

COVID-19: THE NECESSITY OF SUPPLY CHAIN AND LOGISTICS MANAGEMENT INVESTMENT

APRIL 2020

by **Jason Russell**

Head of Industrial Technology & Software

Cathy Leonhardt

Co-Head of Consumer Retail



— PJ —
SOLOMON
unrivaled wisdom

C OVID-19 has had an unprecedented impact on supply chain and logistics management for many of the world's leading retail, grocery and consumer goods companies. The threat of infection has transformed the way people shop for both essential items such as food and staples and nonessentials such as recreational products. This shift has created tremendous supply chain and logistics challenges as businesses adjust to the new norm, where most goods are bought online, delivered to home or picked up curbside from a store. While the transition to omnichannel is hardly new, the pace of change has been dramatic, exposing wide-ranging, systemic issues in existing supply chains.

These issues are experienced every day as consumers seek to order goods online that may be out of stock or hope to receive a package, but it doesn't come. Why are goods out of stock? Why is it so difficult to return goods? Why do delivery times vary so widely or extend far into the future? The root of these issues is underpinned by complexity and technology. Companies that perfect the coordination of the purchasing experience - how and where goods are bought - with supply chain and logistics management - how goods are sourced and delivered at a specific time - will succeed.

// Supply chain and logistics management is a critical part of the customer experience and will move further up the priority list

Speaking with Yahoo Finance (April 7, 2020), Frank Poore, CommerceHub's CEO, said "anybody who has the products that can confidently tell you when you are going to get them" will win the battle for consumer dollars.

// Supply chain and logistics management will move further up the priority list as companies look to meet customer expectations and create competitive differentiation. Our framework for investment includes potential areas for investment, four major themes and recent M&A.

FRAMEWORK FOR INVESTMENT

Merchants should reassess their supply chain and logistics management strategies now by answering these key questions:

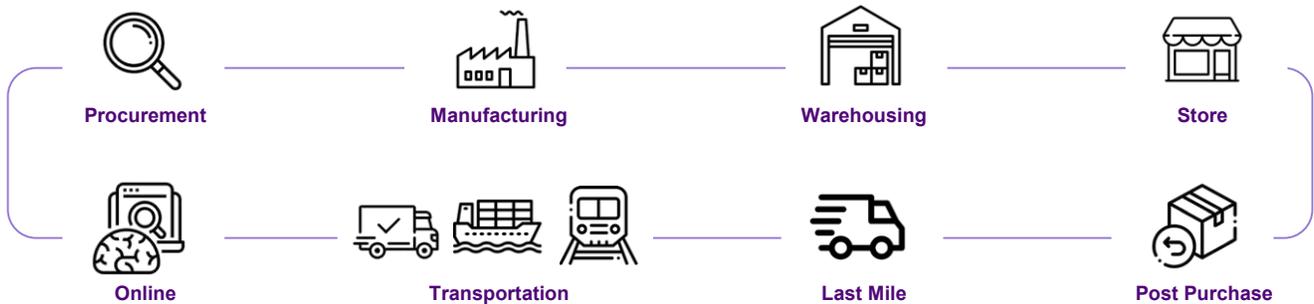
- What is the optimal sales channel mix in this new environment?
- Who are the supply chain and logistics partners we need to exceed our objectives?
- What technology enablers are required to better compete and meet customer priorities?

COVID-19 has clearly created a paradigm shift and companies will also shift their investment strategies, potentially making larger moves into adjacent categories and look to own versus partner.

POTENTIAL AREAS FOR TECHNOLOGY INVESTMENT

This framework provides investment alternatives.

- Unified Commerce Networks
- Drop Shipping
- B2B Payments
- International E-Commerce
- Group Purchasing Platforms
- Product Lifecycle Management
- Supply Chain Planning
- GTMS
- Network Design
- 3D Printing
- Warehouse Fulfillment
- Distributed Order Management
- Warehouse Management Software
- Yard Management
- Robotics & Automation
- Inventory Optimization
- Assortment
- Omnichannel Management
- Work Force Management
- Pick-Up Lockers



- Commerce Platform
- Product Data Management
- Delivery Tracking
- Customer Management
- Visibility
- Parcel Delivery
- Transportation Management
- Multi-Carrier Shipping Software
- Digital Freight Management
- Supplier Financing
- Same Day Delivery
- Contract Shoppers
- Micro-Fulfillment
- Drones
- Fleet Management
- Return Management
- Re-Commerce
- Material Recycling
- Waste Management
- Customer Concierge

MAJOR THEMES

Four themes - fulfillment flexibility, sourcing flexibility, visibility and network - will be required in any strategy successful at responding to changing customer behaviors and technological innovation.

1. FULFILLMENT FLEXIBILITY

Order fulfillment flexibility such as same day delivery, buy online pick-up in store (BOPIS), pickup from curbside and next day delivery will be paramount to meeting customer demands.

Examples:

- Walmart launched pickup hour to cater to curbside pickup orders for people deemed most at-risk for COVID-19.
- Best Buy stores are offering curbside pickup now, and a company spokesperson says orders can be ready for contactless pickup within one hour of purchase.
- Walgreens expanded its partnership with Postmates by providing delivery options directly to customers' homes.

Localization will improve delivery, safety and supply:

- On Bed Bath & Beyond's April 15th earnings call, CEO Mark Tritton said within a week the company was planning to convert "approximately 25% of our Bed Bath & Beyond and BuyBuy Baby stores in the U.S. and Canada into regional fulfillment centers to use our vast inventory resources to assign orders locally and deliver quickly."
- Farmers are also going direct-to-consumer for local fresh food. According to Geekwire on April 13th, Local Food Marketplace, a farming marketplace and software suite, onboarded "more small farms in the month of March than it typically does in six months. The site is fielding two-to-three times more orders than this time last year."
- Sally Beauty announced a contactless curbside pickup model and expedited access to further inventory by launching ship-from-store via UPS from approximately 300 Sally Beauty stockrooms.

2. SOURCING FLEXIBILITY

Technological capabilities and diversification of suppliers will ensure critical goods are available in a time of need:

- According to the FDA, "During the COVID-19 pandemic, the need for certain medical devices, including personal protective equipment (PPE), may outpace the supply available to health care organizations because of the high demand and overall interruptions to the global supply chain. We recognize that the public may seek to use 3D printing to assist in meeting demand."

- Notes the Harvard Business Review, “In response to the short supply of masks (especially N95 masks), many hospitals have been developing and producing alternative designs that may be suitable for interacting with non-COVID-19 patients.”

3. VISIBILITY

Predicting and communicating accurate shipping time eases customer anxiety and builds brand loyalty. Supply chain visibility also allows shippers to better manage and mitigate disruptions.

- According to Deloitte’s *COVID-19: Managing Supply Chain Risk and Disruption* report published in April, “In response to COVID-19, the immediate focus for most companies needs to be on improving visibility to supply chain risk—in your own facilities, in your direct suppliers, and beyond. If you don’t have visibility into the potential supply chain problems across your end-to-end supply chain, then you can’t adequately prevent or manage them. Getting this extended supply chain visibility will likely require a more digitized approach than many companies have used in the past.”

4. NETWORK

Networks are critical to increasing supply chain productivity by breaking down the silos between stakeholders.

- Recently, Michael Cornell, TrueCommerce’s CEO, said “We are seeing a lot of demand in our dropship business as sellers look to connect to a network of suppliers to support demand. I think we will continue to see this as retailers expand fulfillment channels.”
- According to the World Economic Forum, “As each of us adjusts to the isolation of working from home, now is the time to focus on building new networks of collaboration. Building an adaptive supply chain system requires all the stakeholders across the supply system - including manufacturers, shipping providers, port operators, trucking providers, distributors, retailers, and recyclers to name a few - to recognize we are all part of the same ecosystem and to work with technology providers and regulators to make that system of supply a truly connected one.”

M&A WILL BE PART OF THE SOLUTION

Notable recent supply chain and logistics management M&A transactions are below, but represent just the “tip of the iceberg.”

- Target’s acquisitions of transportation tech provider Grand Junction and grocery delivery provider Shipt.
- Costco’s acquisition of last mile specialist Innovel.
- Amazon’s acquisitions of autonomous robotics companies Kiva Systems and Canvas.
- Shopify’s acquisitions of robotics provider 6 River Systems, dropship provider Oberlo, B2B platform Handshake and returns management software Return Magic.
- Nike’s acquisition of demand sensing platform Celect.

CONCLUSION

As we look out our windows during quarantine, longing for “normalcy” and watching the countless delivery vehicles complete seemingly continuous loops around the neighborhood, the impact of supply chain and logistics management is becoming clear to all.

Strengthening supply chain and logistics management has become table stakes. We expect to see a substantial increase in M&A and investment activity here from a broad range of participants, including retailers, CPGs, marketplaces, transportation providers, commerce platforms, supply chain technology providers, 3PLs and beyond. We are here to help and would welcome a more detailed discussion on your supply chain and logistics management priorities and opportunities.

ABOUT PJ SOLOMON

Founded in 1989, PJ SOLOMON is a leading financial advisory firm with a legacy as one of the first independent investment banks. We advise clients on mergers, acquisitions, divestitures, restructurings, recapitalizations, capital markets solutions and activism defense across a range of industries. We offer unmatched industry knowledge in the sectors we cover, providing comprehensive strategic solutions, tailored to generate long-term shareholder value.

Today, PJ SOLOMON is an independently run affiliate of Natixis, part of Groupe BPCE. Our partnership provides our clients access to strategic advisory services and proprietary financing capabilities throughout Europe, Asia Pacific and the Americas.

For further information, please visit pjsolomon.com.

AUTHORS



JASON RUSSELL
HEAD OF INDUSTRIAL
TECHNOLOGY & SOFTWARE

T 212.508.1661
M 917.971.5553
jrussell@pjsolomon.com

With more than 15 years of experience as an investment banker and industry professional, Jason advises on buy- and sell-side M&A and financings. He focuses on sectors that are undergoing digital change and works with clients on assessing new markets and technologies, as well as important strategic and financial opportunities and challenges.

Jason recently advised 3Gtms, a leader in transportation management software, on its sale of a majority stake to SumeruEquity Partners; Körber AG on its acquisition of HighJumpSoftware, a leading US-based warehouse management software and cloud solutions specialist; Michelin on its €520 million acquisition of Sascar, Brazil's largest digital fleet management company; and Vivint, a leader in smart home technologies, on its \$2 billion sale to Blackstone.



CATHY LEONHARDT
CO-HEAD OF CONSUMER RETAIL

T 212.508.1660
M 917.837.6649
cleonhardt@pjsolomon.com

With nearly 20 years of experience, Cathy provides strategic and financial advisory services to clients throughout the retail sector.

Recently, she advised OpCapita on its acquisition of maurices; Bare Necessities on its sale to Walmart; Fred's Inc. on the sale of 185 store's pharmacy prescription files to Walgreens; Groupe Rocher on its acquisition of Arbonne International; The Board of Directors of The Jones Group, Inc. on its sale to Sycamore Partners; PVH Corp. on its acquisition of the Warnaco Group and its sale of G.H. Bass & Co.; TA Associates on its investment in Dutch LLC; PPR on its sale of The Sportsman's Guide and OneStopPlus; and Ariat International on its expanded partnership with the Fisher family.

CONTRIBUTORS

JON BERGER
VICE PRESIDENT

J WHELAN
ASSOCIATE

SAM NATBONY
SENIOR ANALYST

JAKE GANS
ANALYST

ABOUT INDUSTRIAL TECHNOLOGY & SOFTWARE

We cover industries at the nexus of industrial and technology, as they undergo digital evolution, and provide clients with deep industry knowledge and strategic advice.

ABOUT CONSUMER RETAIL

We provide strategic and financial advisory services to public and private companies in retail, apparel, food and beverage, beauty and personal care, household products, consumer durables, consumer health and health & wellness industries.



This communication is solely provided for information purposes, is intended for your benefit and your internal use only and does not constitute an invitation, solicitation, advice, recommendation or offer to subscribe for or purchase any of the products or services mentioned herein. This communication does not constitute investment research (as it is not a substantive analysis) or a research recommendation. Nothing in this material constitutes investment, tax, legal, accounting or other advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances. The information provided is not intended to provide a sufficient basis on which to make an investment decision. It is intended only to provide observations and views of individual investment banking personnel, which may be different from, or inconsistent with, the observations and views of other members of PJ SOLOMON and the firm as a whole. Information and opinions presented in this communication have been obtained or derived from sources believed by PJ SOLOMON to be reliable, but PJ SOLOMON makes no representation as to their accuracy, adequacy or completeness. PJ SOLOMON is under no obligation to update, modify or amend the information herein provided or to otherwise notify you that any information contained herein has changed or subsequently become inaccurate. PJ SOLOMON and its affiliates expressly disclaim any liability for loss and/or damage from the use of any material or information contained in this communication. Any discussions of past performance should not be taken as an indication of future results and no representation, expressed or implied, is made regarding future results.