, shares and responses in social with outcome driven incentive, actions
- **Highest Net Promoter Score for Retailers** - Loyalty of a firms customer relationships - Apple, Amazon, BMW, Nike, Louis Vuitton, Mercedes, Verizon
But is BOPIS a Short-Term or Long-Term Phenomenon

64% of consumers will buy-online-pick up-in-store in 2020 - increasing in 2021

- Yes, for the first time: 36%
- Yes, but more than previous years: 34%
- Yes, but less than previous years: 18%
- No: 12%
BOPIS Is Omni Channel - Omni Channel is a Must For Your Customers

74% of Customers Prefer to purchase from a Retailer THAT’S GIVES THEM THE CHOICE, so long as the experience is integrated between online and brick and mortar

Omni Channel 2.0

Integrated Assets, with seamless experiences, across multiple locations and screens and with a single unified Supply Chain
Contrasting the Traditional Customer Experience (CX)
Omni Channel and the New Retail Customer Experience CX

How will you manage the new normal?

INTEGRATED TRADITIONAL/ DIGITAL CUSTOMER JOURNEY

THE NEW CX

Very Gratifying
Gratifying
Satisfying
Neutral
Unfavorable
# Planning for Successful Omni Channel - 5 Focus Areas

<table>
<thead>
<tr>
<th>PURPOSE FIRST</th>
<th>PEOPLE SECOND</th>
<th>PROCESS THIRD</th>
<th>TECHNOLOGY FOURTH</th>
<th>GO-TO-MARKET FIFTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify your goals in terms business outcomes, target KPI’s</td>
<td>Identify your required resource structure</td>
<td>Map current processes, identify pain points, Strengths and Weakness’</td>
<td>Conduct an internal digital assessment and identify digital backbone, strengths and gaps</td>
<td>Identify digital advertising methods, conduits, messaging and content - Focus on Convenience, Consistency, Personalization, Empowerment, Optimization and Agility initiatives</td>
</tr>
</tbody>
</table>

- Summarize your business and with a new digital business structure
- Create your change management roadmap
- Calculate flow, outcomes and measurement criteria against target KPI’s
- Identify current systems and information across all channels
- Integrate key multichannel elements to ensure seamless CX for customers

How do we create the best Customer Experience - Know, Attract, Influence & Engage, Sell, Fulfill, Support
- Identify and enable key persons, SME’s, recruit and empower
- Create key market enablers, key offerings, distinctive advantages
- Develop core systems and analytics and insights models for data driven decisioning
- Leverage SaaS, cloud, managed services for maximum scalability and costs benefits.

PATH TO RETAIL RECOVERY AMID COVID-19
Your 10 Top Priorities for a Successful Omni Channel Strategy

1. Store Transformation for Customer Experience - Is the experience In-Store part of your On-Line execution
2. Associate Digital Sales Tools - Are associates able to speak about the different channels to the business
3. Multiple fulfillment choices for customers - ship to home, ship to store, BOPIS, ship to location
4. Customer analytics, insights and personalized content - Data must drive you CX
5. Integrated data, customers, inventory, product, financial, BI - Capturing and analyzing data is key
6. Integrated and seamless customer facing digital initiatives - apps, content, retargeting, emails, social, influencer
7. Integrated FinTech - Online, In-Store POS, Return - Seamless payments and revenue realization
8. Channel integration through technology - content, imagery, process and outcomes should be clear
9. Threat management, security, fraud prevention, risk management - protecting you customer data and privacy
10. Digital presence - website, advertising placement and repetition, retargeting, social, influencer, search, affiliates, P/R, eMail, Print, TV
11. Supply chain integration - forecast, sourcing, fulfillment to DC, fulfillment to customers
Efficient Fulfillment & Operational Excellence
What Supply Chain Professionals Are Saying ...

- **Sales & Marketing**
  - Customer demand has changed dramatically

- **Sourcing and Supplier Mgt**
  - We aren’t sure what level of supplier risk we have
  - We’re haven’t ordered the right amount

- **Planning & Procurement**
  - Some inventory is not moving
  - Taxes and Tariffs have disrupted our business

- **Inbound Logistics**
  - Our transportation are increasing
  - Our operations need to be more efficient

- **Operations / Fulfillment**
  - We can’t clearly differentiate how we serve our best customers
  - We need to safely add more warehouse capacity

- **Outbound Logistics**
  - We struggle to keep up with stocking and picking

- **Customer Support / Field Service**
  - We need to safely add more warehouse capacity
Supply Chain Is Increasingly Strategic to Business Impact

TOP TARGETS FOR SUPPLY CHAIN IMPROVEMENT

- **Customer Service**: 24%
- **New Product Introductions**: 20%
- **Performance to Plan**: 17%
- **Total Delivered Cost**: 16%
- **Customer Order Cycle Time**: 12%
- **Inventory Turnover**: 11%

**KEY THEMES:**

- Increased focus on customer service
- New products and service introductions are critical
- Operational efficiency still a key focus area
- Cloud solutions, Advanced Analytics, Robotics are top technology investment areas

Source: BDO’s 2020 Middle Market Industry 4.0 Benchmarking Survey
Global Supply Chains Are Changing

![Graph: Chinese exports to the rest of the world](chart.png)

**Note:** Bilateral exports at current prices. Year-on-year changes of two-month data from January/February 2018 to January/February 2020.

Source: General Administration of Customs, China; Thomson Reuters Datastream.
Organizations Are Working to Optimize the Global Supply Chain Footprint in Light of Changing Demands and New Supply Risks
Enabling the Step-change in Online Customer Relationships

DIGITAL IMPACT ON ORDER FULFILLMENT AND OUTBOUND LOGISTICS

- Predictive analytics to forecast demand
- Warehouse cobots with built-in safety features
- Demand-response scheduling and dispatching platform
- Driverless vehicles for materials transport
- Trucks outfitted with BLE tags for geolocation data
- On-demand shipment rerouting and real-time location status for customers
Driving Results - Supply Chain Impact Areas

**SERVICE**
- In Stock Rate
- Volume Fill Rate
- Breadth of Offerings
- Fulfillment Lead Time
- Percent perfect order fill rates increase by 5-30%
- Increased focus on most profitable customers

**COST**
- Procurement
- Logistics/Storage
- Fulfillment
- Expediting
- Sourcing savings of 5-15% of total supplier spend
- Transportation cost savings of 5-10%

**CAPITAL**
- Inventory
- Manufacturing Capacity
- Logistics Capacity
- Storage Capacity
- Inventory savings of 10-20%
- Warehouse capacity increase of 10-20%
Contact Us

NATALIE KOTLYAR
Retail and Consumer Products National Leader
nktotlyar@bdo.com
212-885-8035

ASIF HUSSAIN
Director, Corporate Real Estate Advisory
asif.hussain@bdo.com
212-817-1758

ROSS FORMAN
Managing Director, Corporate Real Estate Advisory
RForman@bdo.com
904-396-4016

ROBERT BROWN
Managing Director, BDO Digital, Retail CPG Client Executive
robert.brown@bdo.com
714-913-2581

JEFF PRATT
Supply Chain Practice Lead, Managing Director
jpratt@bdo.com
440-725-9203
BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 65 offices and over 700 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 88,000 people working out of more than 1,600 offices across 167 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. [www.bdo.com](http://www.bdo.com)

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2020 BDO USA, LLP. All rights reserved.