



WWD VOICES: RETAIL'S RESPONSIBLE RESET PODCAST – EPISODE 4

AUDIO TRANSCRIPT

Evan Clark [00:00:00] This is prime time for retail and fashion. The holidays are fast approaching, and despite the pandemic, consumers are still spending. The question is can merchants deliver given the unprecedented global supply chain tangle that seen factories shut down in Vietnam? Ships backed up at ports and containers stacked sky high in the U.S. and stuck on the wrong side of the world. Today, we're going to hear what it all means for Santa and one of retail's top players.

Arthur Zaczekiewicz [00:00:28] Welcome to WWT Voices, where we share the latest fashion, apparel and retail industry insights. Welcome to the voices I am Arthur Zaczekiewicz, and I'm joined here with co-host Evan Clark today as part of the Retailers Responsible Reset series, which is sponsored by Accenture. We'll be speaking with Dennis Mullahy, who's the chief supply chain officer at Macy's. He's going to help us understand just what's happening in this business of moving stuff around the world and how it all gets straightened out. Dennis, welcome.

Dennis Mullahy [00:01:07] Thank you. Glad to be here.

Evan Clark [00:01:09] All right. So, Dennis, everything seems to be kind of a mess with the supply chain, which for everyone listening is just kind of shorthand for the complicated web of businesses that produce raw materials, turn them into consumer goods and ship them around the world to consumers. But Dennis, you have the pulse of the supply chain. What's that? What's the view on the ground? What's happening now? And is Santa going to make his way to 34th Street this year?

Dennis Mullahy [00:01:36] Well, the first thing I would say is Santa is definitely going to make it to 34th Street and he will be on time. So starting with that. But, you know, supply chain being a mess, I

think is probably the most accurate description you could give to it right now, today with everything that's going on. You know, the problem that we're having right now is actually going to be formulating for, you know, since December, November of last year. And if you think about kind of the integrated supply chain with what's happening overseas, you know, you've got ports shutting down, you've got countries shutting down, their backlogs of containers coming in in February and the Suez Canal shuts down and ports shut down because of COVID, then vendors shut down or countries shut down. All of that is creating this groundswell of inventory that's moving into the United States. So that's problem number one. The same problem is that all of that comes in. The ports don't have the lever, the capacity, the productivity to be able to unload them all. So that creates a backlog that's sitting now at the port. Once they do that, you've got to move it to whatever distribution network you have. And so you get back up on the rail, you get backed up in and transportation. And so it really just creates this intense elongation of what it takes to really move product. The flip side of it is all over. Well, all of that is occurring at this point. Now you have containers in the wrong countries. You have boats in the wrong ports and it doesn't. That's not an easy problem to fix. And so as you think about the back end side of it, of moving raw materials and getting everything to where it needs to be to produce starts to create kind of this circular problem that we're in right now, I've got to get raw materials to manufacturers so they can make it containers to manufacturers so they can ship on a vessel over here into a port, on a rail, on a truck, into my building so I can make it available for customers.

Arthur Zaczekiewicz [00:03:31] And you have to do that. I mean, you compete. You just one company, right? So you have to think about, like everybody else is trying to do the same thing, right?



Dennis Mullahy [00:03:37] Yeah, exactly right. All of that, to your point, after all of that is a shared network, right? We don't have our own boats. You know, obviously we we work with vendors and suppliers to contract all of that. But but you're sharing all of those pipes with everybody else who's tied to the product as well.

Evan Clark [00:03:55] So how do you so some of those problems, you know, you can't necessarily control a boat that stuck off the port of Long Beach. How do you control? How do you how do you as Macy's pull that off? How do you get how do you get the goods where they need to be, especially during this kind of crunch time at Christmas?

Dennis Mullahy [00:04:14] Yeah. So I would say there's a couple of things, and for us, some of this is product that we're moving in. Some of this is product that we're purchasing from our brand partners. We have great relationships with our brand partners and we're working really close with them on inventory availability, buying things early, what do they have available on our side as we manage kind of all of those pieces that happen? We have a really good transportation team who's working really closely with our transportation partners. And so we've done a lot of diversification in our ports where we had a majority of flowing into Long Beach. We've now diversified across multiple ports throughout the country, even bringing more into the East Coast, which is a longer sailing time but faster to get off the boats. So we've done those types of things. We've increased our capacity with our carriers so that we have a larger presence in that we can take more product in and we can move things quicker and we have a higher degree of capacity to go move things. And then and then within that, we've also worked with our suppliers overseas for our private label products to produce earlier to make more product available. We've done a lot of things on our sourcing side to go to multiple countries. And so there's a really integrated plan that the team has been working on a really again since November of last year to make sure that we can keep product flowing in our supply chain and make it available for customers wanting to buy it.

Evan Clark [00:05:36] So, you know, across really fashion and corporate America in general agility. Is there a debate, by way, that's really it's it's being agile making things. Is that what it boils down to?

Dennis Mullahy [00:05:50] Yeah, you know, I think that's a it's a really great point of it. And I would tell you, is a supply chain person that's been the thing we've talked about for years. And the industry is really two key components. Agility, flexibility and transparency. And it all it all hits you right now. Today, the more flexible you are, more ability you. You have to create options with your inventory, the faster you can move it and make it available. And to do that, you have to have the transparency of where is my inventory actually at what stage of the than what decisions can I make once it gets put on a boat? I can't change where it's going to get off because that container is now locked into a port. I have to make that decision before, but once it gets to that port, I can make different decisions on how I transport.

Arthur Zaczekiewicz [00:06:31] So basically, you haven't slept in a year?

Dennis Mullahy [00:06:34] Pretty much so. That's a fairly accurate description. It's been it has been a year of different decisions, almost on a daily basis and a lot of a lot of agility and flexibility around, OK, this happened now. What can we do about it?

Evan Clark [00:06:52] So, you know, it's interesting because the four really decades the fashion industry has been building this just in some plot, just in time supply chain where the idea was, you wanted to have goods and just get them to the store and just the last second. So you have to so you can hold that inventory for as short a time as possible. Are we seeing the end of that, are we are we moving to something else? Do we need a little bit more give in the system?

Dennis Mullahy [00:07:19] You know, I don't, I don't think so. And I think that's, you know, the just in time inventory model is still going to be one that everybody's focused on. Inventory productivity in fashion is the key to the driving margin and profitability. And so I don't I don't think that you'll see that change. I do think for us, what we're trying to do is make sure that every piece of inventory that we own has some level of flexibility. And so one of the things we've done is centralized more of our inventory so that we can respond faster to customer demands wherever they occur. And so I don't know that you're going to see the reduction of just in time. Actually, some of what's happened has caused more things to be just in time. So you've got now, you.



know, seasonal product, cold weather product that's really landing in the time when the customer wants to go buy it. And so, you know, this notion of building inventory and then flowing it out and setting up for seasons is really starting to be impacted just on how inventory is coming to you.

Arthur Zaczekiewicz [00:08:18] Are you using RFID or anything to kind of increase the transparency we have?

Dennis Mullahy [00:08:24] Yeah, we have a really we've had for a long time a really big focus on RFID and a lot of our products do come in with RFID. We use it primarily in our stores right now to locate goods. It's more challenging in the global supply chain when you have containers and, you know, large quantities of stuff, you know, in the same box. But we do use RFID pretty extensively. A lot of the flexibility in a lot of the visibility is really, I think to your point, earlier Ellyn, we're not doing any of this alone. And so we have a lot of partners and with partners requires handoffs, right? And so I'm an ocean carrier who's turning it over to a rail provider is turning it over to a trucking company and the ability to follow that all the way through so that at any point in time, I can make a decision and say, let's do this. Instead of that, let's divert this product here instead of there, you know, really creates that level of flexibility within the aggregate supply chain.

Evan Clark [00:09:18] So you just mentioned we've talked about ships at ports, about containers kind of in the wrong places. You mentioned trucks in a truck. Having finding truck drivers has been a challenge. There's a lot of these kind of problems that are bigger than any one company. But if you could wave your magic wand and fix one of them, what's the or what's you know, what's caused you to lose the most sleep over over the past year?

Dennis Mullahy [00:09:44] You know, it really depends on the day. I would say, you know, today my biggest concern is just the back backup of ships out and out in Long Beach. The last number I heard was around 90 vessels that are out there. That's going to take a while to clean up. And that means product is stuck out there that, you know, we want to get in now. You know, we've done a lot to avoid that and to move around it. But that's still a big concern as I think about, you know, the global supply chain that the problem that that creates not only is

just the availability of the product coming in, but that those 500000 containers that are stuck out there, anchored as well are containers that aren't available for raw material. Movement that aren't available for spring product aren't available for things because again, they're all in the wrong place. That's probably the biggest problem that we have to solve right now

Arthur Zaczekiewicz [00:10:36] So that's going to obviously impact the first half of next year.

Dennis Mullahy [00:10:40] Yeah, you know, I you know, my expectation with the folks that I've talked to would expect us to go into 2022 with challenges, you know? And again, you know, my you know, our our team's focus has been very much on, you know, learning what we can on what's happening today and then understanding and focusing on how are we going to adapt assuming that that's going to continue. We did a really nice job of that in November, December of last year, anticipating some of these situations, and it's really about maintaining that level of flexibility and nimbleness.

Evan Clark [00:11:14] So I I keep thinking about what sort of lasting changes we see from this, right? This is more more than just kind of a hiccup. This has been such a major disruption. Do we see more? We've a lot of the problem has been kind of transporting goods around the world. Do we see more near shoring more production closer to home, more domestic partners, domestic production come back.

Dennis Mullahy [00:11:40] You know, I think that's, you know, it's an interesting question and we'll see how that all plays out. You know, we, you know, in some situations you can that's it's an interesting idea. The challenge is whether the capabilities exist to source those products in those countries. You know, my sourcing team, you know, we're constantly looking for opportunities to source and in locations that are closer that that changes, you know, your ability to move product. It's just really about availability. We're looking at, you know, really sourcing from, you know, with vendors. And producing a product where we've got multi-country capabilities and and we can move stuff around, so if I have a of a factory that produces in Vietnam, but also in Cambodia and Vietnam has a problem, I can move my my production to Cambodia. And so it's really about looking at the national landscape of where where the international landscape of where



product can be produced out and giving yourself as much flexibility to move within that is again it.

Evan Clark [00:12:41] Hearing you talk about it, it seems like a really kind of multifaceted. Problem or business in general, where you're you're looking at. It sounds like you're looking at a whole country, you know, it's a Vietnam shut down now let me go over to Cambodia. How grand, how granular is it? Are you thinking of whole countries? Are you thinking of this factory or that factory?

Dennis Mullahy [00:13:04] You really have to think about it almost at a country level, because when the country has a problem, that means transportation in that country has a problem. The ports in that country has a problem on movement of goods in that problem. So even if your factory is open and producing, if you can't move the goods, you'll still have an issue. So we looked at it at both levels and understand what's happening in their factories. We also track what's happening in all the countries that we were producing product, and

Evan Clark [00:13:29] that's making me think of you as kind of like the general in the old time movie, with that moving the pieces across across the board. But, you know, there's a lot of moving parts here. There's political concerns. There is consumer behavior and consumer demand has caused a lot of this problem. There is labor and environment. How do you how do you balance all those concerns and priorities?

Dennis Mullahy [00:13:54] You know, I'll tell you our our priority has been pretty much singularly focused, which is making as much product available to our consumers as we possibly can and making sure that we have the capacity to be able to provide that, to ship it, to move it. And so, you know, we haven't really stopped and focused on one single piece of it. We've really looked at it at the whole at an aggregate level, both from a labor perspective, a transportation perspective, a sourcing perspective with the sole focus and intent on making product available for our customers.

Evan Clark [00:14:27] Right. So how do you sustainability is a is a big topic in the world generally, and I know that's an important topic at Macy's too. How do you how do you specifically account for that or manage sustainability as you're thinking of getting the job done and moving these

goods all around the world?

Dennis Mullahy [00:14:46] Yeah. So, you know, a good question. And you know, one of the things I would say that I think sometimes gets missed with sustainable sustainability is a huge it's a it's a problem globally, and it's definitely a very large focus of ours internally and making sure that we are doing the right things for the environment. The flip side of that that I would say, is also if you think about being more sustainable means reducing waste. It means traveling less. That means, you know, all of those things, all of those have costs associated with it. And so driving sustainability also means taking waste and movement out of our network and out of our our systems. And so we balance that as we make these decisions on what we're going to go you. It also for us. And one of the things we just started back in September, we launched a site like that show sustainable product. And so being able to highlight to our consumers a product that is made in a more sustainable fashion, whether that's energy consumption, that it's made responsibly, produced all of those things, you know, they're important to our consumers. So we have a large focus on producing and providing and identifying, you know, sustainable products or pride that has higher degree of sustainability for our consumers. And then within our operations, you know, reducing waste, which will ultimately drive, you know, a more sustainable operation.

Arthur Zaczkiewicz [00:16:05] You have a you have a great CFO, but there's Adrian. Does he lean on you to do this time? I mean, costs across the board and margins are under pressure, right?

Dennis Mullahy [00:16:16] Yeah. You know, Adrian and I have a great relationship. So we, we we talk, I think, almost every day on know activities and actions that we're taking and the balance of that. You know, I would tell you again, our, you know, our entire company is focused on, you know, again getting the right product available for customers and making sure that we can deliver and satisfy and support, you know what our customers want. And so we make those decisions on a regular basis on how we're going to do that and what makes sense for us to go through. And we're constantly talking through options and alternatives of how do we do that?



Evan Clark [00:16:53] You know, the supply chain to and being head of the supply chain, it's it's a job. It's big important, but often times in normal times runs a little bit under the radar where people aren't kind of, you know, desperately what's going on with the supply chain. But here we are today, and the supply chain is a really big deal. On earnings conference calls, you hear analysts asking everybody about it, consumers are talking about it and going to stores and seeing empty shelves and freaking out. And, you know, so what's all this attention do, though? What how's that changed? There's just the pressure just ratcheted up? Or are people looking at the supply chain and thinking about it differently as our hearts and minds changing in ways?

Dennis Mullahy [00:17:40] You know, I was joking with my wife, you know, when you start hearing, you know, on Meet the Press, Chuck Todd, talk about. Supply chain issues, it makes me nervous. The one thing I would say, one, I do think there's there are there are there have been cracks in the supply chain for a while, but think about our trucking challenges didn't just start today, you know, the rail challenges didn't just start today. You know, they're now they're now amplified by, you know, some of the other things that are happening in a more global basis. The benefit of the conversation is that hopefully it will help drive change that. Some of those things that you know, I don't have control, right, and that I utilize and again share with everybody else. If that happens, that will all be goodness for everybody who operates inside a supply chain. And so I think that's really the benefit of the conversation and the discussion is to hopefully drive some change and innovation into some of those, you know, those other pieces of the supply chain that we all lean on that are actually important parts of our infrastructure and how product moves.

Arthur Zaczekiewicz [00:18:46] And it's interesting, you say, you know, so that this period that we've gone through this disruption has put a spotlight on the importance of the supply chain. So maybe get some respect now, you know, more so than it did in the past.

Dennis Mullahy [00:18:58] You know, the joke within supply chain is, you know, you're you're you're never right. You either got product where we're supposed to be or you didn't. So your only option is you did what you were supposed to do or

you were wrong. And so now at least there is a little bit of that after of, you know, just all the all the understanding of what has to happen to really move product. But it's been it's been challenging.

Evan Clark [00:19:20] So the world feels your pain a little bit a little bit more. The you know, there's been a big push. You mentioned infrastructure just kind of generally and that's been one of we've heard out of Washington and from politicians and President Biden of, you know, the big infrastructure push and have the United States needs to upgrade its infrastructure and modernize and all of that. Are we? I, it's hard to get a feel for that. As kind of a layman, how is the infrastructure? Do we have the stuff we need to do, the stuff we're trying to do? Or do we need, you know, how how old is this machine that we're running here?

Dennis Mullahy [00:19:55] You know, the political side of it is an interesting one. And so I'm going to steer clear on on that piece of it. But I would tell you that, you know, the infrastructure is challenged. You know, like like I mentioned, our our our trucking industry has been challenged and getting resources and maintaining labor and all those pieces we we have done what we can to, you know, work around and we control what we control. But there's definitely a need for us to be thinking about, you know, how that supply chain comes together and what the infrastructure requirements are across the country to be able to support it. We have a lot of dependency on rail and on, you know, domestic truck transportation in the US that has to flow smoothly. Otherwise, you know, it drives product costs up. It drives delays. It drives, you know, all kinds of issues that you know, preferably we wouldn't want to have in the economy.

Arthur Zaczekiewicz [00:20:52] Well, you know, Evan, I'll answer that question, actually, honestly, and I'll take the pressure off it, Dennis. I think our infrastructure is a mess, right? I mean, we get it. I get on the commuter train where I live and it's a 60 year old diesel train. You know, I think that just says it. All right. We have wonderful technologies. We have iPhones and all of us. But I think the investments haven't been made and it's it's an ancient, crumbling kind of system that we have that we have to deal with. So it's well overdue for some investment, right? All right. And they said,



Evan Clark [00:21:26] Well, you know, and that kind of it's all about perspective, right? And Dennis, that makes me think so you're at Macy's now, which is very apparel heavy, but you've also worked at Ulta. You worked at Michael as you were a consultant. What's the are everyone's? Is it same? Same, but different? Are everyone's supply chain troubles the same? Or how does it look kind of sector the sector, you know?

Dennis Mullahy [00:21:51] So first of all, I would say the focus on all of them is the same around driving flexibility, agility and transparency. The impact of the issues are different. You know, the beauty industry has had a little bit better ability to flow inventory and key product availability based on where source than apparel. You know, the craft industry comes out of China, so I would imagine they're having a lot of challenges in and movement of goods. But all of us are looking for the same thing in how do we maintain that level of flexibility and agility so that when issues arise, we we have an alternative path to move around it. So I would say that's really the focus, the other the other pieces all around, you know, inventory availability. And I mentioned this, you know, a couple of times is making product available to as many customers as we possibly can. Whether that's in a centralized fulfillment center that you're feeding out to stores, putting it in stores and making it available for store fulfillment, but, you know, being able to keep your inventory flexible so that you can sell it to the customer who wants to buy it when they want to buy it and get it to on, you know, as inexpensively as possible again.

Evan Clark [00:23:06] So when consumers go into stores and they do see empty shelves, they don't find just what they want. The message is don't panic. You're you're on it, you're on top of it.

Dennis Mullahy [00:23:17] I would say that one hundred percent, but I also would say I feel like we're going to be in a pretty good position as we go on holiday with everything that we've done to maintain inventory flow. So I don't. Not expecting to see empty shelves, you know, within our business. And certainly the other thing I would say is if a customer walks in and can't find what they're looking for, there's always online. And, you know, our fulfillment centers operate 24-7. We ship products all over the United States and actually globally. And so there are a lot of ways to get product and a lot of

ways to satisfy, you know, what that customers are looking for. And you know, like I said, we've we've done a lot to make sure that we've got the inventory available for them when they walk in the store, when they get online to be able to satisfy whatever it is they're trying to buy.

Arthur Zaczekiewicz [00:24:04] We we just have a minute or two left before we wrap up Dennis. Any closing thoughts? I think the one thing I heard you keep repeating is the importance of partners right through this. Any other insights? Any key takeaways?

Dennis Mullahy [00:24:18] Yeah. You know, I think I think there's a couple of things. One, partners are really important part of the supply chain and building the right relationships with those partners. The other thing that I would I would throw out there is that it's a big part of our go forward buyer strategy is really how do we modernize our supply chain?

How do we continue to drive efficiency and productivity and allow ourselves the opportunity as the business continues to grow to maintain that level of flexibility? So automation, you know, those types of things thinking differently about how we let our stores from a segment perspective are all pieces of what our go forward strategy is and that we're building out all focused on the same things of, you know, being efficient, being productive, but maintaining a high level of availability of inventory for customers when when they're ready to purchase.

Arthur Zaczekiewicz [00:25:11] Thank you. That was great. Evan, the any other closing thoughts? Anything else you want to add?

Evan Clark [00:25:17] No, this is good. I'm reassured. I've got two kids and they're looking for Christmas to come. So thank you. Dennis, thanks for letting us into your world a little bit here.

Dennis Mullahy [00:25:27] I really appreciate it. Evan, and I would tell you, make sure you tell him Santa is going to be at Macy's. Okay. We have apparel. We have everything they need. So we say that will be common and they'll be on time.

Arthur Zaczekiewicz [00:25:40] Okay, you heard it first here. Thank you to Accenture and thank you for listening today and stay tuned for the next episode. Awesome.



Dennis Mullahy [00:25:48] Thank you, guys.

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