REWIRING THE SUPPLY CHAIN

Driving resilience and financial sustainability in the GCC retail supply chain

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RETAILERS NEED TO SEE THEMSELVES AT THE CENTRE OF A MODULAR BUSINESS ECO-SYSTEM RATHER THAN AT ONE END OF A LINEAR SUPPLY CHAIN IN ORDER TO LEVERAGE THE BENEFITS OF A GREATER DIVERSITY OF PARTNERS"

FOREWORD

RISING TO THE CHALLENGE

E-commerce is creating exciting opportunities for retailers, manufacturers and traders in the GCC and wider region. But it is also introducing challenges that require new processes and a different way of thinking.

Nowhere is the impact of e-commerce more profound than in the retail supply chain, where consumer demand for ultra-fast delivery is challenging almost every aspect of the industry.

The biggest issue facing supply chain managers in the digitalised economy is the pace of change. Retailers and their suppliers need to be able to adapt quickly to rapid variations in demand, and also deal with unexpected disruptions.

The traditional structure, which has the retailer at one of a chain and the manufacturer at the other end, is inflexible and highly vulnerable to unplanned interruptions. And while this model has allowed retailers to keep down costs and consumer prices, the Covid-19 pandemic has exposed the inadequacies of the traditional model in the digitalised marketplace.

Retailers need to see themselves at the centre of a modular business eco-system rather than at one end of a linear supply chain in order to leverage the benefits of a greater diversity of partners. The increased flexibility that this would allow ensures greater resilience for the industry.

Sitting at the heart of this new model is accurate, real-time data. Investment is required in data infrastructure, skills and security. New regulations and more streamlined bureaucracy are needed to enable business growth, especially across borders, while ensuring consumer privacy and security.

Investment is also required in greater warehousing and last-mile distribution capability closer to the consumer.

The need for a diversified network of suppliers each with adequate delivery capacity is increasing the capital commitments and financial risk on suppliers. Retailers and financiers must work together to develop a more holistic approach to supporting the working capital needs of suppliers, thus improving the resilience of the supply chain.

"RETAILERS AND FINANCIERS MUST WORK TOGETHER TO DEVELOP A MORE HOLISTIC APPROACH TO SUPPORTING THE WORKING CAPITAL NEEDS OF SUPPLIERS, THUS IMPROVING THE RESILIENCE OF THE SUPPLY CHAIN"

Richard Thompson
Editorial Director
MEED

INDUSTRY REPRESENTATIVES

KEY RECOMMENDATIONS

AGILITY

- Develop a more diverse range of suppliers/sourcing points to provide options in the event of supply chain disruption.
- Diversify shipping options and delivery partners to reduce bottlenecks and provide choice.
- Increase inventory of critical raw materials.
- Shift downstream processes such as customisation and finishing closer to consumers.
- Use SME ecosystem to outsource operations.

ENABLERS

- Invest in sensors and monitors to capture real-time status of raw materials, production, warehousing, transportation and sales.
- Apply advanced analytics such as digital twins to enable prediction and automation.
- Develop digital infrastructure at all touchpoints to enable the use of fintech and blockchain.
- Push for legislation to enable use of e-signatures and blockchain in all jurisdictions.
- Reskill or recruit staff to implement and leverage digital solutions.

SUPPORTING SUPPLIERS

- Banks and retailers to co-develop supply chain finance programs to optimise working capital for both suppliers and buyers.
- Conduct thorough assessment of the risks within a supply chain and provide adequate insurance throughout.
- Use alternative lending platforms to increase the availability of funding for SMEs.
- Use third party organisations to standardise and monitor ESG compliance
- Contracts to ensure that all risks are shared fairly between suppliers and buyers.

LOGISTICS

- Establish digital platform to facilitate online certification of imports.
- Move operations and key suppliers closer to the consumer.
- Form a regional committee to agree operations and pricing framework.
- Use centralised operations to maximise storage space and delivery efficiency.
- Repurpose bricks-and-mortar retail outlets as distribution hubs or ‘dark stores’.

COLLABORATION

- Establish common data standards and regulation to enable sharing.
- Invest in more secure technology such as blockchain.
- Agree a standardised approach to data formatting and adopt a common data platform.
- Ensure that all departments within the organisation are aligned to the overall strategy.
- Aggregate demands from smaller stores and manage warehousing centrally.
- Create customer collection hubs through collaboration between brick-and-mortar stores and online retailers.

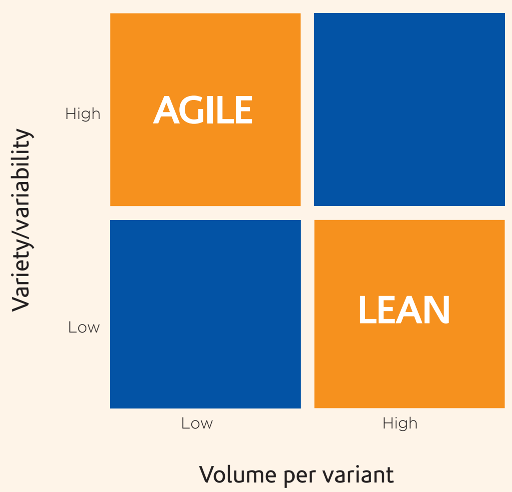
TRANSFORMING THE MODEL

COMBINING LEAN AND AGILE PRACTICES CAN HELP MEET THE DEMANDS OF THE POST-PANDEMIC RETAIL MARKET

As the global recovery from Covid-19 gathered pace in mid-2021 and businesses swung back into action, reports of empty shelves, shortage of workers, rising costs and diminishing margins raised fears about the strength of the recovery and the economic legacy of the pandemic.

Firms that were forced to downsize during the crisis later struggled to cope with the surge in demand. Intermittent shutdowns caused by virus outbreaks disrupted production, transport and processing. Backlogs at warehouses, ports and airports meant that while there were no real shortages, goods were in the wrong place at the wrong time.

The effects of this disruption are expected to last well into 2022 and possibly beyond.



Agility is needed in less predictable environments when volume is low and the need for variability is high. Lean works best in high volume, low variety and predictable environments.

Source: MEED; based on the Global Supply Chain Matrix by Martin Christopher

But while some of the issues may be temporary, the crisis revealed weaknesses that already existed in retail supply chains: A single disruption to supply of raw materials, manufacturing or distribution can result in complete breakdown.

As firms rewire their networks, they can leverage this opportunity to address the weaknesses of the traditional, linear supply chain model and harness new technology to create flexible and fair strategies.

HYBRID MODEL

To meet the demands of the new, post-pandemic market, supply chains must become both lean and agile. These are concepts that have different and sometimes competing requirements.

A company that uses efficiencies of scale – high-volume production to serve a steady, predictable market – is lean. It keeps costs down for the consumer.

An agile supply chain prioritises adaptability and reacts quickly to fluctuations in supply and demand. This requires short order lead times and good forecasting.

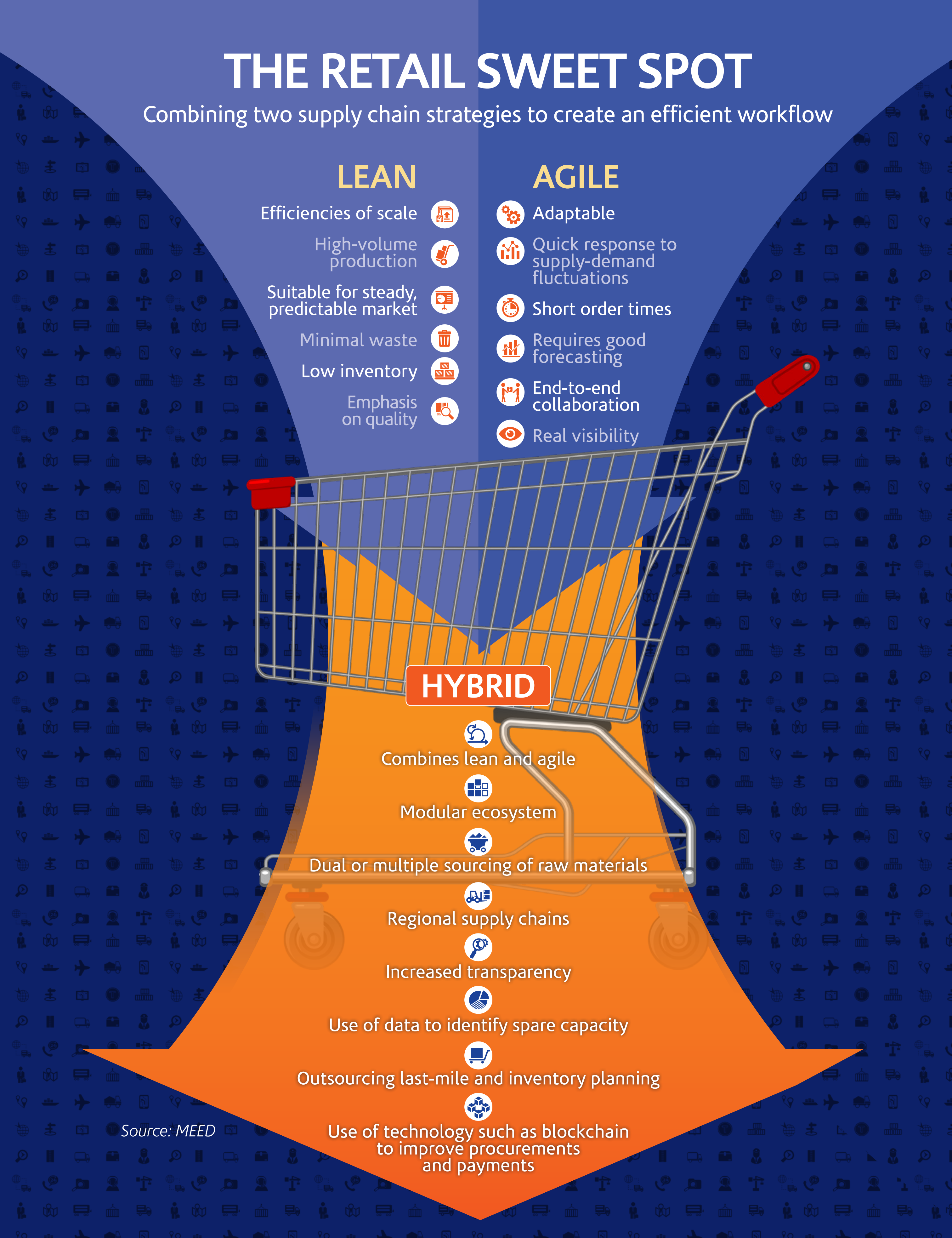
With the ongoing threat of Covid-19 disruption, as well as the fluctuating demands created by evolving customer expectations and e-commerce, a flexible, hybrid retail supply chain model that combines the benefits of lean and agile practices could serve the market well.

DATA DELIVERY

It is clear the supply chains cannot rely on fixed assets and fragile, linear flows, but need to evolve into an ecosystem of modular capabilities that can be scaled and adapted as required.

Mechanisms to implement this include:

- Dual sourcing of raw materials to reduce dependency on a single source
- Increasing inventories of critical products
- Near-shoring or regionalising supply chains


THE RETAIL SWEET SPOT
Combining two supply chain strategies to create an efficient workflow
LEAN
Efficiencies of scale
High-volume production
Suitable for steady, predictable market
Minimal waste
Low inventory
Emphasis on quality
AGILE
Adaptable
Quick response to supply-demand fluctuations
Short order times
Requires good forecasting
End-to-end collaboration
Real visibility
HYBRID
Combines lean and agile
Modular ecosystem
Dual or multiple sourcing of raw materials
Regional supply chains
Increased transparency
Use of data to identify spare capacity
Outsourcing last-mile and inventory planning
Use of technology such as blockchain to improve procurements and payments
Source: MEED

But at the heart of the modular ecosystem is centralised supply-chain management enabled by digital technology. A single platform with processing capability can enable the integration of data from both the supply and demand ends of the chain.

The increased transparency will allow firms to react quickly to changes in consumer behaviour or glitches in production and logistics. Raw materials as well as storage facilities and freight containers can be used more efficiently. Data analysis can further identify spare capacity and enable sharing.

Digital platforms also make it possible for suppliers to establish direct relationships with both retailers and customers, enabling them to shorten the supply chain and develop new business relationships with alternative revenue streams.

Any aspect of the supply chain, from inventory planning and last-mile delivery to marketing and payment, can be outsourced to third-party service providers and managed on a digital platform. This gives companies access to expertise, without the need for investment and training.

Many of the inefficiencies and delays within supply chains exist due to excessive bureaucracy.

Legislation that allows a wider adoption of digital signatures and solutions such as blockchain could drive seamless invoicing and shipping, as well as reducing the workload created by tax and regulatory compliance paperwork.

Saber – a platform that facilitates online certification of imports into Saudi Arabia – demonstrates technology-driven approach that has helped to accelerate the clearing of goods at the kingdom's entry points.

Rolling out similar schemes can ease the flow of goods around the world. Concerns surrounding data security and ownership as well as the difficulty with legislation and regulations for new technology is affecting uptake.

A concerted push from all stakeholders to trial and promote innovation is needed to build confidence in the market.

While implementing technology is high on the agenda, recruiting and training staff to utilise it is also a top priority.

In a survey of senior supply-chain executives carried out by international consultant McKinsey & Company in 2020, 85 per cent of respondents struggled with inefficient digital technologies in their supply chains. To deal with this, 92 per cent plan to invest in digital supply-chain talent in their company.

RETAIL RESILIENCE

What is needed

- Balancing inventory supply with demand
- Supply chain visibility
- Timely, automated payments linked to work
- Transparent procurement and payment methods
- Data analysis and sharing of insights
- Skilled workers
- Sustainable and socially-conscious operations
- Collaboration among supply chain stakeholders

LESSONS LEARNED

During the pandemic, rather than breach contracts and face collapse, many companies took a collaborative approach to ensuring business continuity by renegotiating terms and conditions and supporting interdependent entities within the supply chain.

Hard-wired into the contractual framework, this approach can continue to pay dividends.

A considered approach to risk allocation and adequate insurance across the entire supply chain will support fragile links, such as the smaller and medium-sized businesses (SMEs), and enable lending.

Environmental, social and governance (ESG) issues are becoming increasingly important to investors, governments and consumers.

An ever-increasing raft of legislation requires companies to take responsibility for the green credentials of their entire supply chain.

But the feasibility and cost of checking and monitoring hundreds or even thousands of suppliers, make this a challenge.

Transparent, comprehensive data and analytics tools to conduct a full audit of utilities, employment data, materials and processes can equip companies to meet contractual requirements and protect their reputation.

PROTECTING SUPPLIERS

SUPPORTING SUPPLIERS IN THE RETAIL INDUSTRY IS ESSENTIAL ESPECIALLY IN THE CURRENT ECONOMIC CLIMATE

It may be sensible from a retail perspective to diversify supply to respond to changes in demand or compensate for bottlenecks. It can create problems for producers and suppliers.

Already stretched by evolving customer expectations, fluctuating demand and just-in-time inventory management, the disruptions caused by the Covid-19 pandemic is pushing many SMEs to the point of going bust.

Bigger firms are more robust. Not only do they have easier access to working capital, but the cost of this is significantly less than it is for most of their suppliers. The discrepancy in terms is particularly acute in a developing market, where smaller companies can be paying over 20 per cent for working capital as compared to 2-3 per cent for a larger, low-risk supplier.

The longer it takes a customer to pay an invoice, the larger the borrowing costs will be for the supplier. These costs are passed on through the supply chain resulting in higher prices for retailers and ultimately, for the consumer.

SUPPLY CHAIN FINANCE

The recession in 2008 saw many large retailers extending supplier payment terms from 30 days to 90 days. This tactic was repeated during the pandemic. SMEs operating with leaner cash flow and expensive finance are not well positioned to absorb delayed payment.

Even though governments in the region have stepped in to assist with lower-cost finance facilities as well as reduced fees and utility costs, these measures will reach their tail end in the region over the next six to twelve months.

Without permanent support mechanisms in place, many of the smaller businesses that exist within the supply chain will collapse, damaging the entire business ecosystem.

A viable solution to increasing working capital for SMEs is supply chain finance. This type of funding, which is steadily gaining traction in the region, is generally:

- Initiated by the buyer
- Enables early payment of supplier invoices at a cost based on the buyer's credit rating

In January 2021, the Abu Dhabi government pledged AED 6bn to support SMEs across different sectors through a supply chain finance initiative. A similar scheme launched in Saudi Arabia in April 2020 saw the ministry of finance pledge SAR50bn through their largest banks to support SME cashflow.

The SME Finance Forum estimates the Middle East and North Africa's (Mena) SME finance gap at $123bn and banks alone are not equipped to solve the problem.

Recognising the importance of SMEs to the whole economy, governments, NGOs, and institutions such as the World Bank are stepping in to offer support.

Fintech and alternative funding platforms are being used to inject capital into the market. For example, Dubai-based peer-to-peer lending platform Beehive has partnered with Gulf International Bank and Saudi Social Development Bank to offer SMEs a Sharia-compliant, unsecured lending solution.

There is an appetite for these mechanisms in the finance sector. The challenge is finding a way to package the offerings on a scale that is large enough to meet the needs of the SMEs.

GREEN DELIVERY

ENVIRONMENTALLY-CONSCIOUS SUPPLY CHAINS CAN RESULT IN COMPETITIVE BENEFITS FOR PARTICIPANTS

In 2020, the Covid-19-driven e-commerce market in the UAE hit $3.9bn. This 53 per cent year-on-year increase in online trade showed that consumers have established new shopping habits along with new expectations.

To remain competitive, retailers need to have the capacity to deliver varied and personalised product ranges to the consumer's door, sometimes within hours. They also have to offer facilities for customers to pay digitally and to return their purchase if required.

Meeting these needs is not straightforward, particularly when it comes to the final step in the supply chain – last-mile-delivery. Fleets of vehicles required to fulfill this step increases traffic congestion as well as carbon emissions. Recent research from the World Economic Forum suggests that urban last-mile-delivery emissions are set to increase by over 30 per cent by 2030 in top 100 cities globally.

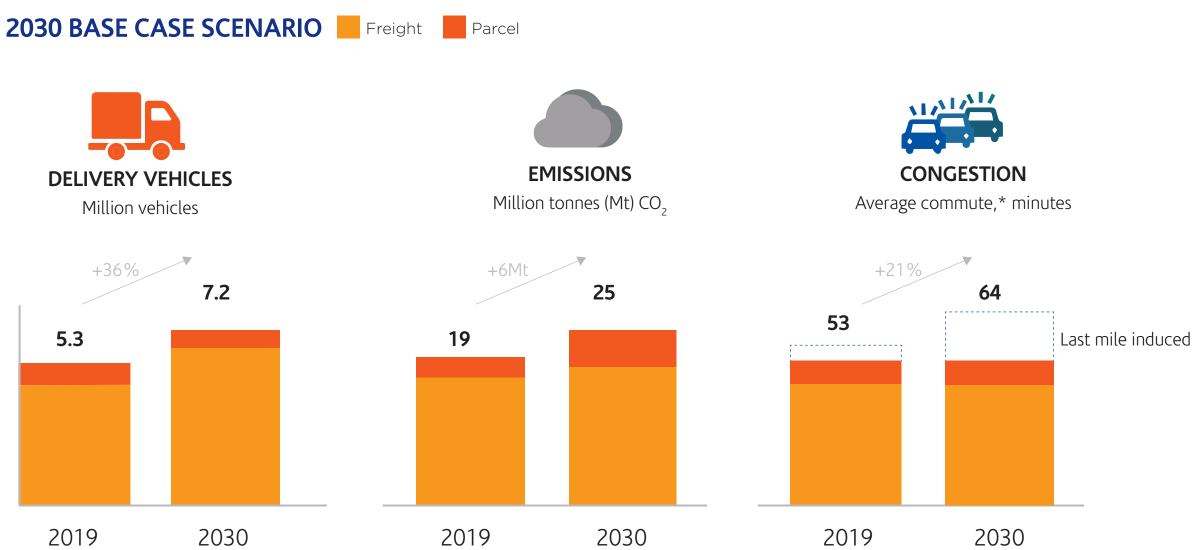
While increased adoption of electric vehicles along with efficiencies driven by smart fleet management may alleviate the issue, adjusting the expectations of consumers may also be critical.

A June 2020 IBM Research Insights report reports that 57 per cent of consumers surveyed said they are willing to change their e-commerce purchasing habits to help reduce their environmental impact.

Consumers can be encouraged to use delivery collection points, 'grouped' delivery' or slower delivery dates for efficient loading and route optimisation. Delivery vehicles can be used to collect packaging waste and redundant goods to ensure they are recycled or reused.

Greening the supply chain can deliver competitive benefits in a market that is increasingly conscious about its environmental impact.

How delivery vehicles, emissions and congestion will increase due to online shopping



NOTE: Top 100 cities globally only, *Average commute for representative city
Source: *The Future of the Last-Mile Ecosystem*, World Economic Forum, January 2020;

THINK TANK

THE SECOND UAE RETAIL THINK TANK AIMS TO RECOMMEND WAYS TO BUILD RESILIENT RETAIL SUPPLY CHAINS

How can the retail sector build more agile supply chains?

How can the retail sector digitalise its supply chains?

How can the retail sector improve its financial resilience?

How can the retail sector improve distribution and last mile delivery?

How can the retail sector enable greater collaboration in its supply chains?

AGILITY

The traditional, linear model in the retail sector is unable to efficiently cope with fluctuations in demand, supply disruptions and rapid-delivery requirements that come from customers.

Moreover, increasing competition from international online retailers means that it is vital to keep the cost to consumer as low as possible.

Retail supply chains thus need to be both lean and agile, to manage both costs and demand.

In order to create a more resilient supply chain model, retailers must diversify their supply base to provide choice and mitigate against disruption. They must consider multiple shipping, warehousing and delivery options to protect the flow of goods.

Partnerships with third-party organisations can enable the outsourcing of many parts of a business operation, including digital payment gateways and delivery, through to back-office and forecasting services.

This allows companies to benefit from the expertise of specialised organisations without the need for investment and training. It also has the benefit of flexible capacity; operations can be quickly scaled up or down.

While increasing stocks of critical raw materials is key to securing the supply chain, it is beneficial to move finishing processes closer to the consumer. Materials can be adapted or repurposed to allow a rapid response to small or localised fluctuations in demand without significant waste. It also enhances the speed of delivery to the customer.

IN THE REAL WORLD

Zara's agile supply chain is central to its business success

In order to tailor supply to shifting demand and emerging design trends, global fast-fashion brand Zara keeps significant amount of its production in-house. Raw materials are sourced closer to design centres, thus reducing transport costs and improving stock management.

Zara has a centralised distribution centre called the Cube, which is the core of its entire business model. Raw bulk material is sent to Zara's factories via the Cube through a high-speed, underground ceiling rail system. Finished goods are sent back to the Cube and then dispatched to stores and stockrooms globally.

Up to 85 per cent of Zara's factories sit idle to optimise the response to changes in demand. Short lead times and production runs enable Zara to offer customers more choice, and reduce the need for heavy discounting.

A network of store managers also provide regular feedback to production teams to facilitate a quick reaction to fluctuations in demand.

Source: Inditex Group Annual Report 2020, New York Times, Bloomberg

ACTIONS TO BUILD MORE AGILE RETAIL SUPPLY CHAINS

CHALLENGES	RECOMMENDATIONS
DISRUPTION Traditional linear supply chains break down when there is a single disruption to supply of raw materials, manufacturing facilities or transport.	**DIVERSE SOURCES** Develop a more diverse range of suppliers/ sourcing points to provide options in the event of supply chain disruption.
BOTTLENECKS Backlogs and blockages at warehouses, ports and airports can inhibit the flow of goods and materials.	**MULTIPLE AVENUES** Diversify shipping options and delivery partners to reduce bottlenecks and provide choice to buyers.
STOCKING While it may not be possible or sensible to keep high levels of stock of manufactured or processed goods, disruption in the supply of raw materials will halt all production.	**CRITICAL FOCUS** Increase inventory of critical raw materials.
SLOW RESPONSE Offshore manufacturing and processing increase shipping costs and make production slow to react to changes in the market.	**CLOSE TO HOME** Shift downstream processes such as customisation and finishing closer to end-consumers.
OVERBURDENED Keeping all company operations in-house requires investment in assets, training and expertise. It is difficult to quickly scale operations up or down.	**DEDICATED FIRMS** Use SME ecosystem to outsource operations. Smaller, specialised companies can bring expertise and provide capacity for surges in demand.

ENABLERS

In a traditional retail supply chain, information is slow to travel. Retailers may not be aware of a problem with sourcing raw materials, packaging or shipping until goods have failed to arrive.

Similarly, information about sales and demand can be slow to feed back to suppliers.

It is beneficial if all stakeholders in the supply chain have access to real-time data on a common platform.

Early notifications of issues at any point in the supply chain equips retailers to mitigate the problem and find alternative solutions or sources.

Many data capture processes can be automated with sensors and monitors. Leveraging internet of things (IoT) and artificial intelligence (AI) can position this data for accurate forecasting and risk mitigation.

Fintech and blockchain can streamline transactions and reduce bureaucracy for international shipping, standards and tax. While legislation is delaying the uptake of these innovations in some regions, increasing demand from the retail sector can drive progress.

The digital infrastructure required to implement many innovations is not sufficiently advanced in some markets. Investment in digital capability is required by businesses as well as some transport hubs.

Imbibing digital technology is vital to the development of agile and resilient supply chains, recruiting and training staff to implement digital innovations effectively is also a top priority.

IN THE REAL WORLD

Digitalising the supply chain

The increasing use of digital technologies is transforming the way supply chain processes are designed and delivered. For leading global logistics provider DHL Express, digitalisation has been a way of life even before the pandemic to simplify processes for its customers.

In January 2020, the company launched a blockchain-enabled platform with Dubai Customs to ease the import-export clearance processes. Meanwhile, in 2021, the MEA innovation centre opened its doors at Dubai South Logistics District to provide a collaborative platform for customers, partners and other thought leaders to solve complex logistics challenges, learn about the latest trends in logistics, and network with industry innovators across the Middle East and Africa region.

Most recently, in January 2022, DHL launched its largest robotic sorting centre in the Middle East, which is capable of sorting more than 20,000 packages an hour.

In a world of constant change, DHL Express remains committed to adopting digital transformation through investment and creating an environment for its employees that fosters creativity and innovation, while nurturing new ideas and strategies in order to achieve its business agenda as a leading logistics company in a digital-world.

Source: DHL Express

ACTIONS TO DIGITALLY OPTIMISE RETAIL SUPPLY CHAINS

CHALLENGES	RECOMMENDATIONS
DATA GAPS Comprehensive data is not captured at every stage of the retail supply chain.	**DIGITAL GATHERING** Companies to invest in sensors and monitors at all stages of supply chain to capture critical data on the real-time status of raw materials, production, warehousing, transportation and sales.
SILOED STRUCTURES Data is not shared for the mutual benefit of supply chain stakeholders.	**COMMON PLATFORM** Retail supply chain managers to establish centralised data platform for all stakeholders to maximise visibility.
INEFFECTIVE USE While data may be collected by retailers, suppliers and distributors, inadequate processing facilities mean that the data is not used effectively.	**ANALYTICAL APPROACH** Apply advanced analytics such as digital twins to enable prediction and automation.
INSUFFICIENT DIGITALISATION There is a lack of digital infrastructure at touchpoints on the retail supply chain.	**DIGITAL POINTS** Develop digital infrastructure at all touchpoints to enable the use of fintech and blockchain. This will allow for secure payments and reduce bureaucracy.
REGULATORY SNAGS The widespread uptake of blockchain or e-signature technology is not yet possible in all countries due to lagging regulatory processes.	**UNIFIED DRIVE** Push for legislation to enable use of e-signatures and blockchain in all jurisdictions.
TALENT GAPS There is a shortage of skilled staff to implement and utilise digital technology across the supply chain.	**RETHINK TALENT** Reskill or recruit staff to implement and leverage digital solutions.

SUPPORTING SUPPLIERS

Though vital to the business ecosystem, SMEs find themselves critically vulnerable to economic downturn or disruption.

While diversifying suppliers to mitigate against disruption and increase competition makes perfect sense to a retailer, it creates further uncertainty for many of the SMEs in the supply chain.

But the acceleration of e-commerce and the resultant shifts in consumer behaviour are also causing problems for suppliers. Rapid fluctuations in demand and high levels of returns for online purchases make forecasting and rapid delivery of products a challenge.

The cost of finance is prohibitively higher for SMEs because smaller and newer firms are considered high-risk, and any reduction in working capital caused by the extension of payment terms can be crippling for a smaller supplier.

Supply chain finance mechanisms enable suppliers to receive early payment of supplier invoices at a cost closer to the buyer's cost of working capital as they generally have a better credit rating. This optimises working capital for both the supplier and the buyer.

While this type of funding is available in the region, increasing availability and uptake would boost SME and supplier security. A number of banks already work with buyers to structure these types of programmes for their suppliers.

Fintech, crowd and peer-to-peer (P2P) funding platforms are increasing the availability of finance to SMEs. Using technology to extend the range of offerings would be beneficial to smaller companies and startups.

Increasingly, responsible investors are looking beyond credit-worthiness and are thinking about criteria such as ESG.

With pressure growing from governments and clients, contracts are beginning to require the entire supply chain to become ESG-compliant. But assessing and monitoring the many small businesses within a chain is not a simple task.

Third party organisations can help standardise and monitor ESG compliance against a set of measurable targets throughout a supply chain. This would provide transparency and improve consumer confidence.

Moreover, assessment of the risks within a supply chain and adequate insurance throughout will be beneficial to SMEs, retailers and investors. Contracts within the supply chain must be drafted to ensure that risks are shared fairly among stakeholders.

IN THE REAL WORLD

Majid al-Futtaim's sustainability-linked loan

In August 2021, UAE's Majid al-Futtaim, owner and operator of commercial and residential, facilities across the Middle East, Africa and Asia, signed an AED5.51bn sustainability-linked loan (SLL), a financial instrument secured primarily on environmental, social and governance (ESG) related performance.

The primary aim of the SLL is to enable support environmentally and socially sustainable economic activity and growth and includes targets such as gender diversity target for women to constitute 30 per cent of board members.

Structured as a revolving credit facility, it is the largest corporate, non-government-linked loan in the region with over a dozen banks participating in the syndicate.

Source: Majid al-Futtaim

ACTIONS TO IMPROVE FINANCIAL RESILIENCE OF SUPPLY CHAINS

CHALLENGES	RECOMMENDATIONS
AFFORDABLE FUNDING There is a lack of affordable finance for SMEs within the retail supply chain making them vulnerable to economic downturn or market disruption.	**RESILIENT MECHANISMS** Banks and retailers to co-develop supply chain finance programs to optimise working capital for both suppliers and buyers.
HIGH COSTS The high-risk nature of smaller businesses makes finance expensive and difficult to obtain.	**BETTER CREDIT PROFILING** Thorough assessment of the risks within a supply chain and adequate insurance throughout would be beneficial to both SMEs and investors.
INSUFFICIENT FINANCE Banks alone are not able to fill the funding gap for SMEs.	**ALTERNATIVE FUNDING** Use fintech, crowd and P2P lending platforms to increase the availability of funding for SMEs.
TRACKING TOOLS Governments and consumers are demanding more environmentally and socially responsible business practices but monitoring ESG compliance throughout a supply chain is difficult.	**EXTERNAL EXPERTS** Use third party organisations to standardise and monitor ESG compliance against a set of measurable targets throughout a supply chain.
CONTRACTUAL IMBALANCE Suppliers carry risks including reduced and cancelled orders, as well as withheld and delayed payments. This is not always adequately compensated for in their contract terms.	**RISK SHARING** Contracts between suppliers and buyers within the supply chain should ensure that all risks are shared fairly between stakeholders.

LOGISTICS

When it comes to international freight transport, goods journey through many entry and exit touchpoints in different jurisdictions. These points are ridden with bureaucratic requirements which introduce delays and inefficiencies within supply chains.

Initiatives such as Saudi Arabia's Saber – a platform that facilitates online certification of imports into Saudi Arabia – have accelerated the clearing of goods at the kingdom's entry points. Similar platforms across the entire region could significantly reduce bureaucratic processes.

In response to the disruption of global supply chains, companies have been looking at near-shoring: moving operations and key suppliers closer to the consumer. This may result in higher labour costs and capital outlay on fixed assets and local infrastructure, but allows for shorter lead-times, better responsiveness to market fluctuations and faster, cheaper delivery and returns.

The direct-to-consumer model is a huge opportunity for retailers in the Mena region, something already active in markets such as the US and Europe. But adequate warehousing capacity and last-mile-delivery solutions are essential.

Multiple carriers must co-exist to provide choice and flexibility. Tech-enabled fleet management can be beneficial, although overly close collaboration between different service providers could risk weakening competition.

The formation of shipping line consortia to run joint services, sometimes resulting in reduced capacity and higher prices, is tightly regulated in many parts of the world. A regional, intergovernmental committee to agree operations and management of resources can ensure that collaboration does not become detrimental to the supply chain.

The use of centralised distribution hubs, particularly in free zones that offer reduced fees and taxes and a multi-modal logistics infrastructure, is beneficial for efficient order fulfillment, whether it is to a retailer or direct to the customer. But the benefits can only be realised if the market is large – multiple neighbouring countries – and the volume of goods is high.

Another solution is to repurpose bricks-and-mortar retail outlets into distribution hubs otherwise known as 'dark stores'. In areas of lower population density, partnerships between retailers to support the use of bricks-and-mortar retail outlets as customer collection points for multiple online retailers removes the need for costly and environmentally damaging last-mile-delivery.

IN THE REAL WORLD

Landmark Group automates storage systems

In November 2019, Middle East-based retail conglomerate Landmark Group launched a 8.8 million square-feet mega distribution centre (DC) in a bid to improve operational efficiency, achieve economies of scale and meet rising consumer demand for goods.

The Omega DC is one of the world's largest, fully automated facilities of its kind and largest in the GCC. It can interchangeably handle pallets, cartons and garments-on-hanger (GOH), with more than 1,300 'robotic multi-shuttles' and a storage capacity of 2.2 million cartons and 2 million GOH. It has 10 automated and three manual docks to receive over 74,000 cartons per day.

Powered by clean energy, Omega DC was certified as a green building in 2020. It is also the first DC in the GCC to install a hypoxic or reduced oxygen fire prevention system.

Source: Landmark Group

ACTIONS TO IMPROVE RETAIL DISTRIBUTION AND LAST MILE DELIVERY

CHALLENGES	RECOMMENDATIONS
CONVENTIONAL PROCESSES Paperwork associated with the movement of goods through multiple touchpoints in different jurisdictions is complex and leads to delay and error.	**DIGITAL STREAMLINING** Governments and supply chain stakeholders collaborate to introduce digital platform to facilitate online certification of imports.
RISKY BUSINESS Heavy reliance on international supply points makes supply chains vulnerable to disruption. Long lead times associated with importing goods makes retailers less agile.	**QUICKER RESPONSE** Move operations and key suppliers closer to the consumer to make supply chains more resilient. It will allow for shorter lead-times, quicker response to market fluctuations and faster, cheaper delivery and returns. it could, however, drive up costs of production and needs to be a blended approach.
GROUPED COSTS The formation of shipping consortia within the industry to run joint services can result in reduced capacity and higher prices.	**OVERSEEING COMMITTEE** Form a regional committee to agree operations and management of resources to ensure that collaboration does not become detrimental to the retail supply chain.
COMPLEX OPERATIONS Inventory and logistics processes can be complex for large organisations, particularly when running both business-to-business and direct-to-consumer operations.	**SIMPLIFIED APPROACH** Retailers to use centralised or consolidated operations to maximise storage space and delivery efficiency. Free zone distribution hubs also offer reduced fees and taxes and a multi-modal logistics infrastructure.
LOST INVESTMENTS Investment in bricks-and-mortar assets are lost due to the shift to e-commerce.	**REUSE STORES** Repurpose bricks-and-mortar retail outlets as distribution hubs or create ‘dark stores’, especially for retailers with offline businesses that can fulfill locally and support online demand from a central hub.

COLLABORATION

There is a huge amount of data available within the average supply chain. Information is collected by suppliers, manufacturers and logistics providers. Siloed data within organisations, however, cannot be leveraged to benefit an entire network.

Concerns around data security and data ownership along with fears about privacy and competitive advantage are limiting sharing of data among supply chain stakeholders. Often, formats used to collect data by different entities may not be compatible. Or there may not be a common 'language' or approach.

An agreement between stakeholders about what data is necessary, how it should be collected and formatted can enable better data sharing but requires stronger collaboration.

For example, a surge in demand will require funds for additional manufacturing, warehousing or delivery resources. Unless advance provisions are made to meet the rise in demand, there is no point in assigning extra budget for product marketing.

Company strategies and budgets need to be aligned well ahead to execute this level of planning, requiring closer collaboration within companies.

Such an approach between smaller retail outlets can be beneficial. Aggregating demand and managing warehousing centrally will keep costs down and help better meet local demand.

To reduce the need for last-mile delivery, tie-ups between physical stores and online retailers can help establish customer collection hubs. An order placed online can be picked up at another local store, which could also handle returns. The returns can be aggregated and picked up by the online retailer on a regular basis.

IN THE REAL WORLD

Kroger and Walgreens lead the way in retail collaboration

In response to increasing competition from online giants such as Amazon, American retailers Kroger and Walgreens entered a Retail Procurement Alliance in 2019 to source and aggregate orders to increase scale and lower costs.

In addition to joint purchasing, Kroger's self-owned food brands are being sold at select Walgreens stores, and customers can collect their online orders from Kroger at select Walgreens locations.

This pairing is convenient for customers who benefit from a one-stop shopping experience, while requiring minimal capital investment from the retailers.

Source: Walgreens

ACTIONS TO ENABLE COLLABORATION WITHIN RETAIL SUPPLY CHAINS

CHALLENGES	RECOMMENDATIONS
COMPARTMENTALISED Concerns about data security and ownership mean that valuable information is siloed within each company and cannot be leveraged to benefit the entire network	**ENCOURAGE SHARING** Governments to work on common data standards and regulation to enable sharing. Investment in more secure technology such as blockchain.
DISCORDANT FORMATS Data formats collected by different entities may not be compatible.	**DATA STANDARDS** Retailers to agree a standardised approach to data formatting throughout the supply chain and introduce a common data platform.
INTERNAL ALIGNMENT Budgets and strategies are not aligned within a company.	**UMBRELLA STRATEGY** Retailers and suppliers to ensure that all departments within the organisation are aligned to the overall strategy. Budgets must also be set to ensure that objectives can be supported by all departments.
ONE-TO-ONE Smaller branches and outlets are managed on an individual basis. This means that they cannot benefit from efficiencies of scale and are less pliant to fluctuations in the market.	**CENTRALISED SYSTEM** Retailers to aggregate demands from smaller stores and manage warehousing centrally. This will keep costs low and enable all outlets to meet local demand.
ECO-CONCERNS Last-mile delivery solutions increase traffic congestion and carbon emissions.	**COLLECTION HUBS** Collaboration between brick-and-mortar stores and online retailers can enable the creation of customer collection hubs, with options for collection made available during check out. An order placed online could be picked up at another local store, or on demand through courier via an app or push notification.

MEED-MASHREQ KNOWLEDGE PARTNERSHIP

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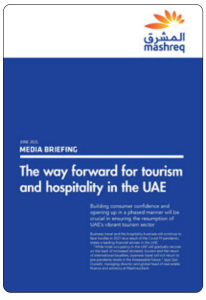

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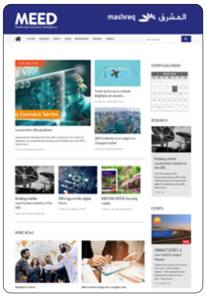

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ABOUT MEED

MEED has been integral to delivering business information, news, intelligence and analysis on the Middle East economies and activities for over 60 years.

Attracting a key senior management audience through its content and activities, MEED is a media brand, publication and data business that covers a spectrum of services which inform, engage, connect and ultimately support our subscribers and partners in their business development and strategic growth.

Acquired by GlobalData Plc in December 2017, MEED is now part of one of the largest data and insights solution providers in the world with the capacity to build global communities for our clients.

Our purpose is to support the region's companies make better and more timely decisions through our innovative data solutions and grow through our comprehensive and world-class marketing solutions.

To find out more email: info@meed.com

ABOUT MASHREQ

Established in 1967, Mashreq is the oldest bank in the UAE, with award-winning financial solutions and services.

Throughout its 50 years' history, Mashreq has differentiated itself through innovative financial solutions, making it possible for its customers to achieve their aspirations.

Today, Mashreq has a significant presence in 11 countries outside the UAE, with 21 overseas branches and offices across Europe, the US, Asia and Africa.

Mashreq launched its new Vision and Mission recently, outlining its commitment towards its clients, colleagues and the community.

In line with its vision to be the region's most progressive bank, Mashreq leverages its leadership position in the banking industry to enable innovative possibilities and solutions for its customers across corporate, retail, international, treasury and Islamic banking.

Mashreq is proud to be the first financial institution in the UAE to be awarded the Gallup Great Workplace Award for four consecutive years from 2014-17.

Mashreq also continues to invest in recruiting, training and developing future generations of UAE national bankers.