Retail Supply Chain Strategy: The Next Big Thing
Benchmark Report 2014
Brian Kilcourse and Steve Rowen, Managing Partners
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Sponsored by:
Executive Summary

Key Findings

As consumers gain power, not only do they start shopping in more complex ways, they expect retailers to be able to fulfill their increasingly complex demands quickly – and without issue. As a result, the next generation supply chain is truly “the next big thing” for retail. The problem is, as this report discovers, retailers are just getting started on what may turn out to be the most challenging part of the conversion from a store-centric retail operation to a true omni-channel offering.

Some highlights of the report include the following:

- As it relates to external Business Challenges (page 5), the consumer’s demand for an increasingly customized selection of products (delivered from far off points of manufacture) – delivered faster, and at lower costs than they already pay – is THE challenge of the new supply chain. Winners place a greater emphasis on an entire host of ways to fulfill customer orders.

- Retail Winners continually seek lower cost manufacturing across the globe. But they also want to shorten the order-to-delivery cycle by holding more work-in-process inventory as a hedge for unplanned demand. That relentless pursuit of operational excellence drives Winners forward across a spectrum of opportunities; find out what they are within the Opportunities section, beginning on page 9.

- All retailers face similar Organizational Inhibitors (page 13), but Winners are much less likely to blame their existing store infrastructure for their woes. By segment, FMCG retailers are most concerned about consumer shipments speed, while Fashion retailers are most likely to re-examine their stores and Durable Goods retailers’ biggest concern is the unintended supply chain consequences that marketing promotions bring about.

- Retailers express a concern about too much inventory in stores and too many out-of-stocks, so it’s easy to see the impact lack of real-time accuracy (even if they can query store-level inventories from anywhere in the enterprise): retailers either maintain higher safety stock levels to avoid disappointing consumers, or they turn away business. Either way is too expensive, and as a result, it’s retailers’ biggest to-do. Find out which technologies hold the most value – and budget – to help them “get there” in the Technology Enablers section of this report, beginning on page 17.

Based on our data, we’ll also offer several in-depth and pragmatic suggestions on how retailers should proceed. These recommendations can be found in the Bootstrap Recommendations portion of the report.

We certainly hope you enjoy it,

Brian Kilcourse and Steve Rowen
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Research Overview

The retail operating model has two sides: the selling side, where customers interact with retailers, and the buying side, where retailers interact with suppliers and business partners. Between the two sides are processes to plan, execute, and analyze business operations (Figure 1).

*Figure 1: How Retailers Make Money*

To deliver financial results, retailers focus on three distinct strategies: to increase revenues ("sell more stuff"), to reduce expenses through continuous process improvement ("run better"), and to increase margin with effective supply chain strategies ("buy better, turn it faster").

The traditional operating model is based on the assumption that consumers begin and end their shopping experiences in one place, usually the store. But that assumption is no longer valid; the explosive consumer adoption of "smart" mobile phones has triggered new *anytime/anywhere* shopping behaviors. Now consumers can carry the store around in their pockets and purses, and retailers have responded in the last several years by offering new digitally-enabled shopping options to extend their Brand into the digital domain, including offering new order fulfillment options such as buy online/pick up in store, order from store A/pickup in store B, order in store/fulfill direct, etc.

The innovations being offered on the sell side challenge the traditional uni-directional supply chain model: whereas in “the old days” the store was the final destination for inventory, now, with multiple customer order fulfillment options, stores may become active nodes in the supply chain – they not only receive inventory, they ship it. The question is, how do retailers do that without
destroying profitability? That is the question we wanted to explore in this study on Supply Chain strategy.

Retailers are feeling pressure to adjust or even redesign their buy side processes based on external pressures, such as the need to extend to new markets, localize assortments, or anytime/anywhere customer order fulfillment. In fact, we found almost no outright disagreement, and not even much hedging of bets (Figure 2).

**Figure 2: Why Supply Chain Is The Next Big Thing**

<table>
<thead>
<tr>
<th>To What Extent Do You Agree?</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>In five years we will operate more selling locations in more countries across the world</td>
<td>38%</td>
<td>35%</td>
<td>17%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Localized assortments are important to our overall strategy</td>
<td>34%</td>
<td>47%</td>
<td>17%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>We are going to have to completely rethink our supply chain design in the next five years because of emerging cross-channel fulfillment</td>
<td>21%</td>
<td>44%</td>
<td>27%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Global growth of our brand has caused us to rethink our buy-side strategies</td>
<td>19%</td>
<td>47%</td>
<td>22%</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>

Source: RSR Research, May 2014

Although there are some differences in the weight various retail groups put on these supply chain imperatives (for example, fashion retailers feel more strongly than fast moving consumer goods and general merchandise retailers that localized assortments are more important), there is no question that retailers across all spectrums are feeling the pressure.

**Defining Winners and Why They Win**

RSR’s research always focuses on a category of retailers we call “Retail Winners”. Our definition of Retail Winners is straightforward. We judge retailers by year-over-year comparable store/channel sales improvements. Assuming industry average comparable store/channel sales growth of four percent, we define those with sales above this hurdle as “Winners,” those at this sales growth rate as “average,” and those below this sales growth rate as “laggards.” 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.

Given all of the changes that are still ongoing on the sell side of the retail model, it is no surprise that Retail Winners are much more concerned about how their supply chains are positioned to meet the new challenges than other retailers. As a matter of fact, the only thing that Winners agree on with their lesser performing competitors is that store inventories aren’t accurate enough (Figure 3). Without visibility to accurate store-level inventories, there are only two options to meet
consumer demands for new order fulfillment options: either risk customer dissatisfaction from an out-of-stock that prevents order fulfillment, or carry more inventory as a buffer to poor visibility and accuracy. Retail Winners are far more concerned that lack of accurate store inventories has led to “too much inventory in stores” and even more so to “too many out of stocks”. Taken together, that translates into an overarching Winners’ concern that the wrong inventory is ending up in the stores. Others remain more sanguine, especially about “too much inventory” in stores. But Winners know that inventory = cash, in a form that devalues quickly.

**Figure 3: Winners Have A Sense Of Urgency**

Which Of The Following Characterizes Your Company’s Current Inventory Management Challenges?

![Graph showing inventory management challenges for Winners and Others](image)

Source: RSR Research, May 2014

**Methodology**

RSR uses its own model, called the BOOT Methodology®, 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 – Retail Winners. The BOOT methodology helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Survey Respondent Characteristics
RSR conducted an online survey from February – April 2014 and received answers from 89 qualified retail respondents. Respondent demographics are as follows:

- **Job Title:**
  - CEO 35%
  - CIO 16%
  - CFO 21%
  - VP Marketing 24%
  - VP Merchandising 38%
  - COO/Store Operations 26%
  - eCommerce/Direct Channel Operations 20%
  - VP of Supply Chain 33%

- **2013 Revenue (US$ Equivalent)**
  - $51 million - $249 million 26%
  - $250 million - $499 million 14%
  - $500 million - $999 million 19%
  - $1 Billion to $5 Billion 21%
  - Over $5 Billion 20%

- **Products sold:**
  - Fashion/Short Lifecycle 21%
  - Seasonal 10%
  - Basics/Replenished Items 29%
  - Durable goods 19%
  - Consumer electronics 9%
  - Perishable goods 11%

- **Headquarters/Retail Presence:**
  - USA 93% 96%
  - Canada 0% 37%
  - Latin America 2% 21%
  - UK 1% 18%
  - Europe 2% 17%
  - Middle East 0% 6%
  - Africa 0% 6%
  - Asia/Pacific 1% 16%

- **Year-Over-Year Sales Growth Rates (assume average growth of 4%):**
  - Worse than average 10%
  - Average 54%
  - Better than average 36%
Business Challenges

A Winner’s Story

We’ve already noted how different the Winner viewpoint is when imagining what the next generation supply chain could look like in the future. But when viewed by retailer performance, their perception of the already-existing challenges brings the picture into sharper focus (Figure 4).

Figure 4: Priorities Tell the Tale

![Bar Chart]

<table>
<thead>
<tr>
<th>Top Three Supply Chain Business Challenges</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer demand has grown more unpredictable</td>
<td>47%</td>
<td>33%</td>
</tr>
<tr>
<td>Making sure our supply chain can keep up with demand as we grow</td>
<td>44%</td>
<td>53%</td>
</tr>
<tr>
<td>Pressure from competitors to achieve same-day fulfillment to consumers</td>
<td>44%</td>
<td>35%</td>
</tr>
<tr>
<td>Competitive pressures drive us to create shorter customer order-to-delivery cycles</td>
<td>41%</td>
<td>33%</td>
</tr>
<tr>
<td>How we fulfill has changed due to cross-channel shopping</td>
<td>28%</td>
<td>37%</td>
</tr>
<tr>
<td>Digital channel growth outpaces store growth, putting new pressures on supply chain</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>Uncertainty about variable supply chain costs</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>Challenges with suppliers when it comes to managing “endless aisle” (selling assortment that is not available in stores)</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Our global supply chain is too slow and inflexible</td>
<td>16%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: RSR Research, May 2014

Winners are far more attuned to consumer demand: 47% say that the consumer’s increasingly fickle and unpredictable nature is the biggest challenge to supply chain execution – something only 33% of all other respondents note.

In many ways, this really is THE challenge of the new supply chain: the power paradigm has shifted, consumers are in control, and not only do they want an increasingly customized selection of products, but they expect these products delivered (from far off points of manufacture) faster and at even lower prices than they currently pay today. It is a seemingly impossible task to take on, and Winners know that if they plan to “be there” for tomorrow’s consumer, cracking this code is the lynchpin to their success. It’s also why their second biggest
concern – pressure from competitors to achieve same-day fulfillment to consumers – is pressing on them more than on their peers.

By way of comparison, average and underperforming retailers focus on the supply chain’s ability to keep up with demand as their brand continues to grow.

This is a textbook case of **how Winners get ahead: they focus on what they need to do to get in front of the consumer, providing her the experience that she not only demands but that also offers the best chance of winning her future loyalty** – while average and lagging retailers focus on self-aggrandizing (and not-yet-existent) matters like widespread growth. It is a classic case of focusing on the outcome without understanding how to achieve it. Once these retailers take a page from Winners’ playbook and start to focus on the consumer, they can start to fret over making sure their supply chain can keep up.

**Thoughts and Action**

Winners also place a greater emphasis on an entire host of ways to fulfill customer orders. Figure 5 depicts just how differently they value various customer order fulfillment process – both those of today and those that are aspirational for the future.

*Figure 5: Painting a Clear Picture*

<table>
<thead>
<tr>
<th>The Value of Customer Order Fulfillment Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Winners</strong></td>
</tr>
<tr>
<td>Same-day ship</td>
</tr>
<tr>
<td>Drop ship from vendor direct to consumer</td>
</tr>
<tr>
<td>Drop ship from vendor direct to store</td>
</tr>
<tr>
<td>Online visibility into in-store inventory</td>
</tr>
<tr>
<td>In-store inventory pick for consumer in-store pick-up</td>
</tr>
<tr>
<td>Same-day delivery</td>
</tr>
<tr>
<td>In-store purchase of online inventory for shipment direct to consumer</td>
</tr>
<tr>
<td>Direct to consumer fulfillment from our DC</td>
</tr>
<tr>
<td>In-store reservation of inventory for consumer in-store purchase</td>
</tr>
<tr>
<td>Store-to-Store transfer for pick-up in-store</td>
</tr>
<tr>
<td>Ship from store direct to consumer</td>
</tr>
<tr>
<td>Ship to store from “Direct” DC for consumer in-store pick-up</td>
</tr>
</tbody>
</table>

*Source: RSR Research, May 2014*
Rarely has a chart been more telling of the differences in a winning “mindset” than that of Figure 5, above. But what role does value really play in the real world? Is there any value to knowing how Winners think, or is it only about what they end up doing? As you can see in Figure 6, it turns out there is quite a strong correlation.

*Figure 6: Actions Speak Louder than Words*

![Implemented Customer Order Fulfillment Processes](chart)

Winners are already well ahead of their peers in the implementation of the vast majority of fulfillment process offered, with the starkest differences in a holy-grail category: same day delivery (31% of Winners vs. 7% of all others, more on that in a moment). Granted, none of these options are implemented in widespread fashion yet. The most popular, in-store reservation of inventory for the consumer to purchase in-store, has only been implemented by 38% of the best retailers to date. And suffice it to say, of all of the options available, that is by far the easiest to take on.

But again, the reinvention of the “traditional” supply chain is just the beginning. And even in these early days, Winners are already out in front on the complex issues. Online visibility into store inventory, in-store purchase of online inventory, same day ship, same day delivery – these are incredibly complicated tasks, requiring not only a cleaner inventory dataset than retailers currently have, but also customer preference information they do not have, pick and ship muscle they also do not yet have, and measurement tools to recognize the effectiveness of any efforts made – which they don’t have either. The point is this: Winners know this is a marathon, not a sprint, and they’re getting in whatever prep work and training they can get in now in order to one day meet these goals. Now let’s see where they identify the best opportunities that are available to them.
Opportunities

Supply Chain Feels The Impact of Anytime/Anywhere Shopping

When RSR last surveyed retailers’ attitudes about their supply chain strategies in early 2012, we found that other than an overarching (but undefined) desire to fix “the whole supply chain” through “continuous process improvement”, retailers had no clear majority opinion around which supply chain opportunities presented the best future for their companies. In 2012, favored opportunities covered the gamut of supply chain functions, but were inconsistent.

Two years later, much has changed in retail. Consumers’ mobile-enabled shopping behaviors are now more than a “shiny object”, as retailers have had to internalize what complex paths to purchase mean to the business. What were experiments in omni-channel order fulfillment have now become table stakes for many. That in turn has given rise to opportunities such as rethinking “how sales and cost of sales are allocated in cross-channel fulfillment”, optimizing “fulfillment based on the most profitable inventory opportunity”, and adding “endless aisle with trading partners via dropship”. These opportunities are as popular for non-Winners as Winners (Figure 7).

Figure 7: Update, Not Replace

In fact, rethinking how sales and cost of sales are allocated is approaching a consensus top opportunity for retailers. Retailers are finally acknowledging that several “channels” may participate in creating one successful sale. This represents yet another nail in the coffin to the notion of “same store sales” as an accurate measure of how a business is performing; while over
90% of all retail sales still are completed in stores, there is no reliable number that indicates how much activity in the digital realm affected those sales. But retailers intuitively know that the digital influence is big – perhaps even for a majority of sales.

Just as in the 2012 study, Winners also continue to stress the importance of continuous improvement (“more real-time monitoring” and “improving cross-channel forecasts”). Winners, who probably got that way by developing a highly optimized supply chain in the first place, seem to be saying, “keep the best and fix the rest”. Their strategy: update the design, not replace it. Average and under-performers are much more likely to want to toss the baby out with the bathwater – 56% more non-Winners favor “redesigning our supply chain” than Winners.

**Update What?**

The obvious next question is, “Fix what?” The answer is twofold, and related to sourcing. Winners continually seek lower cost manufacturing across the globe. But they also want to shorten the order-to-delivery cycle by holding more work-in-process inventory as a hedge for unplanned demand (Figure 8).

**Figure 8: Sourcing Flexibility – A Winning Trait**

<table>
<thead>
<tr>
<th>Sourcing Options</th>
<th>Winners</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Send more work to countries that meet stricter import/export security requirements</td>
<td>29%</td>
<td>14%</td>
</tr>
<tr>
<td>Move manufacturing work to emerging, lower-cost markets as existing markets get more expensive</td>
<td>42%</td>
<td>18%</td>
</tr>
<tr>
<td>Source closer to the point of demand</td>
<td>52%</td>
<td>54%</td>
</tr>
<tr>
<td>Increase flexibility by holding more work-in-process inventory, rather than finished goods</td>
<td>71%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Disappointingly, less than 1/3 of Winners (and less than 1/6 of average and under-performers) are interested in sourcing more from countries that meet stricter import/export security requirements. Despite recent news stories of lax work safety, environmental, and security standards in some sourcing countries, retailers stay focused on finding lower-cost sources.

We saw in our recent study on pricing\(^1\), that retailers, having trained consumers to look for aggressively promoted goods, are now concerned that consumers are too price sensitive. One outcome of that “race to the bottom” is that retailers feel compelled to find ever lower-cost sources, apparently with an attitude of “less regulation is good regulation”. But as we’ll see

\(^1\) The Pricing Paradox: Maximizing Margin In A Promotion-Driven Environment, RSR Research, April 2014
shortly, that doesn’t mean that retailers don’t care about standards – it means that they don’t trust governments to be effective in regulating them.

**Winners Look Everywhere**

It is almost a truism that (up until recently) the most important sustainable advantage that any retailer could have is a best in class supply chain. This might lead to the erroneous assumption that Winners aren’t willing to examine their supply chains’ weaknesses in light of the new anytime/anywhere selling environment.

But as we saw in the 2012 report, Retail Winners have not prioritized digital channels in a vacuum. Because they are working harder than their peers at building the connections between channels, they also see more clearly the impact these investments will have on the underlying infrastructure that makes omni-channel possible - most particularly supply chain.

That relentless pursuit of operational excellence drives Winners forward now. Across a spectrum of opportunities, Winners show much more willingness to challenge the status quo than average and laggard retailers (Figure 9). Most notably, they are willing to challenge a “one design for all” concept when it comes to their DC flow designs and layouts, as well as distribution methods inside the DC, and instead show a willingness to optimize local DC operations as local demand dictates.

*Figure 9: No Stone Left Unturned*

We mentioned earlier that retailers generally don’t want to send more work to locations where local governmental regulations on import/export security requirements are more strict. But Winners in particular do want to hold suppliers more accountable via contract compliance, than average and under-performers. This is driven by Winners’ desire to find ever lower cost supply locations; average performers and laggards aren’t nearly as focused on this objective.
**Summing Up the Opportunities**

Cost and revenue sharing, and optimizing omni-channel order fulfillment based on the most profitable inventory opportunity, are recognized by retailers in all performance groups as important opportunities for supply chain improvement in the context of consumers' new shopping behaviors. Beyond that, Winners diverge from their less-performing counterparts. Over-performers are relentless in their search of lower cost sources for products, but they also are more focused on the ability to answer unplanned-for demand by asking manufacturers to hold more work-in-process inventory. They are also focused more on opportunities to redesign parts of their internal supply chain processes in the search for more cross-channel flexibility. Winners' attitude is "keep the best and change the rest".

Non-winners are much more likely to shoot for the moon with a total supply chain redesign. Although that might be necessary depending on circumstances, it also is a big, complex, and time-consuming undertaking. And while they are mulling that over, Winners pull farther ahead.
**Organizational Inhibitors**

**Different Worlds**

When it comes to operational issues, the best performing retailers say the biggest problem they are facing is shipping directly to consumers in a timely manner. As Amazon continues to push the limits of direct order fulfillment from two-day to one-day (to ultimately same-day) delivery, Winners are inordinately focused on at least keeping pace (50% of Winners vs. 37% of all other retailers, Figure 10).

*Figure 10: For Winners, (Lack of) Speed Kills*

![Top Three Supply Chain Operational Challenges](image)

Winners are also much *less* likely to blame their existing store infrastructure for their woes. Forty-two percent of average and lagging retailers say that "stores were not designed to participate in the current/projected volume of direct-to-consumer"; while that may be true, it won’t earn much empathy from consumers. They’re not interested in excuses – they just want their products, and Winners are far more aware of that. Where this data becomes even more interesting is when viewed by products sold:

*Source: RSR Research, May 2014*
• Fast moving consumer goods (FMCG) retailers are most concerned about consumer shipments speeds (56% say it is their top operational challenge). While their interest in timely sales is certainly understandable, their focus on direct delivery speeds may indicate that FMCG retailers are in a much deeper reinvisioning of what their customers’ shopping experience may look like in coming years.

• Fashion retailers are most likely to blame their stores; indeed, 43% say their stores simply weren’t designed to participate in the current (and projected) volume of omni-channel order fulfillment. In fact, it is their number one operational challenge.

• And durable goods retailers’ biggest concern is that marketing promotions bring about unintended consequences to their supply chain (48%). In theory, of these segments, this should be the simplest problem to get past (predicting the impact of promotions vs. quintupling the speed of the supply chain vs. reinventing the store’s role to entirely new consumers). However, durable goods retailers are increasingly becoming entrenched in a race to the bottom – pumping out promotions and price changes far more frequently than they should. Their model was never built to support a heavy promotional cycle, and as a result, even their supply chain is being affected by this hyper-promotional behavior.

What’s Missing?
When asked what’s in the way of improvement, retailers say “a lot” (Figure 11).

Figure 11: Lack of Coordination... Measurement... Confidence

<table>
<thead>
<tr>
<th>Top Three Organizational Inhibitors</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of coordination between supply chain, merchandising, and marketing</td>
<td>51%</td>
</tr>
<tr>
<td>Our supply chain metrics are too focused on efficiency at the expense of flexibility</td>
<td>49%</td>
</tr>
<tr>
<td>Lack of confidence in inventory accuracy</td>
<td>39%</td>
</tr>
<tr>
<td>Marketing’s increasing influence internally is driving unintended supply chain consequences</td>
<td>32%</td>
</tr>
<tr>
<td>New channels to the consumer are emerging faster than we can assess their impact or support them</td>
<td>28%</td>
</tr>
<tr>
<td>We don’t have the right metrics or incentives to measure cross-channel supply chain efficiencies</td>
<td>27%</td>
</tr>
<tr>
<td>Lack of active top-level support for supply chain transformation in support of an omni-channel strategy</td>
<td>23%</td>
</tr>
<tr>
<td>Our systems are too fractured to support cross-channel activities</td>
<td>21%</td>
</tr>
<tr>
<td>We haven’t figured out how to align incentives for sales credit for cross-channel sales</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: RSR Research, May 2014
As we mentioned in the Business Challenges section of this report, the days of the reimagined supply chain are in their utter infancy, and Figure 11 confirms that retailers currently lack much of what they need to get to the point where they can provide holy grail options like same day delivery, same day shipping – even in-store purchase of online goods. Inventory accuracy is a prerequisite to any of these tasks, and retailers just don’t yet have the confidence in that inventory data to be effective (39% of retailers cite it a top-three inhibitor, and Winners are even less confident: 47% cite it a top inhibitor to progress). And without coordination between supply chain, merchandising and marketing (51% of retailers cite this as a top inhibitor), any forward progress will move glacially, at best.

**Winners Know How to Win**

How do retailers plan to get past these hurdles? This is a supply chain strategy report, after all, and for Winners, at least, the way forward is clear: it will take significant top-line involvement, a less channel-specific internal setup, and business analytics to both predict – and measure – the effects of their efforts (Figure 12).

**Figure 12: Follow the Leader**

![Top Three Opportunities To Overcome These Organizational Inhibitors](image)

**Who’s Driving This Thing?**

What’s even more fascinating is who retailers want in on that realignment process. The three most logical choices for who should be at the table – the VP of Supply Chain, the CEO, and the VP of Merchandising - fall lock-step with what our retail respondents chose as their top three choices in our survey. In fact, retailers told us that virtually every position within the retail organization is not only well-represented in supply chain initiatives, but to our surprise – proportionally accurate to what their involvement/influence in those discussions should look like in
the first place. Only eCommerce and Finance are even remotely underrepresented – and even then, only by marginal levels (Figure 13).

Figure 13: Fair and Balanced?

![Bar chart showing executives currently with/should have more influence on supply chain initiatives]

If this is indeed the case, retailers’ supply chain strategies are either a) light years ahead of virtually every other strategic aspect of their day-to-day business or b) so early on in their infancy that the usual rash of problems with departments being under- (or over-) represented in the decision process have yet to emerge. Based on what we see in virtually all of our other retail-specific research, and in combination with what we’ve seen so far in this report, our feeling is that the truth lies closer with the latter. In fact, we expect to see much more iniquity in this chart in the coming years; as retailers get deeper into modernizing their supply chains, the push and pull of who’s guiding the ship through uncharted waters will have much greater effect.

Now let’s see the ways which retailers say technology can help.
Technology Enablers

Wishing The Fog Would Go Away?

At the beginning of this report, we stated that Retail Winners in particular feel a real sense of urgency when it comes to too many out of stocks in stores, too much inventory in stores, and inaccurate inventories in stores. These challenges potentially create a witches’ brew of obstacles to flawless customer service in this day of anytime/anywhere order fulfillment.

Without visibility to accurate store-level inventories, there are only two options to meet consumer demands for new order fulfillment options: either risk customer dissatisfaction from an out-of-stock that prevents order fulfillment, or carry more inventory as a buffer to poor visibility and accuracy. And as we stated in our 2012 report, “with the continued pressure from consumers around ... a seamless cross-channel experience, retailers’ reticence to address some of these supply chain issues will rapidly become barriers to their future success.”

So it is no surprise that in 2014, retailers place the most value on system-wide inventory visibility, followed closely by store inventory levels and online/direct channel inventory and DC-available inventory (Figure 14). These are prerequisites to an efficient cross-channel customer order fulfillment offering.

Figure 14: Lots of Potential

<table>
<thead>
<tr>
<th>Importance vs. Actual Supply Chain Visibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>System-wide inventory visibility</td>
</tr>
<tr>
<td>Store inventory levels</td>
</tr>
<tr>
<td>Online/Direct channel available inventory</td>
</tr>
<tr>
<td>DC available inventory</td>
</tr>
<tr>
<td>Inbound to store inventory or orders</td>
</tr>
<tr>
<td>Store on-shelf inventory levels</td>
</tr>
<tr>
<td>Inbound to DC inventory or orders</td>
</tr>
<tr>
<td>Visibility into vendor dropship inventory</td>
</tr>
</tbody>
</table>

As a measure of how much consumers’ complex shopping behaviors have affected retailers’ attitudes about this issue, it’s worth noting that in the 2012 study only 45% of retailers assigned a high value to “integrated inventory visibility” – now that number has grown to 72%. And not surprisingly, the high ranking is driven by Retail Winners (84%, compared to 65% of all others). But disappointingly, the number of retailers who claim to have solved the challenge is virtually
unchanged from 2012 – 45% then compared to 47% now. Again, Winners drive that result, with 61% claiming to have enabled “a lot of visibility” compared to 39% of all others. It’s a winning trait.

Given that, one has to ask, “how accurate is that visibility?” While enabling real-time updates is the best answer, implementations are still significantly lagging. For example, Winners in particular place a lot of value in “real-time updates to inventory from transactional systems”, but overall, implementations are quite low (34%) and Winners are only marginally better (38%) than the overall average (Figure 15).

Retailers express a concern about too much inventory in stores and too many out-of-stocks, and so it’s easy to see the impact lack of real-time accuracy (even if they can query store-level inventories from anywhere in the enterprise): retailers either maintain higher safety stock levels to avoid disappointing consumers, or they turn away business. Either way is too expensive, and as a result, it’s retailers’ biggest “to-do”.

Figure 15: Just Getting Started

<table>
<thead>
<tr>
<th>Technology Value vs. Implemented</th>
<th>Overall/Implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real-time updates to inventory from transactional systems</td>
<td>77%</td>
</tr>
<tr>
<td>Parcel shipping management systems to identify real-time customer shipping costs</td>
<td>71%</td>
</tr>
<tr>
<td>Distributed order management</td>
<td>68%</td>
</tr>
<tr>
<td>Store perpetual inventory management</td>
<td>65%</td>
</tr>
<tr>
<td>Supplier drop-ship management system</td>
<td>61%</td>
</tr>
<tr>
<td>Item-level RFID</td>
<td>61%</td>
</tr>
<tr>
<td>Integrated product catalog and product information management</td>
<td>58%</td>
</tr>
<tr>
<td>System-based methods of capturing missed sales opportunities due to local out of stocks</td>
<td>58%</td>
</tr>
<tr>
<td>Sourcing algorithms for locating the optimal inventory for customer order fulfillment</td>
<td>58%</td>
</tr>
<tr>
<td>Size/pack optimization</td>
<td>55%</td>
</tr>
<tr>
<td>Returns management</td>
<td>55%</td>
</tr>
<tr>
<td>Cross-channel specific supply chain analytics</td>
<td>53%</td>
</tr>
<tr>
<td>True landed cost calculation</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: RSR Research, May 2014
**A Vertical View – Still Foggy**

The overall results about technology value vs. implementation status are frustratingly inconclusive – every technology solution seems to have a lot of value, but little of it is actually implemented. To get to something more focused, we decided to take a look by retail vertical (Figure 16).

*Figure 16: Fashion Leads The Change*

The fashion vertical most closely resembles Retail Winners when it comes to assigning value to various technology enablers. Looking at their top 5 enablers, fashion retailers place the highest value on real-time updates and store perpetual systems, driven, no doubt, by their deeper experience with ship-from-store fulfillment.
The tightest agreement between fashion, fast moving consumer goods, and durable goods retailers relates to returns management and distributed order management capabilities. But looking at the rollout status of those five choices only reveals what we already have seen in the overall response group. In short, there’s a long way to go before retailers of any stripe get to the value that they clearly believe is there.

**What It All Means**

Given that the majority of retailers believe that they will have to rethink their supply chain strategies to accommodate emerging cross-channel fulfillment (Figure 2), there is only one conclusion that can be reached from looking at the state of technology: retailers are just getting started on what may turn out to be the most challenging part of the conversion from a store-centric retail operation to a true omni-channel offering. This is why RSR is so confident in saying that next-generation supply chain is truly “the next big thing”.

But retailers simply can’t afford to wait too long to get started. We’ve seen in study after study that consumer expectations of a seamless omni-channel experience are driving fundamental changes throughout retail - but consumers expect that now. To a great extent, retailers have come up with stopgap measures to offer a next generation shopping experience at potentially great cost to long-term profitability. It’s a huge challenge, and retailers need to accelerate.
This study confirms what we have consistently seen as the top business challenge facing retailers: consumer demand has grown more unpredictable. The unpredictability of demand is only heightened by two other external factors: consumers now have many more choices, and consumer use of digital technology has created a new generation of demand signals that smart “net native” competition has learned to exploit. So any question of “when are things going to get back to normal?” is moot – unpredictability is the new normal, and store-centric retailers’ operating models need to change to reflect that. The question is, how to change the supply chain side to be more flexible and quicker reacting? Retail Winners show a marked preference to “modify, not replace”. Here’s how they plan to do it:

**Think Global, Act Local**
Retailers continue their never-ending search for lower cost sources across the globe. Perhaps borrowing from global manufacturers’ playbooks, Retail Winners in particular seek to hold more work-in-process inventory (rather than finished goods) at points of manufacture, to be able to respond more flexibly to changing consumer preferences. But a majority of all retailers are also exploring sources closer to the point of demand, recognizing that time “on the water” is a key factor in speed and flexibility.

Once inventory gets to the retailers’ DC, then supplying local demand is key. Winners, concerned that they have the wrong inventory in their stores, know that there is no “one size fits all” DC model. They are thinking about how inventory movement profiles differ depending on the markets each DC serves, and even distribution methods inside the DC.

**Real Time Accuracy Is A Prerequisite For Everything Else**
There is no single “to do” more important for retailers everywhere than creating the ability to accurately “see” inventory anywhere in the enterprise at any time. The more a retailer emphasizes cross-channel fulfillment options to the consumer, the more critical this is. But even in operating models where cross-channel fulfillment isn’t perceived as an important option for consumers, retailers simply can’t get away from the fact that consumers have many more choices than before, and so *assortment relevancy* at the local store level is critical to success. Retailers must be able to predict demand with more confidence and respond more quickly as demand changes. Those capabilities are enabled by being able to “see” the business as it is happening. Retailers have to understand that the business has become a real-time anytime/anywhere shopping experience. Failing to provide real time accuracy into inventory creates the conditions for either too much inventory or too many out of stocks.

**A Quicker, More Nimble Response To Customer Orders**
The next-generation supply chain not only needs more flexibility on the supplier side – retailers know that they have to be quicker on the customer side too. Retail Winners in particular are focused on meeting consumer demands for shorter order-to-delivery cycles, with capabilities like same day ship, drop ship direct to consumer, and drop ship vendor direct to stores.

**Pay People To Do What You Want Them To Do**
This recommendation is a “repeat” from past studies: retailers need to rethink how sales and cost-of-sales are allocated in cross-channel fulfillment scenarios. It’s simple human nature: people do what you pay them to do. But its not just about giving proper credit for contribution to
sales; costs also have to be correctly allocated in order to get a true picture of the profitability of cross-channel sales. In this study, Winners are no better than other retailers in addressing this challenge – but all retailers who offer anytime/anywhere shopping options to consumers need to. Also implied in this is that retailers should consider re-aligning the company’s organizational structure to be less channel-specific (Winners are more in tune with this need than others).

The Static Operating Model Is Dead

It’s almost a truism in retail now that “it’s not about what you want to sell, it’s when, how, and what consumers want to buy”. And so the imperative for the next generation supply chain isn’t “how to get goods to market in the most efficient way?”, but “how to service customer demand in the most efficient way?” RSR has recommended to retailers that they must design the customer experience from end-to-end. How that customer experience is designed will dictate the extensiveness of changes required on the supply chain side to service the selling side. Retail Winners believe that their best bet is through continuous improvement of their processes, keeping what’s best in their current supply chain design, but not resting on their laurels, instead challenging assumptions in the context of the new customer experience. But they also know that the new model won’t be static - and so it must be designed with flexibility in mind, giving them the ability to bend without breaking as new demand emerges.
Appendix A: RSR’s Research 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 Sponsor

Manhattan Associates brings companies closer to their customers. We design, build and deliver market-leading Supply Chain Commerce Solutions that drive top line growth by converging front-end sales with back-end supply chain execution and efficiency. Our software, platform technology and unmatched experience help our customers around the world adapt to the challenges of the omni-channel marketplace.

Manhattan Associates solutions deliver unique Flexible Fulfillment capabilities, allowing retailers to anticipate and strategically respond to variable demand by flexing parts of the fulfillment network in different ways based on desired business considerations—such as margin protection, maximizing conversions, speed of delivery, seasonality, and peak-period volume. To learn more, visit www.manh.com/flex
Appendix C: About RSR Research

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.