

Supply Chains in the Age of Amazon

**Moving your supply chain from a cost center
to a competitive advantage by delivering
on six critical capabilities**

Retail and Consumer Products Perspective

TODAY, SUPPLY CHAINS
MUST SYSTEMATICALLY
WORK TO BUILD
CAPABILITIES AROUND
SIX CRITICAL CATEGORIES:
**COST, SPEED,
FLEXIBILITY, QUALITY,
SUSTAINABILITY AND
INNOVATION.**

The way we measure the success of a supply chain organization has changed, and Amazon is to blame.

Amazon is not alone, but it sits in a small community of like organizations that have incrementally and systemically designed supply chains that go beyond cost containment. These organizations, including Zara, Costco and Nike, have developed supply chains that don't just keep costs down, but also generate value as integral players in the overall business strategy.

While supply chain organizations' measurements were historically based on cost containment, Amazon has primed both businesses and consumers to want, need and expect more. Specifically, the modern-day supply chain is now expected to drive value across six critical capabilities — **cost, speed, flexibility, quality, sustainability and innovation** — that traditional supply chains simply cannot support.

But it's important to remember that Amazon's innovative supply chain model wasn't born overnight.

As far back as August 2007, Amazon began testing its first iteration of Fresh, which delivered groceries from a vast network of fulfillment centers.¹ The rollout was marred by logistical complications and problematic pricing structures, and 10 years later, Amazon Fresh controls only 1 percent of the grocery market.²

Seeking a bigger piece of the online grocery pie — which is estimated to grow to \$100 billion over the next decade³ — Amazon has spent the last 10 years perfecting a rapid fulfillment supply chain via Amazon Prime and Prime Now. In a growing number of markets, it partnered with local grocers such as Sprouts Farmers Market and New Seasons Market to offer two-hour deliveries on food items.

These partnerships provided invaluable data and insights into the shopping habits of high-value grocery consumers and allowed Amazon to build its grocery supply-chain capabilities.

Now Amazon is poised to take an even larger piece of the pie. The August 2017 acquisition of Whole Foods and its 460 brick-and-mortar locations gives Amazon a massive leg up in the highly competitive grocery and fresh-food delivery markets. The Whole Foods acquisition is a major next step in Amazon's quest to redefine customers' order fulfillment and delivery experience via a supply chain. In the age of Amazon, organizations can no longer compete unless they, too, develop a differentiated supply chain — one that delivers value and an exemplary customer experience, not just cost containment.

AMAZON ALMOST DOUBLED THE NUMBER OF ITS U.S. FULFILLMENT CENTERS FROM 58 IN 2015 TO 105 IN 2017. AND IT NEARLY TRIPLED THE NUMBER OF SORTATION CENTERS AND DELIVERY STATIONS - WHICH MAKE UP AMAZON'S INTERNAL DISTRIBUTION NETWORK - GROWING FROM 28 TO 81 IN THE SAME TIME PERIOD.⁴

THE NEW NORMAL

Cost, Speed, Flexibility, Quality, Sustainability and Innovation

Grocery, retail, manufacturing — no matter your industry, the metrics that define supply-chain success have evolved. Today, supply chains must systematically work to build capabilities around six critical categories: **cost, speed, flexibility, quality, sustainability and innovation.**

The most successful supply-chain organizations have clear strategies for how to support the overall enterprise business strategy through capability differentiation, and then remain laser-focused on developing and maintaining those capabilities.

1 COST
Costco offers high consumer value across a wide range of product categories — everything from Kirkland-brand wine to lunch meat.



2 SPEED
Zara has doubled down to establish a supply-chain system that brings concepts to the floor in three to five weeks. With more than half its garments produced in Spain, Turkey and North Africa, Zara can send garments almost anywhere in the world within 48 hours.⁵



3 FLEXIBILITY
Coca-Cola has recently implemented an asset-light supply chain called Coke Light, selling its manufacturing and distribution assets to various bottling companies. In some markets, to avoid lost sales, they're encouraging smaller retailers to use a mobile app to replenish inventory and send orders to local distributors who bid on the deal. They promise a price and enlist help from workers with motorbikes to bring products to stores.⁶



4 QUALITY
Colgate-Palmolive has implemented the use of machine vision to improve product quality, and utilized other improvement programs, such as the automation of repetitive warehouse and manufacturing activities and material handling.⁷



5 SUSTAINABILITY
L'Oréal has reduced its carbon emissions by 20 percent over the past five years, while unit shipments have increased by 20 percent, by making sustainability commitments for 2020 based on four pillars: innovating sustainably, producing sustainably, living sustainably, and developing sustainably.⁸



6 INNOVATION
Nike's automated high-tech knitting technology, Flyknit, reduces labor costs by up to 50 percent and cuts material usage by up to 20 percent.⁹



Like Amazon, these retailers have systematically built their competitive advantages over the last decade or more. Zara has slowly acquired fabric mills located near its headquarters in Spain. Nike's large R&D organization is buoyed by long-term relationships with athletes who contribute their insights into higher-performance products. And Costco's strategic vendor base and ability to forecast and manage large-buy quantities drives a supply-chain scale that is nearly unrivaled. The sheer complexity and scale of their supply-chain capabilities ensure that competitors won't be able to replicate their operations in a short time period. They have established a sustainable competitive advantage earned through years of translating the business strategy into a supply-chain strategy, and vice versa.

CHAIN OF COMMAND: Coming Together to Identify and Assess Your Sustainable Competitive Advantage

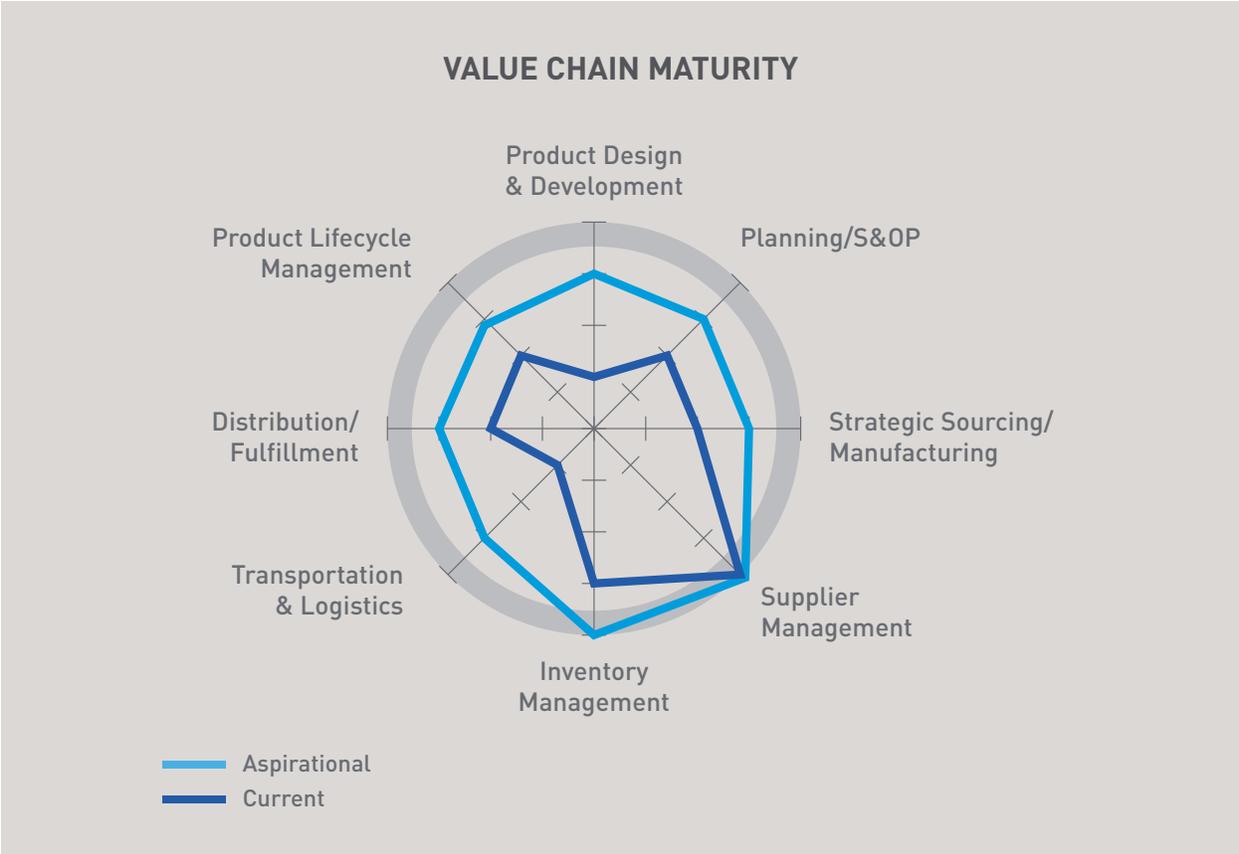
North Highland has helped clients in a wide range of industries fundamentally improve their supply chains to remain competitive in the Age of Amazon. For one multi-billion-dollar U.S. retail client with a supply chain built on rapid product delivery, we helped mediate growing price pressures felt on their fast-moving commodity goods. Bringing together the client's supply-chain and merchandising teams, North Highland developed a multi-tiered distribution strategy to lower fulfillment costs for the highest volume/most predictable SKUs, while maintaining high-speed replenishment for the less predictable products. The result was a supply chain tailored to maintain a competitive advantage of speed-to-market with a lower cost-to-serve.

Moving the supply chain from a balance sheet liability to a value-generating asset requires moving the supply chain out of functional and organizational silos in the same way. It requires supply-chain leaders to partner with leaders in merchandising and brand strategy to determine the optimal portfolio of capabilities.

TOGETHER, THESE LEADERS MUST COME TOGETHER TO DETERMINE WHICH CAPABILITIES WILL CREATE THE GREATEST ENTERPRISE VALUE AND A SUSTAINABLE COMPETITIVE ADVANTAGE, STARTING BY ANSWERING THESE QUESTIONS:

- What's the priority of capabilities across cost, speed, flexibility, quality, sustainability and innovation?
- What are the key differentiators that we need in our supply chain to stay competitive (e.g., two-day delivery, automation in distribution centers)?
- What are the key business goals within the next five to 10 years that will impact our supply chain (e.g., 10 percent planned YOY e-commerce growth)?

Armed with these aspirational capabilities, leaders must conduct a full assessment of current functional capabilities, inside and outside supply-chain operations (e.g., product development, planning, sourcing/manufacturing, transportation, distribution, product life-cycle management). Each function should be evaluated in the context of people, process, systems and data maturity to gain a clear picture of current-state capabilities against those needed to effectively support the business strategy, and thus, where to target investments.



DAY ONE STARTS TODAY

The objective of supply-chain leaders is not to match Amazon’s innovations, but to establish their own. These innovations should be precisely targeted to support enterprise objectives, and should be developed and instituted in lockstep with a broad group of leadership. And like Amazon and other supply-chain winners, these innovations should be developed systemically and incrementally over a 5-to-10 year period. Amazon’s supply-chain dominance wasn’t born in a day. However, all supply-chain organizations have an opportunity to develop their own dominance — their own competitive advantage — by strategically working at it one day at a time.

ABOUT NORTH HIGHLAND

[North Highland](#) is a global management consulting firm known for helping clients solve their most complex challenges related to customer experience, performance improvement, technology and digital, and transformation. We add value and support our clients across the full spectrum of consulting, from strategy through delivery. We bring the big ideas, then we make them real. North Highland is an employee-owned firm, headquartered in Atlanta, Georgia, with more than 3,000 consultants worldwide and 60+ offices around the globe. The firm is a member of Cordence Worldwide (www.cordenceworldwide.com), a global management consulting alliance. For more information, visit northhighland.com and connect with us on [LinkedIn](#), [Twitter](#) and [Facebook](#).

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Nelson Ho is a manager with North Highland's Retail and CPG practice. Nelson has more than seven years of experience and a deep expertise in end-to-end supply chain and sourcing transformation, cost transformation and significant implementation experience. Areas of industry experience include commodity and program management, make/buy strategy, supplier negotiations, logistics and process improvement. Nelson has served a wide range of clients, spanning specialty retailers, discount retailers, big box leaders and wholesalers.

1 [Amazon's Time-Saving Trick for Groceries: You Drive to Us](#), Wired, March 28, 2017.

2 [Deal Gives Amazon Leverage: Amazon's Bid for Whole Foods Will Spur Wheeling and Dealing](#), San Francisco Chronicle, July 14, 2017.

3 [Online Grocery Shopping Is No Longer Just a Millennial Story](#), eMarketer, July 7, 2017.

4 [MWPVL International](#), September 2017

5 [The Gartner Supply Chain Top 25 for 2017](#), May 24, 2017.

6 [The Gartner Supply Chain Top 25 for 2017](#), May 24, 2017.

7 [The Gartner Supply Chain Top 25 for 2017](#), May 24, 2017.

8 [The Gartner Supply Chain Top 25 for 2017](#), May 24, 2017.

9 [Nike Is Saving a Ton Of Money On Its New Flyknit Shoes](#), Business Insider, Sept. 5, 2014.