



The New Customer-Centric Retail Supply Chain

Benchmark Report: 2008

Sponsored by:



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EXECUTIVE SUMMARY

The retail industry has seen an unprecedented shift in strategy from product-centric to customer-centric over the last ten years. That strategic shift has weathered recent economic uncertainty, and we have seen it grow in both scope and complexity as retailers look to tackle localization and customer service that increasingly crosses channels. This is imperative for customer-facing organizations, but what does customer centricity mean for the product parts of a retailer's organization? The simple answer is, it means that big change is coming.

BUSINESS CHALLENGES

One of the biggest and most basic supply chain challenges is getting the forecast to match demand – to limit the risk inherent in supply chain execution. That challenge is still top of mind, but new challenges – localization of assortment, SKU proliferation, and even customer demands for more supply chain precision – are putting new and different pressures on supply chain. Supply chain capabilities have to be more precise, and they must handle a greater level of granularity of products and product movement than ever before.

OPPORTUNITIES

While laggards have made significant strides in improving their supply chain efficiency, winners have moved on – to the point where they are willing to give back some of the efficiencies they've already gained (particularly around inventory levels) in order to improve customer service. The foundational opportunity – one that all survey respondents rated highly – is supply chain visibility. However, winners view this visibility not in the context of getting more information, but as an opportunity for them to do something when the plan goes awry.

ORGANIZATIONAL INHIBITORS

For supply chain, the enemy isn't "us," it's everybody else. While supply chain managers have long been aware that the gap between merchandising and supply chain organizations drives sub-optimal behaviors for the company as a whole, the new business challenges of localization of both products and prices creates the need for more collaboration between merchandising, supply chain, marketing, and store operations – so those cultural issues are becoming exposed. Winners are catching on quickly, but are also in the same boat as their peers when it comes to technology issues, the second highest-ranked organizational inhibitor. Under-investments and the distributed nature of supply chains means the technology issues are no easy fix – for anyone.

TECHNOLOGY ENABLERS

Laggards claim they have already implemented a great deal of supply chain technology, including sophisticated tools like demand or replenishment forecasting and store-level computer-assisted ordering. However, they continue to struggle with the basics – when matched up against their highest-ranked business issues it becomes clear that a lot of laggards' technology investments are either under-utilized or just plain shelf-ware. Winners, on the other hand, have been more conservative in their investments to-date, and have a slight preference for foundational things like product information management and visibility tools. However, they have aggressive plans for the future, suggesting that serious changes will indeed be heading towards the retail supply chain.

BOOTSTRAP RECOMMENDATIONS

While trends like localization and promotion optimization increase the pressure to bridge the gaps between the planning and execution pieces of the retail supply chain, the retailers that will truly transform supply chain into a strategic asset are those that focus on closing the gaps altogether. There is such a thing as a customer-centric supply chain, and winners are marshalling their resources now to deliver on that vision.

Table of Contents

EXECUTIVE SUMMARY.....	ii
SECTION I: OVERVIEW	1
Why the Study Was Conducted	1
Supply Chain Does Help Winners Win	1
Methodology	2
Defining Retail Winners and Why They Win.....	3
Survey Respondent Characteristics	3
SECTION II: BUSINESS CHALLENGES	4
New Challenges Creep Into The Supply Chain	4
SKU Proliferation And Localization Loom Large.....	5
Cross-Channel Fulfillment Has Its Own Issues	7
Laggards Make A Comeback Just As Winners Change The Game.....	9
SECTION III: OPPORTUNITIES.....	11
I Can't See Anything!	11
What Does Visibility Really Mean?	12
The Forecast Stops Here.....	14
Customer Service, Not Efficiency, is the Big Opportunity.....	14
SECTION IV: ORGANIZATIONAL INHIBITORS.....	17
The Blame Game.....	17
The Technology Barrier.....	18
The Difference is in the Store	18
Overcoming The Barriers	19
The Problem is Known; How to Solve it is Hard.....	20
SECTION V: TECHNOLOGY ENABLERS	21
Visibility Rules, Replenishment Surprises	21
Winners Wait... ..	22
... But the Time to Act is Near	24
SECTION VI: BOOTSTRAP RECOMMENDATIONS	25
Cross the Supply Chain Chasm.....	25
Crossing is Great, But Closing the Gap is Better	26
It Lives!.....	26
APPENDIX A: The BOOT Methodology	27
APPENDIX B: About Our Sponsors	28
APPENDIX C: About RSR.....	29

Figures

Figure 1: Retail Winners Run Efficient Supply Chains.....	2
Figure 2: Matching the Forecast to Demand Continues to Challenge Execution	4
Figure 3: Challenges Differ by Vertical.....	5
Figure 4: Winners Give Higher Priority to Localization Challenges in Supply Chain	6
Figure 5: Retailers Want To Get Channel Inventory Right The First Time	8
Figure 6: Winners Have Not Rushed Online Inventory.....	9
Figure 7: Laggards Post Bigger Supply Chain Improvements.....	10
Figure 8: Supply Chain Visibility Tops Supply Chain Opportunities	11
Figure 9: Winners See Customer Service Opportunities for Supply Chain	12
Figure 10: Visibility Means More Than Just Seeing Clearly	13
Figure 11: Retailers Struggle to Balance the Supply Chain Quality Triangle	15
Figure 12: Everyone Else Makes Supply Chain Hard.....	17
Figure 13: Winners Begin to Tackle Cultural Challenges	19
Figure 14: Let’s Talk About Supply Chain	20
Figure 15: Technology Investments Bring Light to the End of the Tunnel.....	21
Figure 16: Some Technology Adoption Appears Aspirational	22
Figure 17: Winners Build Foundations First	23
Figure 18: Winners Have An Aggressive Supply Chain Agenda	24

SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

The last mile of the retail supply chain – from distribution center to store or consumer – has faced a slew of challenges in the last few years. Retailers have move visibility into demand data, thanks to more real-time point of sale and the instant feedback supplied by eCommerce. Coupled with analytics tools, retailers have put this demand data to work on market basket analysis and localized assortments. But when you combine these capabilities with manufacturer SKU proliferation, it puts pressure on shelf assortment – making a “standard” assortment a thing of the past, and creating the need for much more granular fulfillment.

For retailers with a robust eCommerce channel, hooking stores into that fulfillment channel poses yet another set of challenges, driven by consumer demand for more cross-channel options: what to do with cross-channel returns? How to make sure that the inventory visibility we provide from stores is accurate? Additionally, retailers across the board are tinkering with demand through price optimization tools – but our own research shows that few take inventory availability, actual or planned, into consideration when changing prices.

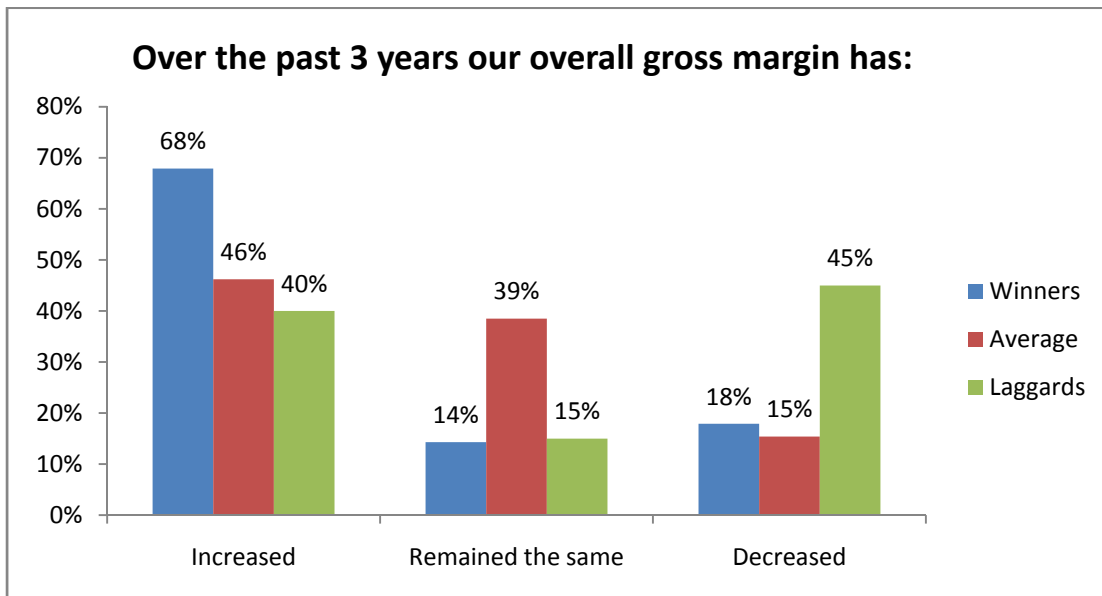
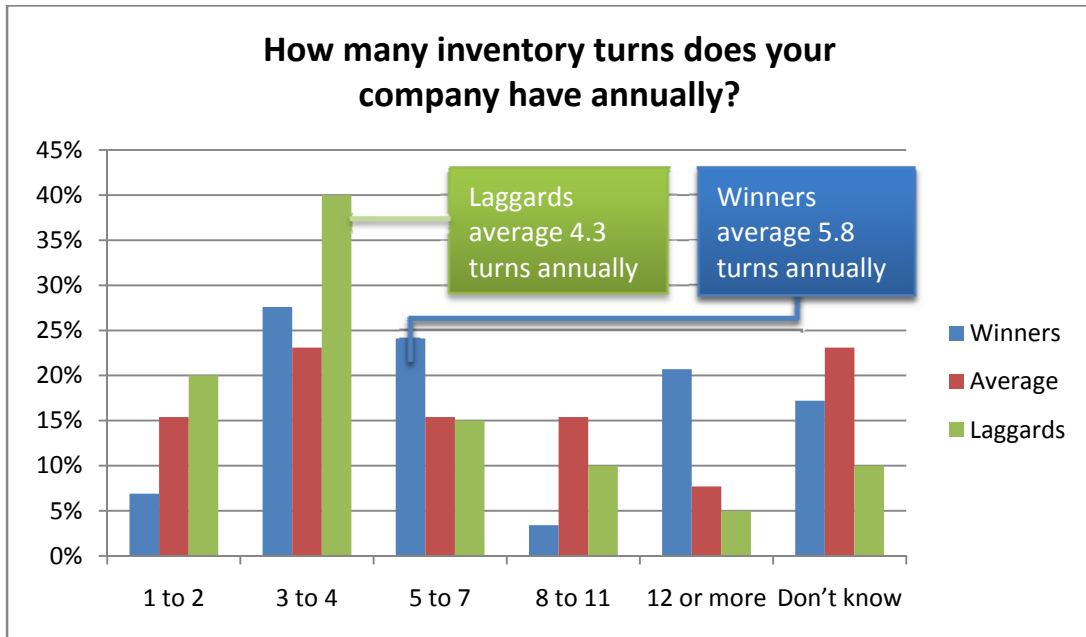
At the same time, we have seen retail winners (those that outperform their peers) become ever more focused on the customer experience. The last mile of retail execution has the potential to deliver significant differentiation, or become an enormous bottleneck in customer service. Throw in lengthening supply chains, as more and more manufacturers and retailers source globally, and it’s clear that managing the last mile of execution requires different processes and capabilities than have been required in the past.

RSR’s objective in conducting this research is to identify the challenges and priorities that retailers see around the last mile of supply chain – and find out whether the customer-centric focus that retail winners have been following for the last several years is finding its way into supply chain too.

SUPPLY CHAIN DOES HELP WINNERS WIN

For all the attention that customer-facing operations get, the supply chain really does define the difference between winners and others. Retail winners tend to run more efficient supply chains – they average less inventory (winners average 6 weeks of overall inventory vs. 7 weeks for all others), greater turns, and have seen more margin improvements compared to peers (Figure 1).

Figure 1:
Retail Winners Run Efficient Supply Chains



Source: RSR Research, July 2008

METHODOLOGY

RSR uses its own model, called the “BOOT,” to analyze Retail Industry issues. We build this model with our survey instruments. [Appendix A](#) contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better

understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

DEFINING RETAIL WINNERS AND WHY THEY WIN

We've already introduced the concept of Retail Winners in this report. Our definition of these Winners is straightforward. We choose to follow Wall Street. Wall Street judges retailers by year-over-year sales improvements, and we do the same. Assuming industry average sales growth of three percent, we define retailers with sales above this hurdle as "Winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans." It is consistent throughout much of RSR's research findings that **Winners don't merely do the same things better, they tend to do different things.** They think differently. They plan differently. They respond differently. Their supply chain practices are no exception.

SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey from May-June 2008 and received answers from 62 respondents. Respondent demographics are as follows:

- **Job Title:**

Senior Management (CEO, CFO, COO)	26%
Vice President	18%
Director/Manager	44%
Internal Consultant & Other Staff	12%

- **2007 Revenue (\$ Equivalent):**

\$50 Million or less	20%
\$51 - \$499 Million	28%
\$500 Million - \$999 Million	12%
\$1 Billion - \$5 Billion	21%
Over \$5 Billion	20%

- **Geographies Where They have Retail Presence:**

United States	72%
Europe	26%
Asia Pacific	26%
Latin America	18%
Canada	44%
United Kingdom	20%
Middle East or Africa	15%

- **Segments:**

Fast Moving Consumer Goods (FMCG)	17%
General Merchandise (GM)	44%
Apparel	19%
Restaurant/Hospitality/Other	19%

- **Year-Over-Year Sales Growth Rates (assume average growth of 3%):**

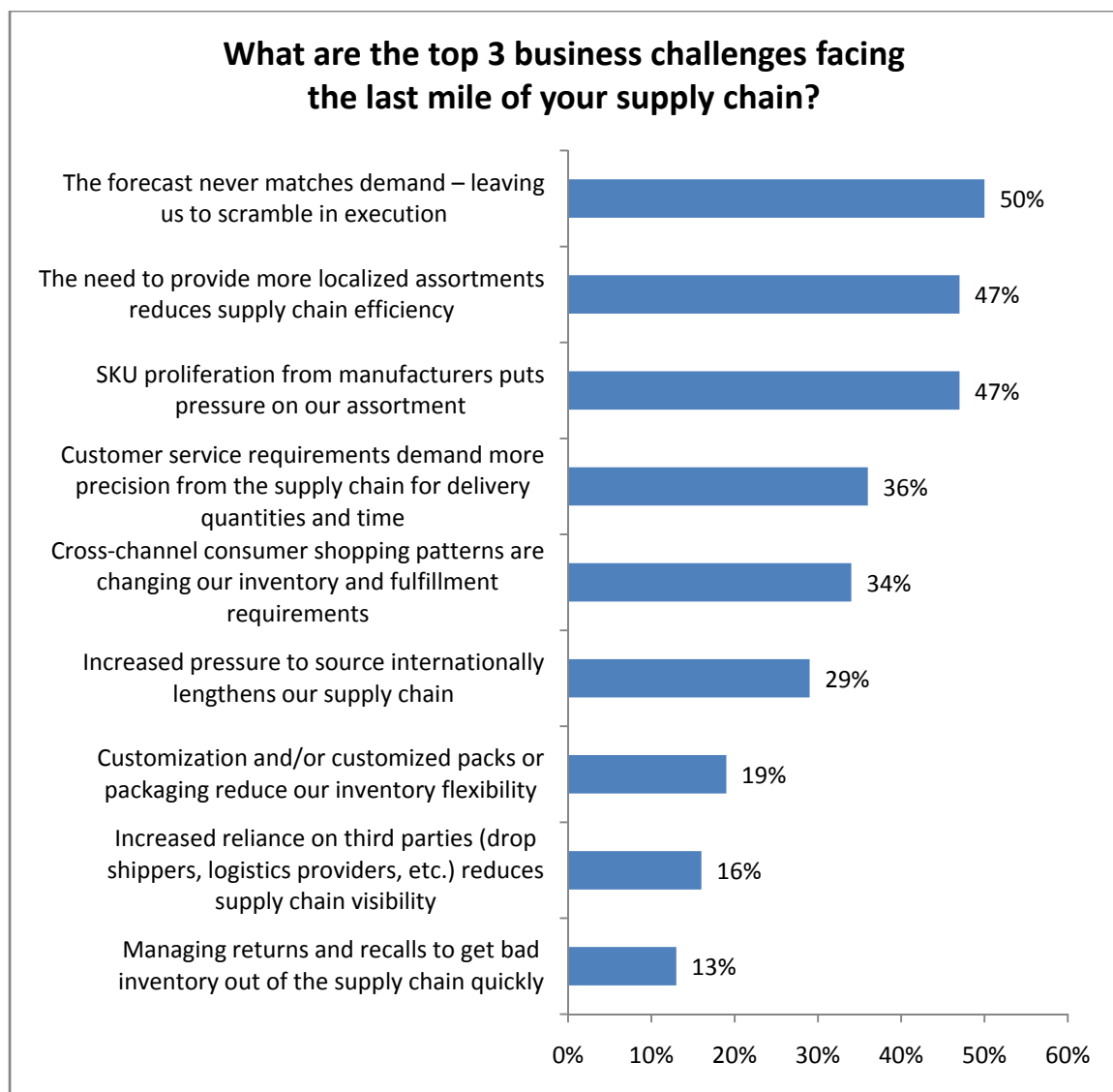
Worse than Average	33%
Average	20%
Better than Average (Retail Winners)	47%

SECTION II: BUSINESS CHALLENGES

NEW CHALLENGES CREEP INTO THE SUPPLY CHAIN

While there has been a lot of change in the role that supply chain plays within retail, driven in part by globalization, localization, and cross-channel, and cross-channel operations, the reality is that the last mile of the supply chain has not changed much. The biggest challenge that survey respondents identified is the age-old conflict between planning and execution: “The forecast never matches demand – leaving us to scramble in execution” (Figure 2).

*Figure 2:
Matching the Forecast to Demand Continues to Challenge Execution*

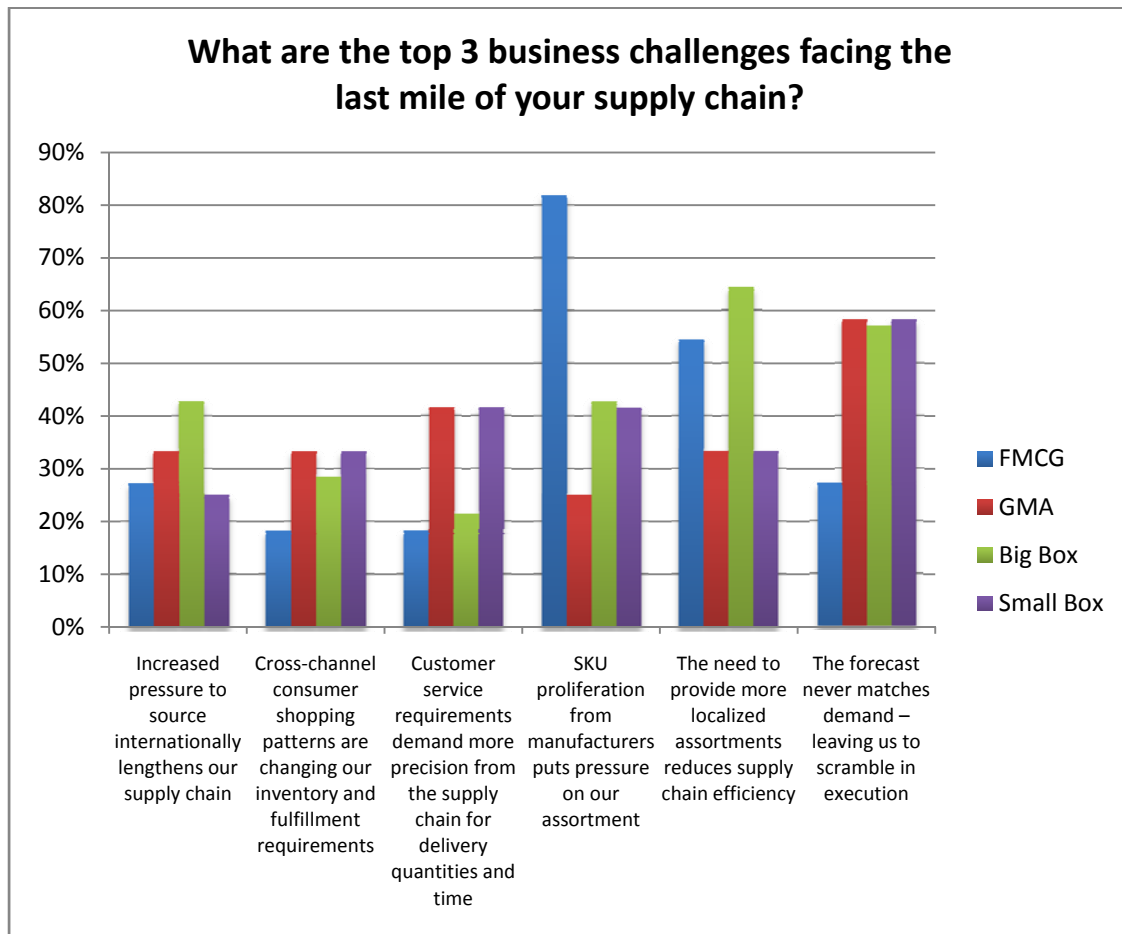


Source: RSR Research, July 2008

However, while forecast vs. actual is an old, old story in supply chain, other issues – the ones that seem to get a lot of press in the industry today, like globalization – were rated lower priorities on the list. Lengthening supply chains ranked 6th on the list with 29% of respondents rating it top-3, and cross-channel concerns ranked fifth.

Looking at challenges by retail vertical, few surprises emerge. Fast-moving consumer goods (FMCG) retailers are naturally hardest hit by SKU proliferation, with consumer product manufacturers introducing ever-more line extensions and “new” products every year (Figure 3).

*Figure 3:
Challenges Differ by Vertical*



Source: RSR Research, July 2008

Big box retailers are more concerned than their peers by lengthening supply chains, but have also been later to that game than most other verticals. General merchandise and apparel (GMA) retailers, along with small box retailers, put more emphasis on customer service requirements than peers.

SKU PROLIFERATION AND LOCALIZATION LOOM LARGE

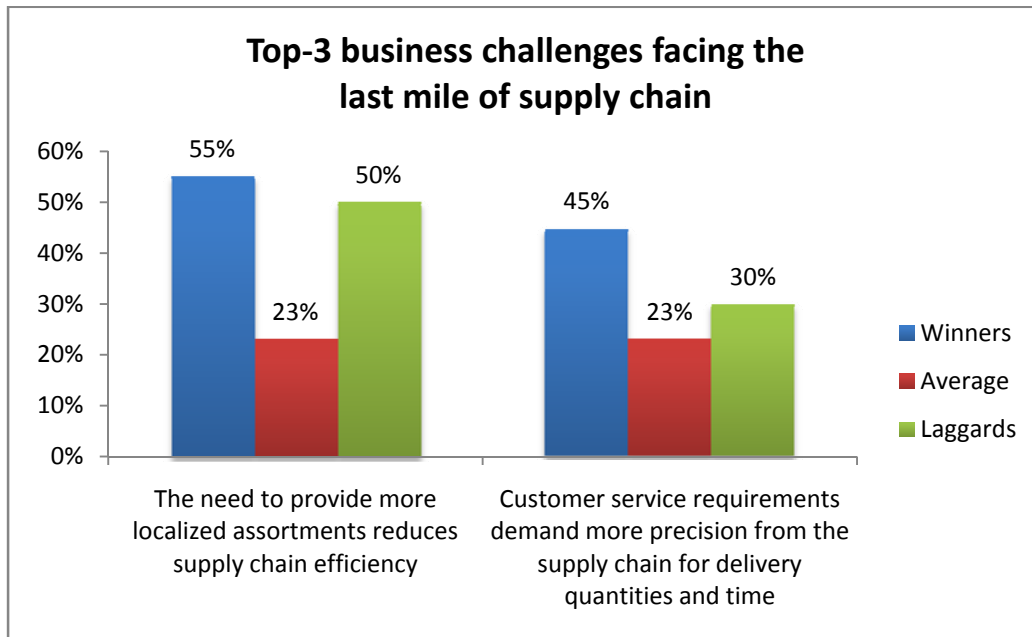
Localization of assortment and SKU proliferation – relatively new problems in the grand scheme of supply chain – are rapidly climbing the list as issues, having tied for second place among survey respondents.

LOCALIZATION

Assortment localization has long been the focus area for the Merchandising department– focusing on product attributes, assortment optimization, and other analytics to support planning at a granular level that is both more relevant to local customers and a more efficient utilization of the investment in inventory. But **localization has real supply chain implications, and the pressure is starting to be felt**. Any capability that increases the granularity in planning will need to be accompanied by an increase in the capability of the supply chain to deliver accordingly. Up until now, the problem has lived at a distant “yes that will impact us someday” on the supply chain side, but as more and more retailers add localization as a merchandise strategy, it appears that the issue is finally coming home to roost in supply chain.

Winners are even more concerned about the challenge localized assortments poses for supply chain than their peers – not surprising since they have been contemplating this capability for longer than most others (Figure 4).¹

*Figure 4:
Winners Give Higher Priority to Localization Challenges in Supply Chain*



Source: RSR Research, July 2008

But while both winners and laggards are focused on localization, they seem to do so for different reasons. Winners are focused on localization for the customer service benefits and differentiation that it provides, with 45% citing customer service requirements as a top-3 challenge. Laggards also give localization a high priority, but as is typical for our surveys, they appear to be driven more by a “me too” strategy, than because of a customer focus.

SKU PROLIFERATION

¹ [Customer-Centric Merchandising: Driving Differentiation Through Localization – Benchmark 2008](#), by Paula Rosenblum and Steve Rowen, © 2008 RSR Research LLC. This entire report addresses the topic of localization and winners’ best practices.

On the SKU proliferation side, while it is understandable that FMCG retailers rate this issue as their top challenge by far (82%), across the small and big box specialty verticals the issue is also among the top three. In many cases, the pain of SKU proliferation is self-inflicted, which means it will surely continue. Retailers continue to search for ways to differentiate themselves, and custom pack sizes, exclusives, and “limited run” merchandise – strategies that increase the number of SKUs a retailer has to manage – are all ways to drive that differentiation while minimizing price competition.

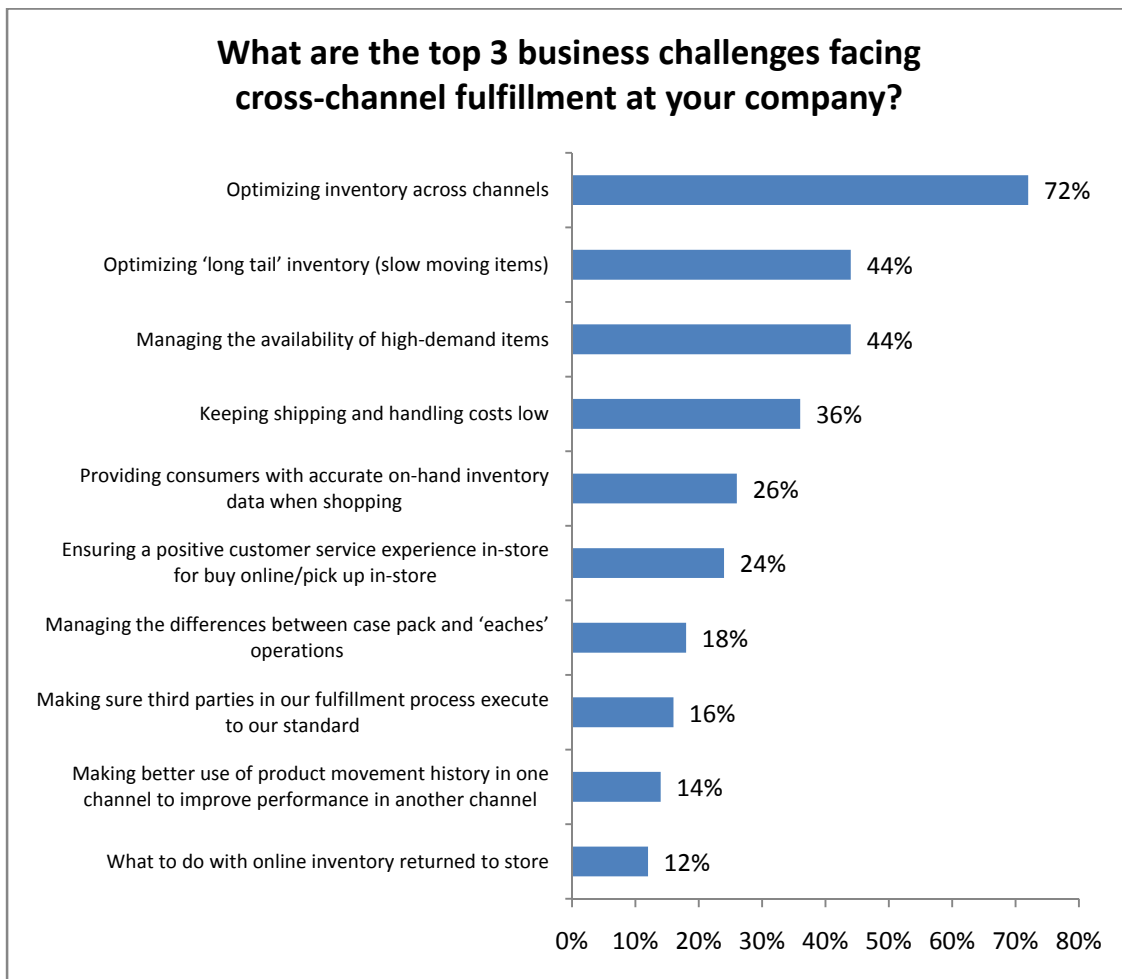
Localization and SKU proliferation turn out to be something of a “double whammy” because together they squeeze retailers closer towards “eaches” fulfillment to stores, which is far less efficient than shipping case packs. Localization could be managed, if the SKU variety was small enough, and similarly, SKU proliferation could be managed if the assortment was standard across stores – but combine the two together, and supply chains face enormous pressure to give back many of the hard-fought gains they have achieved through greater efficiencies.

CROSS-CHANNEL FULFILLMENT HAS ITS OWN ISSUES

RSR’s research on multi-channel strategies has shown that cross-channel customer service is a very high priority for retailers. That urgency has not found its way to the supply chain: only 34% of respondents rated it a top-3 business challenge.

However, part of the lack of urgency is driven by a relatively large number of respondents who do not have multiple channels – a clear majority of FMCG retailers, and most of restaurant/hospitality retailers reported that they do not. Looking at those respondents who do operate multiple channels reveals that cross-channel fulfillment has its own set of challenges within supply chain (Figure 5).

*Figure 5:
Retailers Want To Get Channel Inventory Right The First Time*



Source: RSR Research, July 2008

Optimizing inventory among channels emerged as a clear priority for cross-channel fulfillment. However, issues that revolved around optimizing inventory once it is in a particular channel ranked much lower – including making better use of inventory in one channel to improve a product’s performance in another channel, and managing cross-channel returns. It appears that survey respondents are much more interested in getting the right amount of inventory to the right channel the first time, rather than having the flexibility to shift inventory around once it has made it into a channel’s allocation. This trend resurfaces in other sections of this report.

Winners are slightly less likely to have a larger assortment available online than laggards – given that winning retailers tend to operate more channels and have done that for longer than their peers, it was surprising that they have been slower to build out the online assortment (Figure 6).²

*Figure 6:
Winners Have Not Rushed Online Inventory*



Source: RSR Research, July 2008

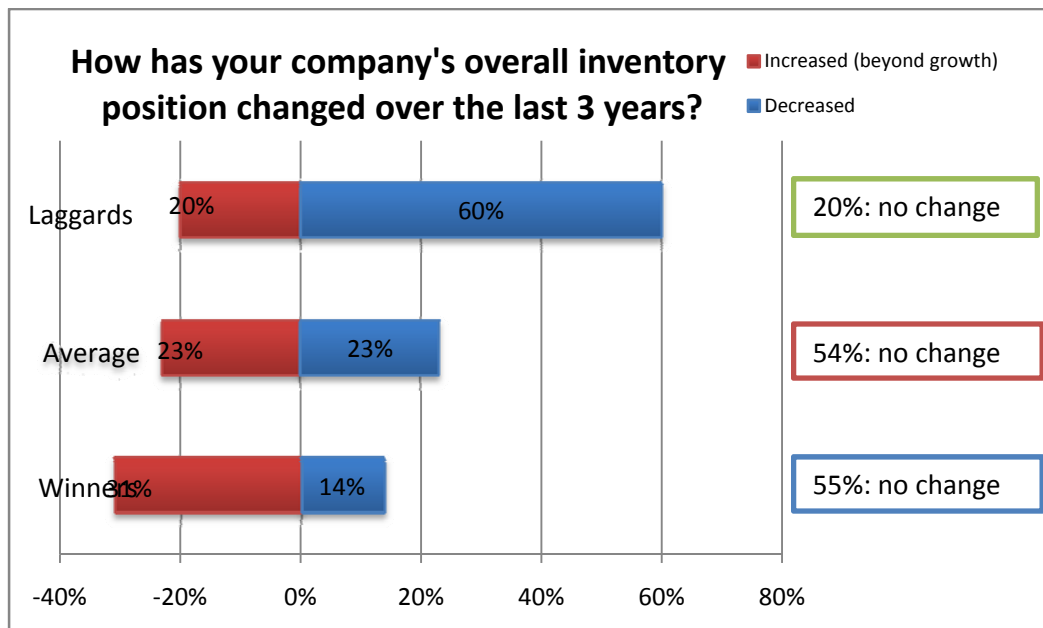
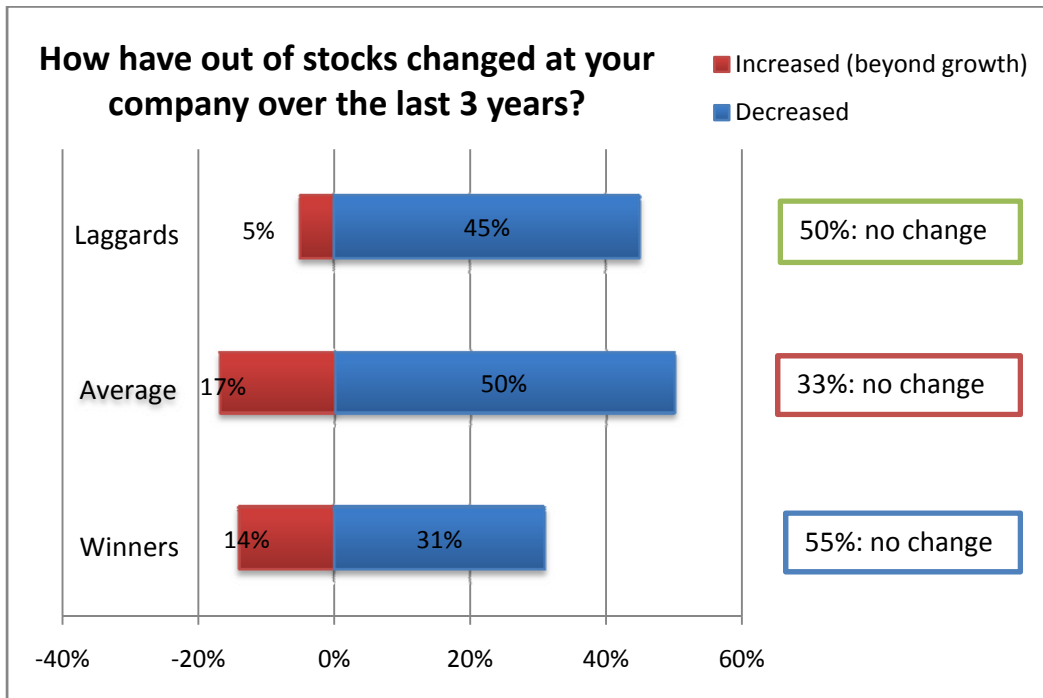
While laggards have rushed to put a larger assortment online – an easy strategy for keeping online growth high – they have very different priorities when it comes to cross-channel fulfillment challenges. Less concerned with optimizing inventory (57% vs. 72% overall), laggards are more concerned about what to do with all those long-tail, slow-moving items they've added to the assortment (57% vs. 41% overall), and are challenged to provide basic inventory availability information (36% vs. 26% overall). Typical for the differences we see between winners and laggards, **winners have waited to figure out the processes to support multi-channel capabilities before scaling them**, whereas laggards tend to rush out at scale without the strong processes that make scale possible.

LAGGARDS MAKE A COMEBACK JUST AS WINNERS CHANGE THE GAME

Winners may operate a more efficient supply chain overall, but laggards are catching up by making inroads in improving both stockouts and inventory levels over and above their peers (Figure 7).

² [Finding the Integrated Multi-Channel Retailer 2008](#)- Benchmark Report, by Brian Kilcourse, © 2008 RSR Research LLC.

Figure 7:
Laggards Post Bigger Supply Chain Improvements



Source: RSR Research, July 2008

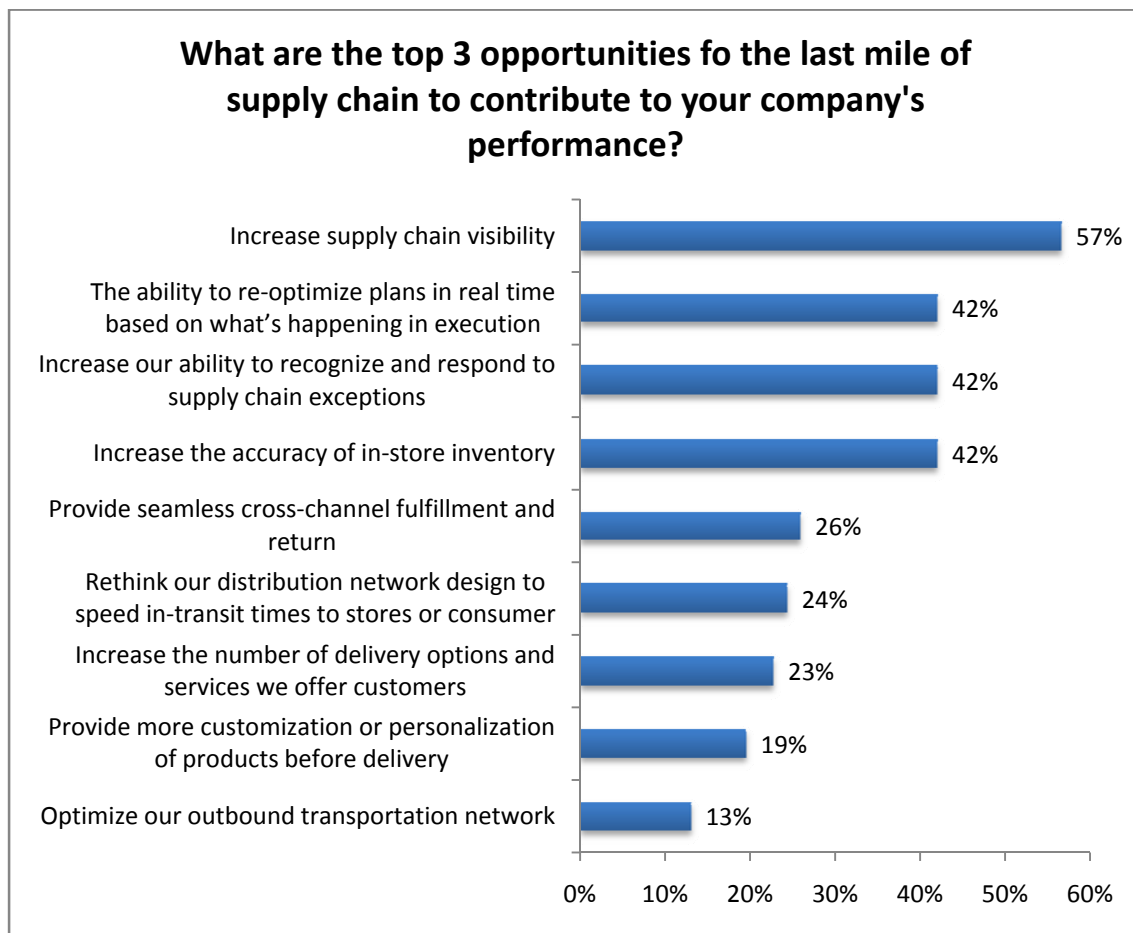
The problem is that laggards are catching up just as winners are changing the game. Rather than try to squeeze additional efficiencies out of supply chain, winners are actually willing to give back some of the efficiencies they've already captured – as long as it improves customer service.

SECTION III: OPPORTUNITIES

I CAN'T SEE ANYTHING!

Survey respondents rated supply chain visibility the biggest opportunity for improving their supply chain's performance (Figure 8). It not only topped the list, two other capabilities related to supply chain visibility rose to a 3-way tie for second place (the ability to re-optimize plans in real time based on what's happening in execution and the ability to recognize and respond to supply chain exceptions), and the third opportunity in the tie, increasing in-store inventory accuracy, also has a strong visibility component.

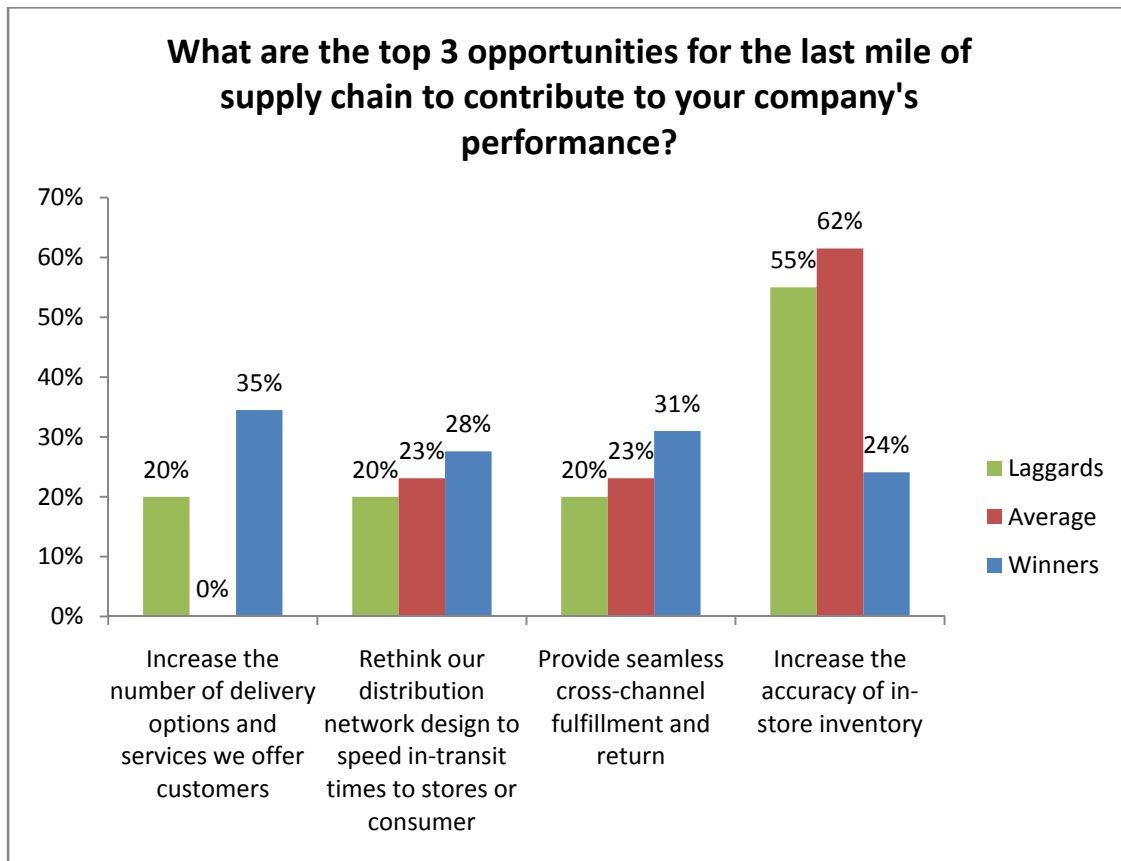
*Figure 8:
Supply Chain Visibility Tops Supply Chain Opportunities*



Source: RSR Research, July 2008

Looking at the results by retailer performance, clear differences emerge (Figure 9). Most striking, only 24% of winners rated improving in-store inventory accuracy a priority – mostly because they have already done significant work in that area, as we'll see later.

Figure 9:
Winners See Customer Service Opportunities for Supply Chain



Source: RSR Research, July 2008

More subtle, but still important – winners put slightly more stress on opportunities that are customer-focused. Thirty-five percent of winners see increasing delivery options and services for consumers as an important opportunity, compared to 20% of laggards and no average performers. Another 28% see opportunities in redesigning the distribution network to reduce delivery times (vs. 20% of laggards) and 31% of winners rate seamless cross-channel fulfillment and return an opportunity, again vs. only 20% of laggards.

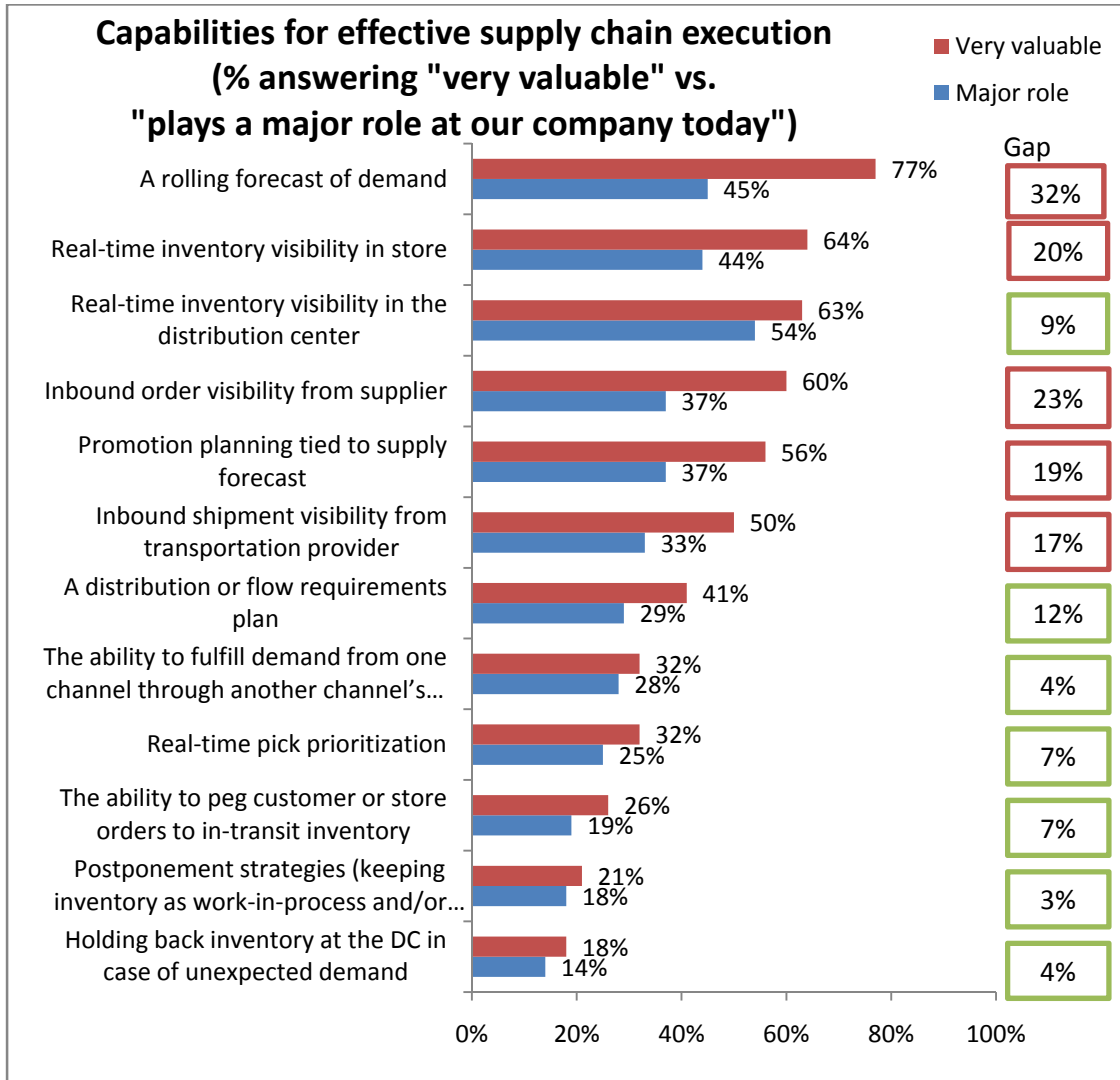
WHAT DOES VISIBILITY REALLY MEAN?

Supply chain visibility is an admirable goal for retailers. As the players pretty much at the tail end of the supply chain, they are the most vulnerable to the “bullwhip effect” – the most likely to get stuck with either too much inventory or out-of-stocks due to the lack of visibility into upstream supply for retailers, and the lack of visibility into downstream demand for suppliers. The only problem with trying to achieve “supply chain visibility” is that the term can mean anything from simply better communication between supply chain partners all the way to very structured software solutions that do everything from identify exceptions to re-optimization of plans in order to accommodate changing supply chain conditions.

Survey respondents helped define what they meant by supply chain visibility, by providing insight into supply chain capabilities they have, and the supply chain capabilities that they feel contribute or have the

most potential to contribute value. The gaps between what they feel is important to supply chain success – and how far they have managed to go in implementing these valued capabilities – is revealing (Figure 10).

Figure 10:
Visibility Means More Than Just Seeing Clearly



Source: RSR Research, July 2008

The top five biggest gaps exist around capabilities that support supply chain visibility – a rolling forecast of demand (visibility into what is needed), real-time inventory visibility in stores, inbound order visibility from suppliers, promotion planning tied to supply forecast, and inbound shipment visibility from transportation providers. These also happen to be five of the top six most-valued capabilities.

Winners were more likely to have inbound order and shipment visibility (52% reported that order visibility played a “major role” vs. 37% overall, and 44% of winners vs. 33% overall reported the same for shipment visibility) – so it was surprising that just as many winners ranked supply chain visibility at the top of list of supply chain opportunities. However, winners were also more likely to value opportunities to re-optimize

the plan based on what's happening in execution (48% vs. 42% overall). When examining supply chain visibility in that context, it's clear that **winners view the opportunity not in terms of what they can merely see, but what they can do with the information they have once they have it.**

THE FORECAST STOPS HERE

Survey respondents identified a rolling forecast of demand as having the biggest gap between the value it can contribute and the use they make of that capability today, with 77% saying it is very valuable, and only 45% saying it plays a major role.

It appears from respondents' adoption that the process for incorporating a demand forecast into execution has yet to be perfected. While 58% of laggards report that a forecast plays a major role vs. 45% overall, laggards have a distressing tendency to adopt the more complicated or sophisticated capabilities first, and worry later about what kind of foundation needs to be in place to make those capabilities successful. Their relatively high level of adoption of demand forecasts seems to fall into the same pattern.

There is other evidence that the forecast doesn't make it very far into execution. Only 29% of respondents report that distribution requirement plans play a major role, and only 35% of respondents tie a promotion plan to availability of supply – both natural next steps for making use of the information that a demand forecast supplies.

Instead, survey respondents are much more focused on inbound visibility – being able to match up what they were expecting to need from the forecast against what is actually on the way. Consistent with supply chain opportunities, respondents placed less value on capabilities that would give them the flexibility to respond to supply chain issues once it hits the distribution center – the whole bottom half of the list of valued capabilities is filled with things like real-time pick prioritization, pegging orders to in-transit inventory, and postponement strategies.

This is a curious contradiction – while survey respondents place a high priority on getting early visibility into when what is inbound might not match up to what is expected, there is low interest in developing capabilities that would help them cope once the product arrives – when they actually have the most control over what happens to that product. It also pushes responsibility for responding to unexpected demand further upstream – to the supply chain partners who are most removed from the immediacy of the demand signal.

Where does this contradiction come from? There are two likely culprits. One is the disconnect between “merchandising” – which is very much inbound-focused, and “supply chain”, the organization that is supposed to get product to the right places, but has the least amount of control over what is going to arrive in any given month or week. When planners run – and fund – the supply chain, the supply chain is going to be very planning focused. The other is even more straightforward – the end-users of forecast data don't trust what the forecast tells them. They know it will be inaccurate, and they know that it can't maintain any semblance of accuracy if you try to decompose it to store-level forecasts – what they need in order to plan fulfillment. So they ignore it.

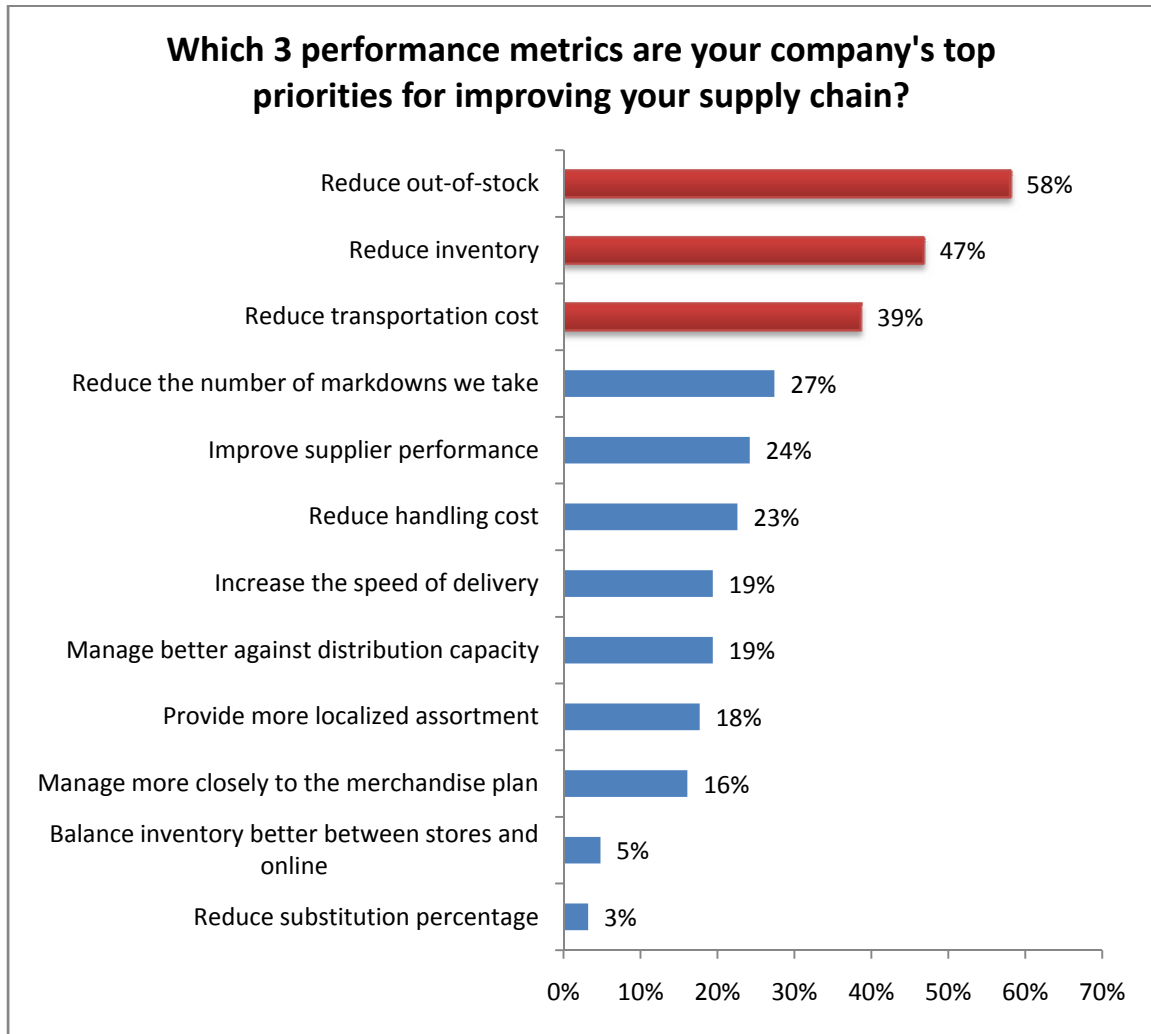
CUSTOMER SERVICE, NOT EFFICIENCY, IS THE BIG OPPORTUNITY

In engineering, the “quality triangle” refers to the trade-off between cost, time, and quality – you can maximize any two, but it will always be at the expense of the third. In supply chain, the quality triangle consists of customer service levels (avoiding out-of-stocks), inventory levels, and transportation costs. For

example, you can minimize inventory levels and transportation costs, but it will come at the expense of customer service levels. Alternatively, if you want to maximize customer service levels, you're going to have to give up on either inventory levels or transportation costs. With soaring fuel prices, there are not a lot of options for supply chains to minimize transportation costs today – leaving only inventory and service levels within retailer control.

Survey respondents recognize the challenge of balancing this quality triangle, as their priorities for the metrics they are looking to control in order to improve supply chain performance show (Figure 11).

*Figure 11:
Retailers Struggle to Balance the Supply Chain Quality Triangle*



Source: RSR Research, July 2008

Consistent with other RSR research, which shows that retailers overall are more focused on the customer experience, of the three in the supply chain quality triangle, out-of-stocks tops the list by far. Winners take this one step further. In addition to making out-of-stocks a top priority, they are also more likely than their peers to be focused on improving supplier performance (35% vs. 24% overall) and on increasing speed of delivery (28% vs. 19% overall) – two important metrics that are important if you want to be a

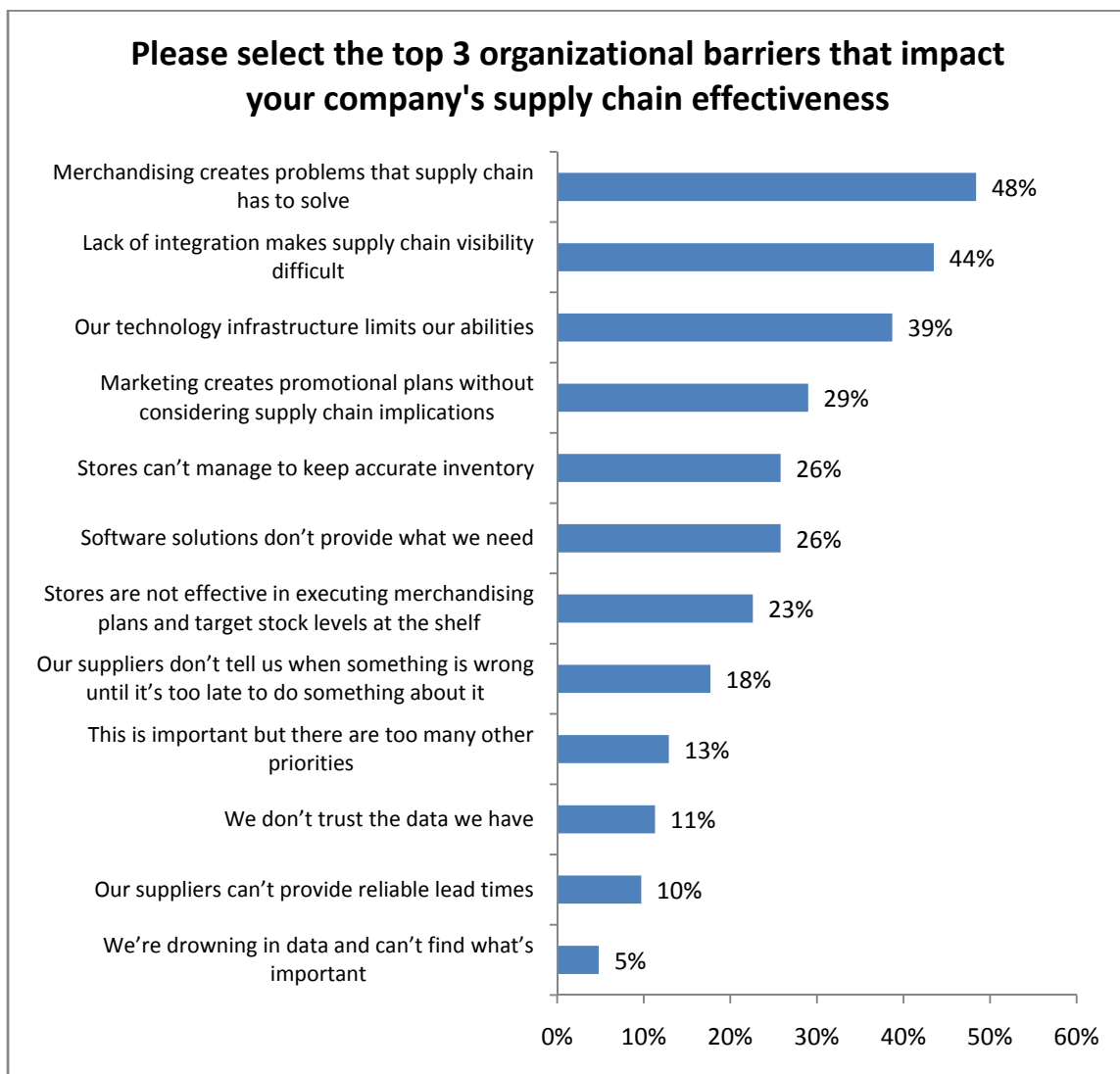
more reliable service provider to consumers. And while no one is excited at the prospect of adding inventory to the supply chain, **winners are more willing to sacrifice some supply chain efficiency if it means improving customer service.**

SECTION IV: ORGANIZATIONAL INHIBITORS

THE BLAME GAME

Supply chain, like store operations, suffers from too many fingers in the pie – between merchandising, marketing, and channel managers, retail supply chain organizations more often than not operate in “reactive” mode, with little control over what, where, and when product is going to arrive. This fractious relationship is reflected in the organizational inhibitors identified by survey respondents. Of the top five inhibitors, three place the blame outside of supply chain: on Merchandising first and foremost, but also on Marketing and Store Operations (Figure 12).

*Figure 12:
Everyone Else Makes Supply Chain Hard*



Source: RSR Research, July 2008

The conflict with Merchandising comes from a peculiarity of retail. It is one of few industries that splits its supply chain between two distinct functions. There is already an inherent cultural conflict between people responsible for planning and people responsible for execution, but housing these people into two distinct functions only exacerbates the issue. Many retailers are moving to incorporate supply chain costs and impacts into performance metrics for merchandise buyers, but in many cases are running into issues where under-investment in supply chain has made it difficult to identify those costs at a level meaningful to say, a women's tops buyer or a frozen dinners category manager.

With Marketing, the conflict stems primarily from promotions. As targeted promotions become an increasingly important tool in the Marketing toolbox, their use wreaks havoc on the supply chain. The forecast error on promoted products is usually 3-10x the forecast error of a non-promoted product, making it much more difficult to keep promoted products in stock.³ While interest in promotion optimization tools is a big priority for retailers, few have the ability to tie promotions to availability of supply – a huge customer service risk, and one that is extremely short-sighted (what could be worse than spending money to invite a consumer into your store, only to not have the product?).⁴

THE TECHNOLOGY BARRIER

Technology issues also cannot be ignored – with lack of integration and technology infrastructure constraints coming in at number two and three on the list of internal barriers, significant improvements in supply chain technology are going to be needed to shift the strategy from “efficiency” to “customer-centric”.

The problem lies, once again, in silos. Just as planning and execution functions are separate, so are the systems that support them. Throw in third parties that play crucial supply chain roles, and the integration issues alone are overwhelming. In some verticals, this issue is so big that whole industries have arisen to address it – Global Data Synchronization and the efforts around universal product codes in grocery is but one example.

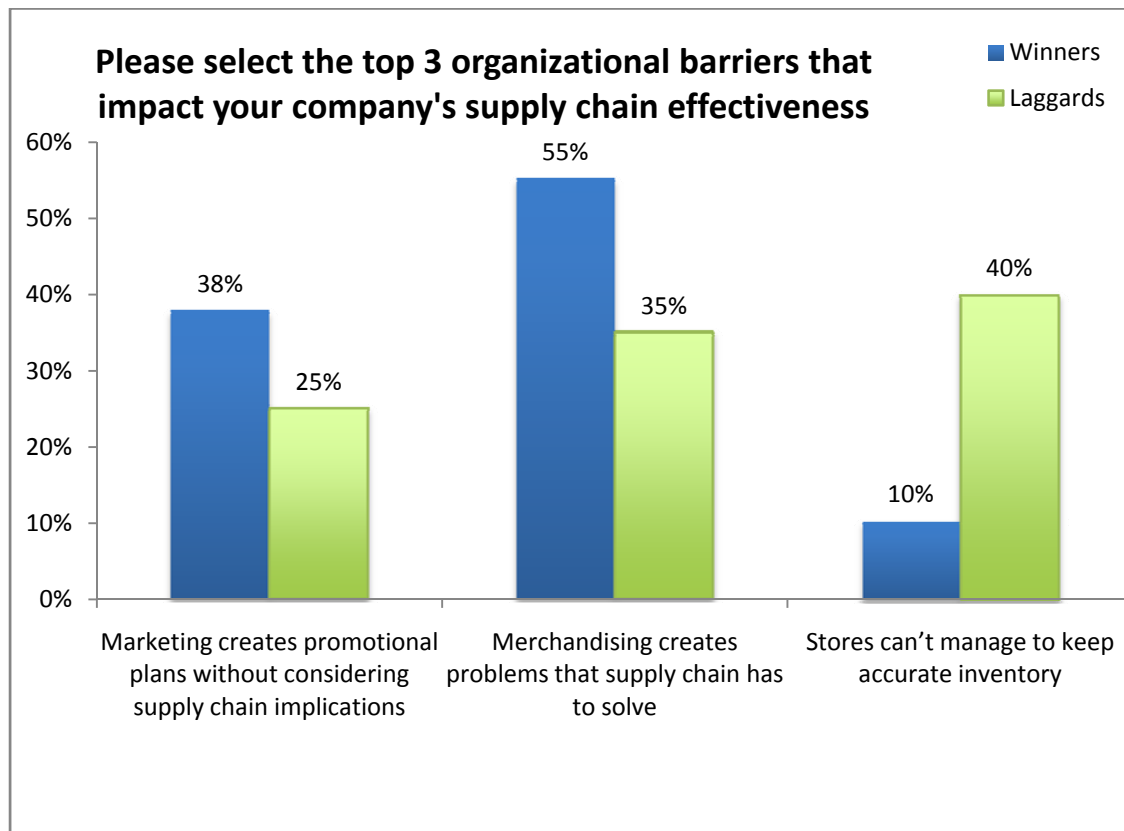
THE DIFFERENCE IS IN THE STORE

Usually in our studies, retail winners rate organizational or cultural conflicts as lower priority issues than their peers – they tend to be better at cross-function communication and at getting different organizations to work together effectively against a “bigger-picture” challenge. For supply chain, the story is more complicated. As winners in particular have started making more demands of their supply chains, they are only now starting to realize the impact of cultural issues on solving supply chain challenges (Figure 13).

³ One retailer we spoke with described their promotion stocking strategy: their target was to have at least 12 weeks of “normal demand” inventory in stores at least three weeks prior to an item being featured in a circular. This goal was in place only to make sure that they would have product to sell on the day the circular hit consumer homes – not to make sure that inventory stayed available throughout the week an item was featured (if this happened, it was considered an extraordinary circumstance – or a promotional failure). If, for whatever reason, marketing decided they were going to feature a different item in the middle of this stock build-up, stores ended up completely over-stocked on the original item with little recourse for getting rid of it other than to mark it down.

⁴ [*The Next Generation of Pricing 2008- Benchmark Report*](#), by Nikki Baird, © 2008 RSR Research LLC.

Figure 13:
Winners Begin to Tackle Cultural Challenges



Source: RSR Research, July 2008

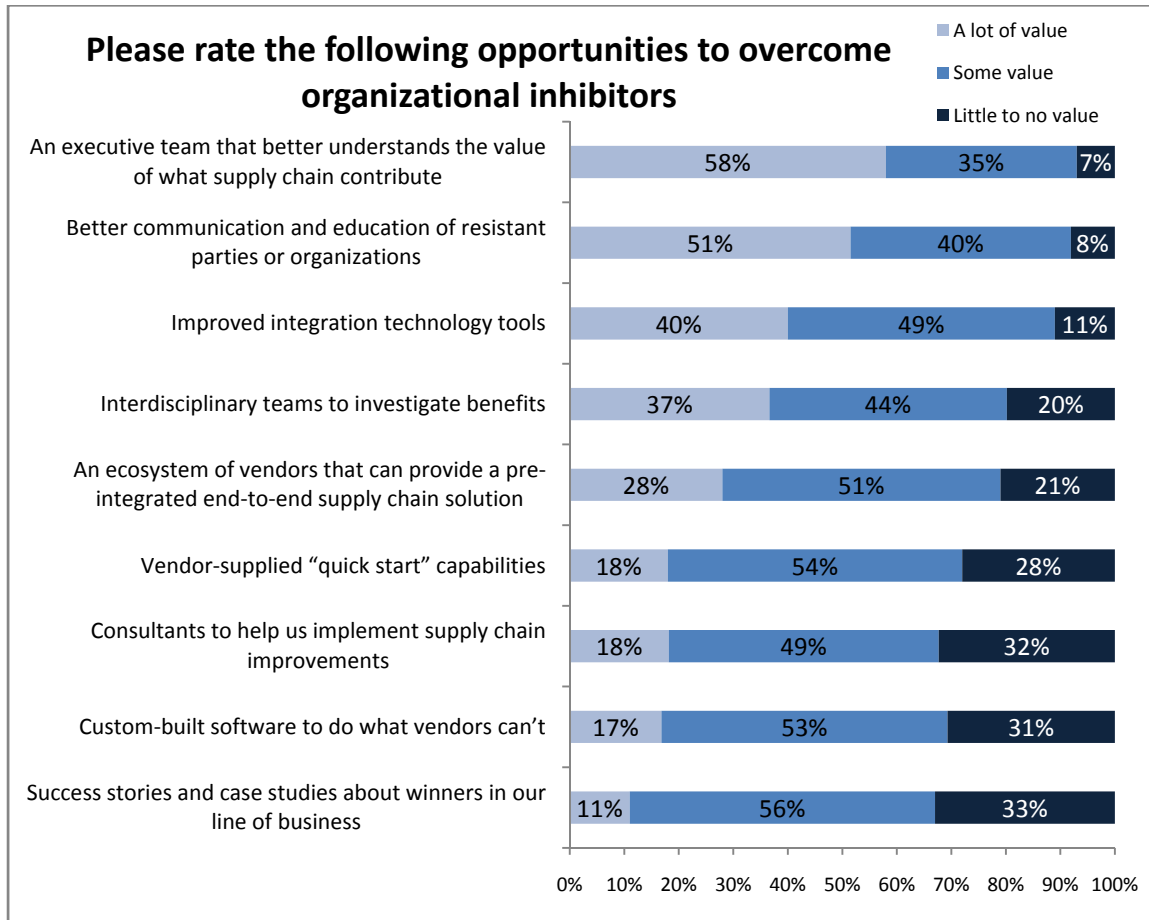
The one very notable exception for winners is their faith in their ability to execute in-store – only 10% said that stores' inventory accuracy was an issue, and while 23% of overall respondents said stores' shelf-level execution was lacking, only 17% of winners reported the same.

Laggards, on the other hand, are much more likely to feel the supply chain pain caused by store challenges – in addition to the 40% who said that their stores can't manage to keep accurate inventory, laggards were more likely to say they did not trust their data (20% vs. 11% overall), and were least likely to say that in-store inventory visibility played a major role in their supply chain strategy (36% vs. 48% of winners and 42% overall).

OVERCOMING THE BARRIERS

With a cross-functional problem like supply chain, retailers need executive support at a high enough level to cross-functional boundaries in order to make change happen. So it's not surprising that executive support and better communication are the biggest opportunities to overcome organizational inhibitors to successful supply chain investments (Figure 14).

Figure 14:
Let's Talk About Supply Chain



Source: RSR Research, July 2008

Number three on the list reflects the technical challenges cited above – and given all of the third parties that contribute to any given retailer’s supply chain today, integration is by far the biggest technical issue. However, while only 17% of respondents said that they see custom-built software as a way to overcome their challenges, it’s important to note that 41% of winners (vs. 26% overall) reported that one of their top internal barriers is that software solutions don’t provide what they need.

THE PROBLEM IS KNOWN; HOW TO SOLVE IT IS HARD

Low on the list of opportunities to overcome barriers are things like consultants and success stories and case studies. This prioritization is in sharp contrast to how respondents rated them in the context of pricing solutions. Compared to supply chain solutions, price optimization is a relatively “young” solution space, where the emphasis is on understanding the math and science and making sure that it can be applied effectively to a retailer’s unique situation.

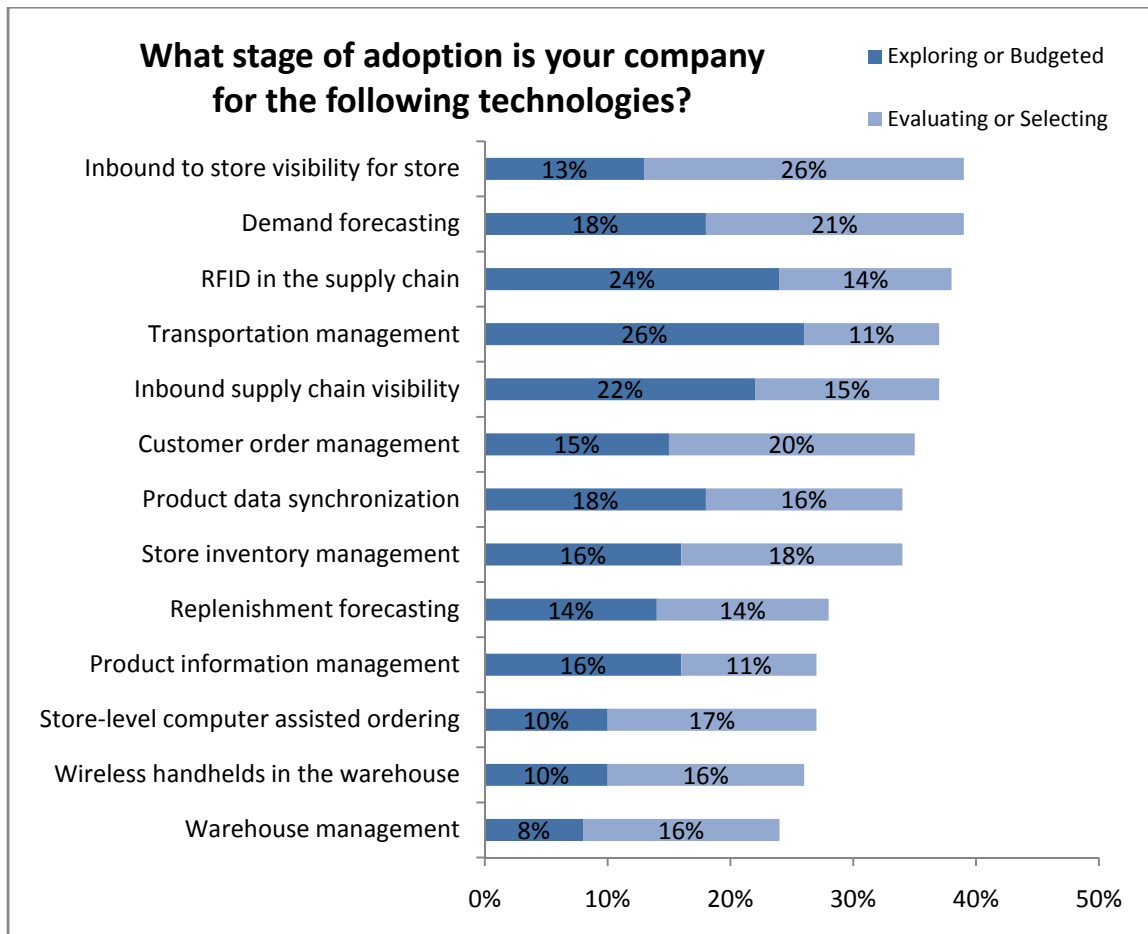
With supply chain, the math is well-known, and while algorithms get more sophisticated every year, the frameworks for applying those algorithms are also fairly mature. The issues with creating high-performing supply chains revolve around implementation and integration, not on proving the science.

SECTION V: TECHNOLOGY ENABLERS

VISIBILITY RULES, REPLENISHMENT SURPRISES

In terms of planned adoption, solutions related to visibility were high priorities – inbound to store visibility for stores, RFID, and inbound supply chain visibility rounded out the three of the top five, along with demand forecasting and transportation management (Figure 15).

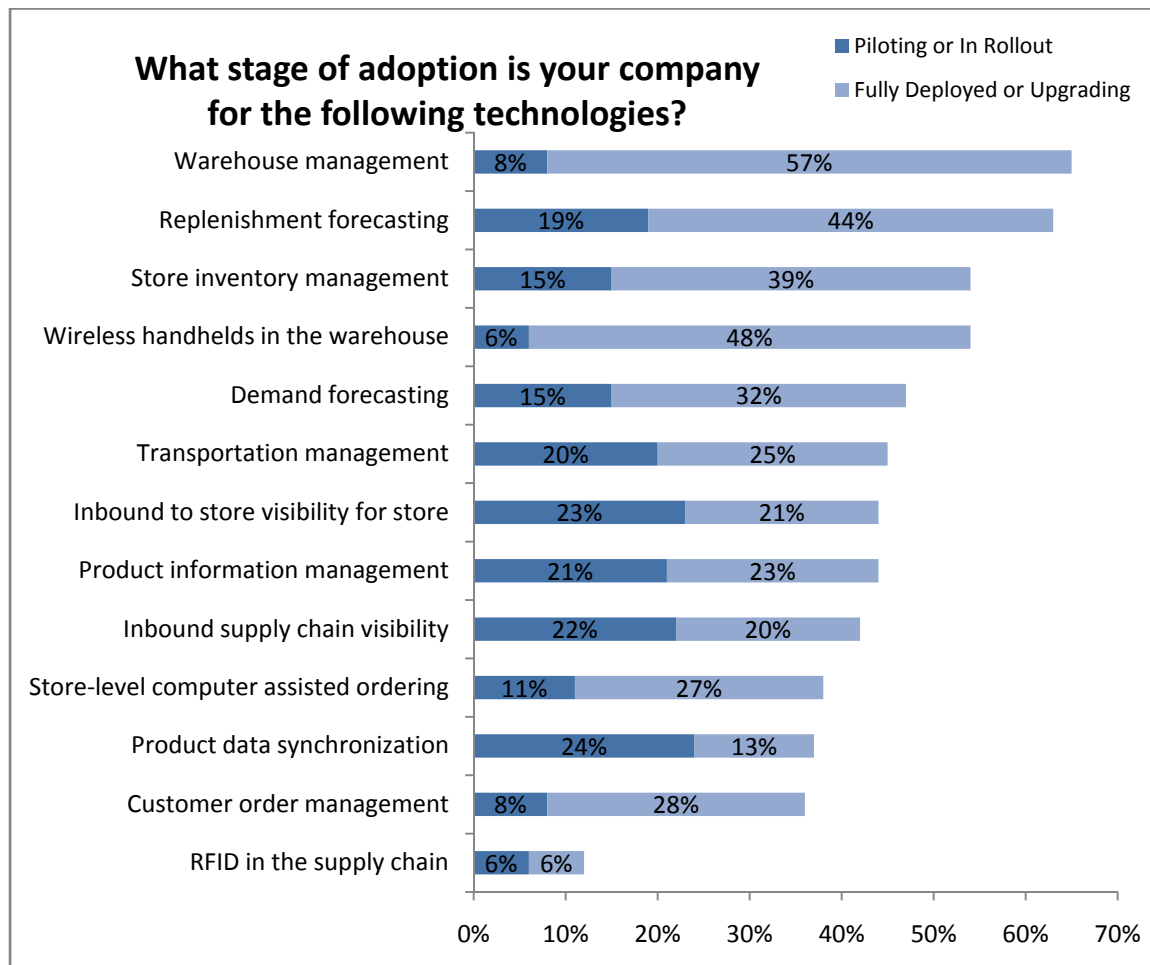
*Figure 15:
Technology Investments Bring Light to the End of the Tunnel*



Source: RSR Research, July 2008

Warehouse management and wireless handhelds make the bottom of the list in terms of planned adoption because they are already highly adopted – 57% report WMS as fully deployed, and 48% report the same for handhelds in the warehouse (Figure 16).

Figure 16:
Some Technology Adoption Appears Aspirational



Source: RSR Research, July 2008

It was surprising to see 44% of respondents report that they have fully deployed replenishment forecasting, and another 39% reported that store inventory management solutions are also fully deployed. Anecdotally, there is evidence of a significant interest in these two, which go somewhat hand-in-hand, but fully deployed seems a stretch. It seems more likely that there is an awful lot of shelfware out there.

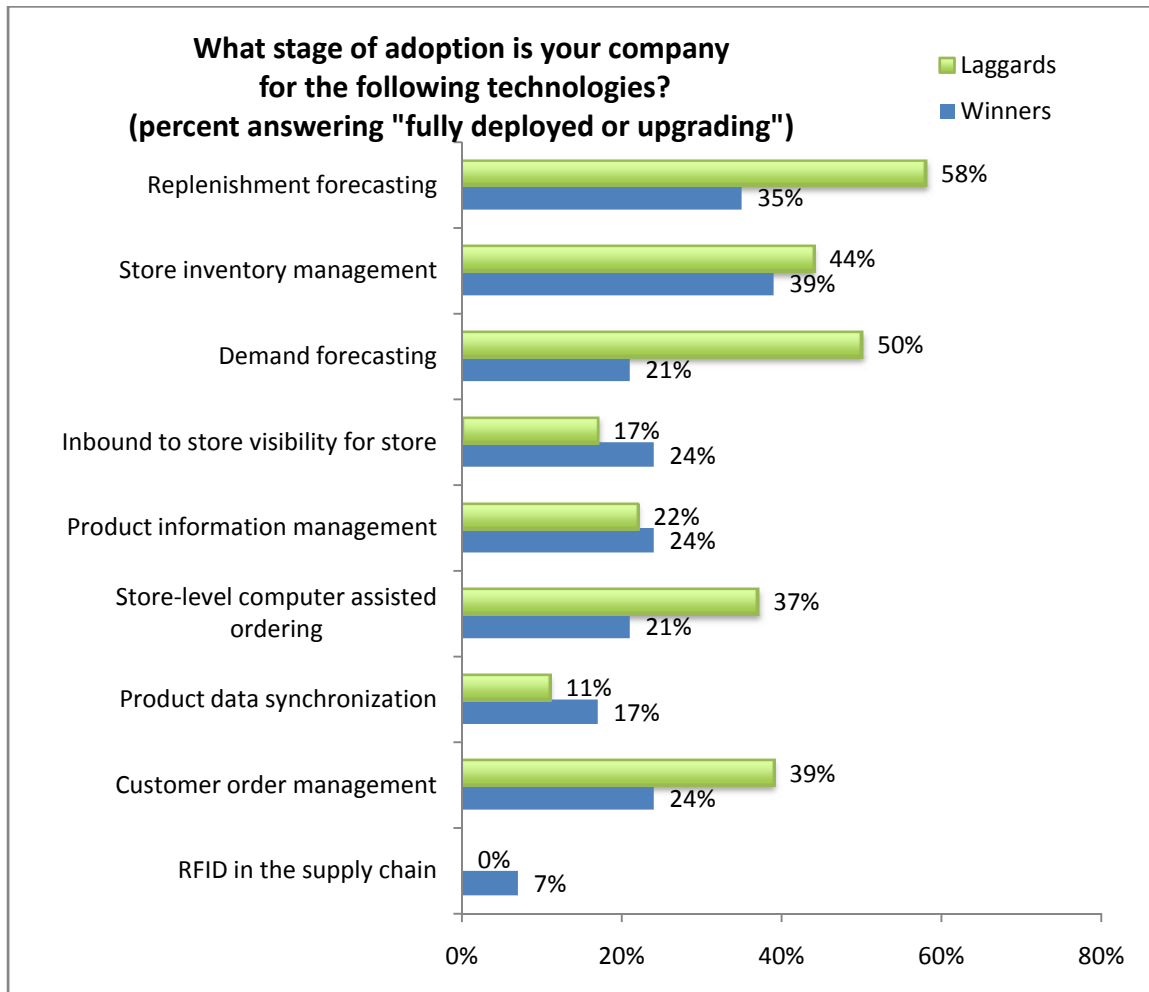
WINNERS WAIT...

As RSR found with price optimization solutions, winners tend to wait to deploy until they have foundations in place: particularly the process and data foundations that are necessary to ensure that optimization or forecasting implementations are successful.⁵ Laggards, on the other hand, run out and deploy a lot of technology and then get stuck trying to figure out how to make it work. The same is true for supply chain technology investments.

⁵ [The Next Generation of Pricing 2008](#). Benchmark Report, by Nikki Baird.

Winners have focused their efforts slightly more in the direction of foundational solutions like product data synchronization, product information management, and visibility tools like inbound visibility to stores and RFID (though overall adoption of RFID remains significantly low) (Figure 17).

*Figure 17:
Winners Build Foundations First*



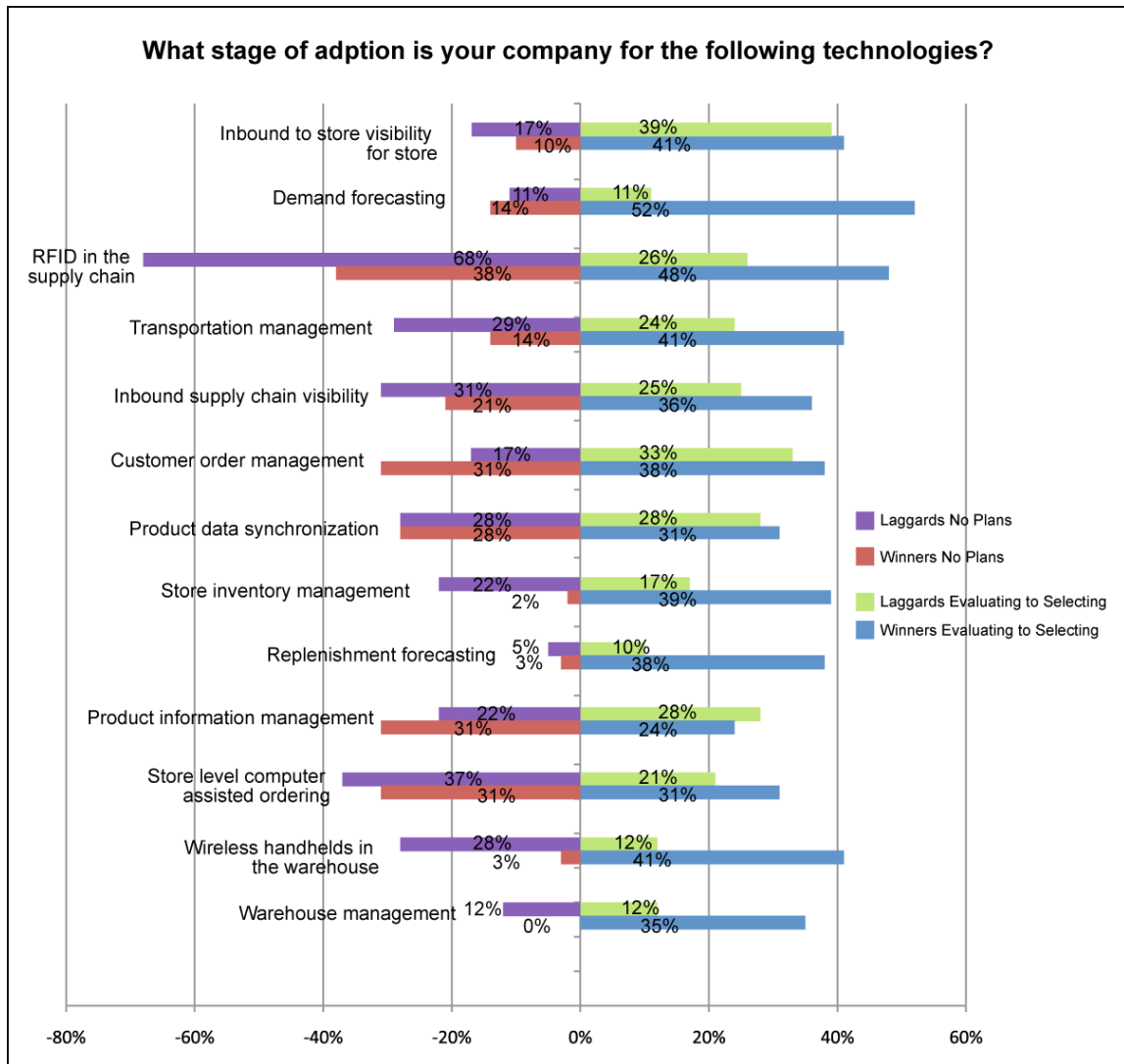
Source: RSR Research, July 2008

Laggards, as noted above, report significantly higher levels of adoption of sophisticated optimization and forecasting tools. But when their adoption is compared to their business challenges, it appears that a lot of their investments are languishing. For example, while 44% report that they have store inventory management fully deployed, 40% also reported that accurate store inventory was a top-3 organizational inhibitor to supply chain success.

... BUT THE TIME TO ACT IS NEAR

Winners will certainly not lag behind other performers in supply chain capabilities for long – in fact, they already have a pretty full list of supply chain enhancements, and overall seek to address gaps in supply chain capabilities with a lot more commitment than their counterparts (Figure 18).

Figure 18:
Winners Have An Aggressive Supply Chain Agenda



SECTION VI: BOOTSTRAP RECOMMENDATIONS

CROSS THE SUPPLY CHAIN CHASM

Because supply chain challenges have been around for so long, it would seem natural for supply chain execution capabilities to be more sophisticated than they are – especially in retail, the end-point in the supply chain. But the bifurcated nature of merchandising and supply chain in retail perpetuates issues that other industry groups have at least started to tackle: particularly between planning and execution.

However, the news isn't all bad – three major trends are forcing retailers to re-evaluation this gap:

Localization of Assortment. From RSR's research on merchandising, this appears to be about the hottest topic in retail. It has already started introducing enormous pressures on merchandise planning, as retailers struggle to incorporate local flavor into centralized assortment decisions. Within supply chain organizations, there has long been an understanding that localized assortments will mean some big decisions – and potentially some significant shifts in cost structure – as supply chains move closer to “eaches” delivery to stores. But that awareness has not filtered out to the larger enterprise – until now.

Price Optimization. Hand in hand with localized assortments are localized prices, but as RSR found in our research on pricing, if you don't take inventory availability into account – both current and planned availability – you're selling yourself short. Literally. Up until now, price optimization implementations have been fairly stand-alone, but the trend for the future is to integrate these solutions more closely with other enterprise systems – including tapping into inventory. This means that merchandisers will be forced to evaluate a pricing decision in the context of supply – forcing a closer relationship with their supply chain counterparts.

Promotion Optimization. Consistently across the last 12 months, promotion optimization has been a top priority for retailers. Given that intent, the coordination of promotions across merchandising, marketing, supply chain, and store operations will only become a bigger and bigger issue. And it's an issue that drives the most conflict internally, because so many parties are involved. With forecast errors conservatively at 30% or more on promoted products, many supply chain managers have simply thrown their hands up, leaving it to the planners to figure out. On the store side, frustration abounds – between supply chain managers who have to accommodate shifting priorities and timelines, marketers who are just trying to drive some sales, and store operations managers who find themselves defending against poor execution at the shelf – a failing that could be driven by anything from the store employee simply didn't do it, to Supply Chain or Marketing not delivering product or information needed to execute.

At this point, you may be asking yourself, “But why isn't multi-channel on this list?” According to survey respondents, it just wasn't a priority – for supply chain. Within retailers' overall strategies, figuring out multi-channel customer experiences and service is a huge priority, as our own research on the topic has shown. But respondents do not appear to be looking to supply chain to stop it. This isn't an issue of cross-channel inventory fulfillment, though availability and transparency are certainly desired. This is about using price and promotion to manage down inventory across channels that received an “optimized” amount of inventory to begin with. Apparently, few retailers are interested in moving inventory around once it hits the retail distribution network. Whether this is because they believe the costs of doing so are too high, or because they simply don't have the capabilities to manage inventory movement across distribution lanes, remains to be seen.

CROSSING IS GREAT, BUT CLOSING THE GAP IS BETTER

The reality is if you want to differentiate from your competition, you must get all of supply chain working together – and that means both planning and execution. Winners have done a lot from a process perspective to squeeze efficiencies out of the supply chain – you can't compete against the largest retailers in the world if you don't have your supply chain house in order. But true to their customer-centric focus, winners have moved on. Here's what they're doing now:⁶

Identifying customer service opportunities that supply chain can deliver. When dealing with consumers it's all about choice and more choice – in this case, choice in how consumers get their products. This isn't just cross-channel choice – it's about exposing the cost/time trade-offs to consumers and letting them choose the best delivery method for their personal circumstances, which can also be simply more delivery options within a single channel.

Securing supply chain foundations. The basics of execution have to be there before you can move on to forecasting and optimization. Winners are ready to move on to these more sophisticated solutions, but they are starting with a far cleaner slate than laggards.

Putting a stop to the blame game. Winners are finally catching on to the depth of the conflict that exists between planning and execution. From RSR's anecdotal experience, more and more retailers are considering rewarding or penalizing merchandiser performance for savings or costs they introduce into the supply chain through their buying behavior. The quickest route to that link is actually through promotions – already a high priority to get right anyway. If you can get the promotions process running smoothly across marketing, merchandising, supply chain, and store operations, then it becomes a base of cooperation and collaboration that you can use to expand from. Plus, it's a big customer service win too.

IT LIVES!

The customer-centric supply chain is not an oxymoron, and retail winners, true to their corporate customer-centric strategies, are looking at their supply chain organizations in a new light – and marshalling their supply chain investments accordingly. Only question remains to be answered: how far will retailers need to go in creating personalized experiences for customers (communications, products, prices, and service and delivery options) before the cost of enabling these personalized experiences no longer offsets the revenue benefits they provide? No matter the answer, it's clear that tomorrow's retail supply chain will look significantly different than the one in place today.

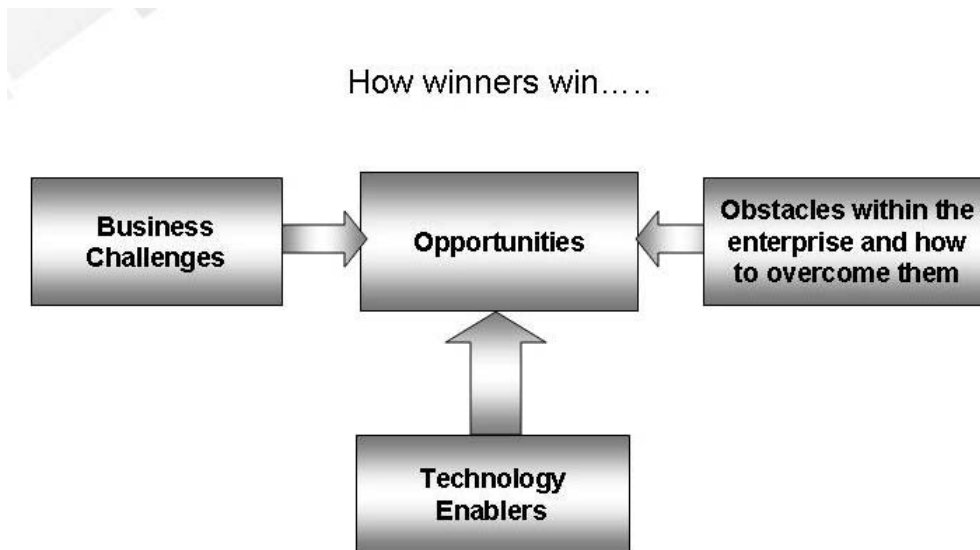
⁶ Winners are also very oriented on upstream visibility and gaining more control over product movement before it hits their distribution network. This particular topic is outside the scope of a report on supply chain execution. However, RSR plans to address the topic in upcoming supply chain research on retailer/manufacturer collaboration.

APPENDIX A: THE BOOT METHODOLOGY

The “BOOT” methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and “also-rans.”** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: ABOUT OUR SPONSORS



[RedPrairie](#) is a world leading consumer driven optimization company. Built on an advanced Service Oriented Architecture developed over the past 15 years, RedPrairie's integrated E²e™ solutions offer supply chain and store operations capabilities to over 32,000 sites worldwide.

RedPrairie's E²e™ solutions synchronize people, products and information throughout the customer buying cycle. At the point of sale, this means consumers have access to desired products and the store is staffed with the right people to help them make their purchases. In the production cycle, it means suppliers and manufacturers synchronize production based on demand signals. And in the store, it means having the least amount of inventory, solving the "last yard" problem of retail supply chains.



Quantum Retail

Quantum Retail Technology, Inc. is a leading provider of software solutions that enable demand driven supply networks. Quantum's flagship solution, Q, allows retailers to optimize inventory availability and supply network performance with low risk and high ROI. Q helps retailers continually achieve the merchandise and financial goal for every item in every location. By leveraging item assortment strategies and goals, Q links the art of merchandising with the science of inventory fulfillment. Q is available as an annual subscription and Quantum Retail offers low-impact pilots to ensure value delivery, alignment of investment to benefits and rapid ROI. Q can be deployed in either hosted or customer deployed environments. Quantum Retail's customers include Guitar Center and New Look. For additional information visit www.quantumretail.com



Manhattan Associates' Retail Solutions help you get the right products to the right place at the right time—at the lowest cost to you. Manhattan's [SCOPE: Supply Chain Optimization—Planning through Execution](#) solutions combines the most productive and efficient supply chain processes with all the information you need to manage your business to competitive advantage. And, because our applications run on our powerful [Supply Chain Process Platform](#), they work together seamlessly to make installation and upgrades a breeze. SCOPE's Supply Chain Process Platform provides the foundation for five Supply Chain Solution Suites: Planning and Forecasting, Inventory Optimization, Order Lifecycle Management, Transportation Lifecycle Management and Distribution Management.

APPENDIX C: ABOUT RSR



Retail Systems Research (“RSR”) is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.

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