Retail Supply Chain Execution:
New Requirements To Meet New Demand

Benchmark Report 2015

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Executive Summary

Key Findings

RSR studies the retail supply chain at least once every year. In 2014, in response to the behaviors of the new retail consumer (the one who simply doesn't care about "channels" anymore), the majority of retailers in our study acknowledged a need to rethink their supply chain strategies from the ground up. This retailer-led discovery was so profound that we declared the supply chain ***The Next Big Thing***.

One year later, we find the imperative has only strengthened. The following are some key highlights from this year's report:

- It has always been hard for retailers to get the right product to the right customer at the right time. Challenges are many. But for Retail Winners, the new consumer's behaviors only add to those traditional pressures. Unfortunately, average and lagging retailers are distracted by such industry buzz as "same day delivery", taking their eyes off more practical and attainable goals. We examine these trends beginning on page 6 in the **Business Challenges** section of this report.
- To keep up with escalating consumer demands for a satisfactory customer experience, the new supply chain must consider stores not only as destinations for inventory, but also as potential sources to accommodate surging customer demand in another store or channel. This drives the need for cross-channel order fulfillment. Winners, in particular, see new fulfillment options as some of the most valuable **Opportunities** they can seize today, something we explore beginning on page 10.
- It is really quite remarkable *just how differently* two different groups can view a seemingly identical landscape of **Organizational Inhibitors**. Average and lagging retailers are far more likely to report that the marketing department's increasing influence is driving unintended supply chain consequences. Where do Winners focus their efforts? Find out on page 14.
- Across the board, Retail Winners put more value on technology enabled operational capabilities related to supply chain execution than do average and under-performers. But it's particularly interesting that over-performers give so much more relative weight to "Predictive demand analytics that utilizes customer data (such as search, affinity) from digital channels". We explore the entire realm of supply chain technologies in the **Technology Enablers** section of this report (page 17), finding compelling evidence that Winners are poised to press their competitive advantage.

Based on our data, we 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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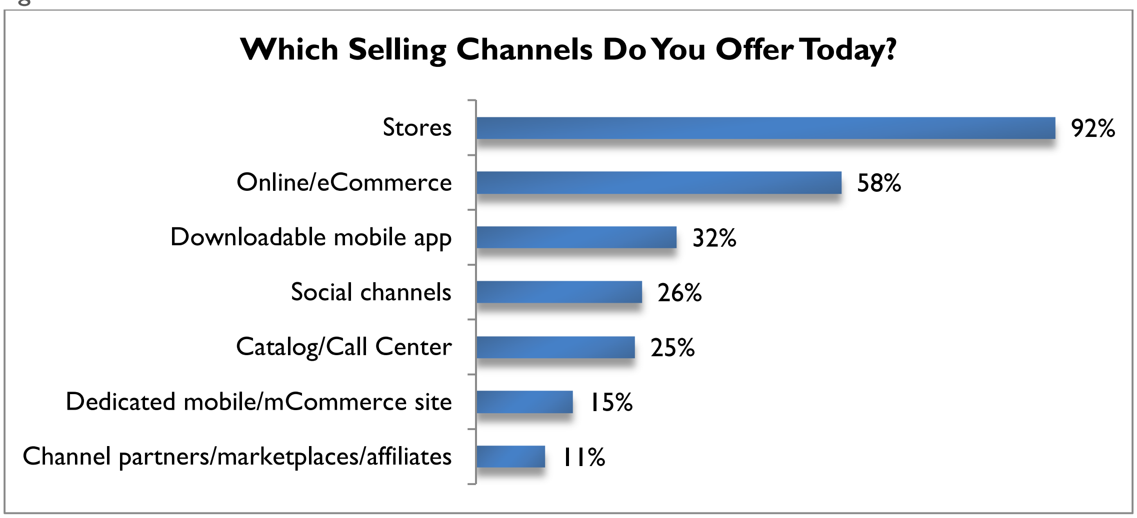
Research Overview

In our 2014 study on the Retail Supply Chain (***Retail Supply Chain Strategy: The Next Big Thing,*** May 2014), we learned a majority of retailers believed they would have to rethink their supply chain strategies to accommodate emerging cross-channel fulfillment opportunities. But we also learned that they were really just getting started on what could be the most challenging part of the metamorphosis from store-centric retail operations to true omni-channel offerings. For that reason, we were confident in saying that the next-generation supply chain is truly "the next big thing". One year later, our prognosis hasn't changed.

How so? Let's look at the facts. Today, almost 60% of retailers sell online, and about 1/3 sell through a downloadable mobile application as well (Figure 1).

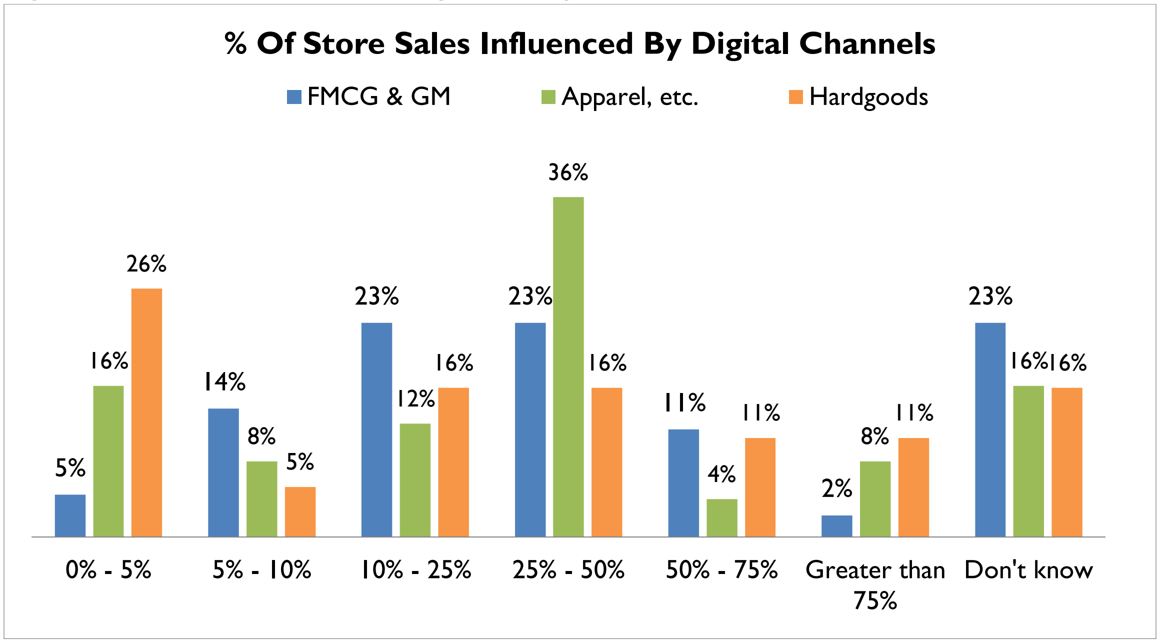
Figure 1: Table Stakes



Source: RSR Research, October 2015

In RSR's recent study on the state of cross-channel retailing (***Omni-Channel 2015: Taking Time, Money, Commitment And Technology***, September 2015), we found retailers are cognizant of digital channels' influence on store sales (Figure 2, below).

Figure 2: The Channel Convergence Experience



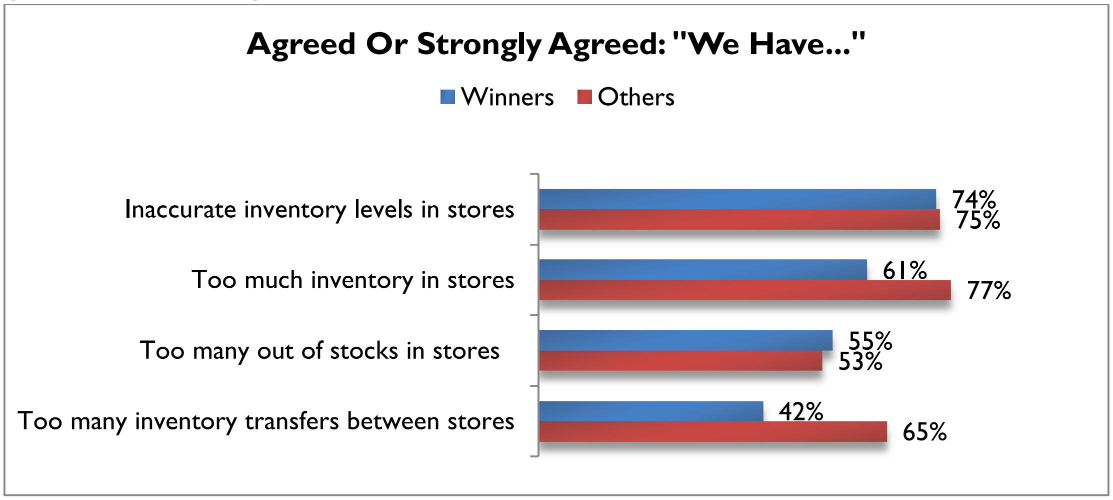
Source: RSR Research, September 2015

What this means to the supply chain is that consumers have fundamentally *broken* the serial nature of the retail model with their new digitally-enabled and increasingly mobile shopping patterns. In the past, each and every transaction began and ended in one channel or another – but that is patently no longer true. In response (as you will see later in the report), retailers have accepted that they must offer some form of cross-channel order fulfillment to their customers. But the processes and technologies they employ to optimize the profitability of activities across channels are far away from being truly enabled, let alone optimized.

The reason is not what we might expect. Retailers often are late technology adopters, but in this case as we described in our February 2015 benchmark study on merchandising (***Modern Merchandising: Managing Complexity With New Tools And Techniques,*** February 2015) we have a different problem. Getting to optimal cross-channel profitability requires changing core systems, and this is "the moral equivalent of replacing a battleship engine while on the high seas". In that study, we were focused on merchandise planning and execution, but supply chain execution is the other side of the retail equation. While retailers have spent more than five years learning how to *sell* to digitally enabled consumers across channels, they still have to address the core systems that support those selling activities in a way that will sustain *profitability*.

There is no clearer evidence that retailers' supply chains are bending from the pressure of customers' buy-anywhere-get-anywhere shopping behaviors than by looking at the number who continue to struggle with getting inventory to the point of demand (Figure 3). The basics are just missing.

Figure 3: An Aching, Persistent Pain



Source: RSR Research, October 2015

These concerns are not only shared among retailers that responded to this study (regardless of which vertical or performance group they belong to), but the intensity of those concerns is escalating. Retail Winners (those who outperform the competition) and their underperforming peers agree that they continue to struggle with inaccurate inventory levels in stores. Accurate inventory is identified in other RSR studies as the single most important prerequisite for profitable omni-channel order fulfillment. And while we find differences between performance groups in other overall effectiveness indicators of retailers' merchandise planning and supply chain systems; (i.e.: Winners are doing better at managing overall store inventory levels and inter-store transfers), the bottom line is that most retailers admit to having problems.

Even more compelling, we can compare one of this year's findings to a data point from just two years ago. Anecdotally, RSR knows that the volume of inter-store transfers has increased as the number of online orders fulfilled in the stores has increased. In our 2013 supply chain study (***Supply Chain Execution 2014: Making Omni-channel Profitable***, December 2013) we learned that only 13% of Winners and 22% of all other retailers agreed that there were too many inter-store transfers. **In this study, those numbers have jumped to 42% and 65%, respectively**. This one data point is a telling indicator of the disruptive effect of omni-channel fulfillment on the Retail supply chain's *raison d'être*, to get the right inventory to the right place at the right time.

Defining Winners And Why They Matter

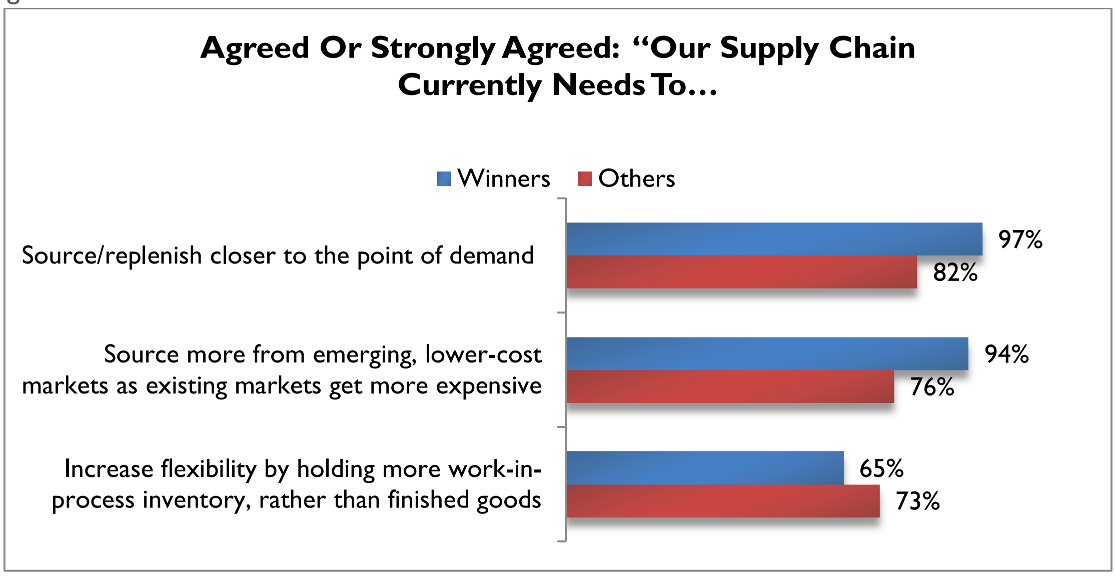
Throughout this benchmark, you'll notice comparisons between "Retail Winners" and all others. RSR's research always shines a light on these differences, and an explanation is presented here.

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 **4.5 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*" or "also-rans."

Focusing on Winners' perception is always interesting. It turns out 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.

When it comes to the supply chain, retailers have spent the last 40 years optimizing the *buying* side of their businesses, perfecting mass merchandising strategies to deliver the lowest cost-of-goods for highly rationalized assortments. But given all of the changes to the *selling* side of the retail model that have resulted from consumers' recent revolt against a "sea of sameness", Retail Winners show more concern about keeping what's been working for them (sourcing from emerging lower-cost markets) and having a more agile supply chain via more localized sourcing and replenishment closer to the point of demand (Figure 4).

Figure 4: The Endless Search For Lowest-Cost Sources



Source: RSR Research, October 2015

While most retailers are trying to achieve that difficult balance between service and supply, Winners are more clearly focused on keeping what's best from the old model, and adjusting their strategies for the new one. Too much emphasis on one side of the balance will destroy profits, while too much on the other side risks losing customers and sales.

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 August – September 2015 and received answers from 91 qualified retail respondents. Respondent demographics are as follows:

- Job Title:

Executive/Senior Management (C-Level or VP)	15%
Middle Management (VP / Director / Manager)	34%
Individual Contributor	51%

- 2014 Revenue (US$ Equivalent)

Less than $50 million	3%
$51 million - $249 million	12%
$250 million - $499 million	20%
$500 million - $999 million	14%
$1Billion to $5 Billion	20%
More Than $5B	

- Products sold:

FMCG: C-store, Food & Drug, Health Care Products	15%
Apparel (Footwear & Accessories: Luxury, Mens & Womens, Kids, Personal Care)	25%
Hard Goods: CE, Hard Goods, Home Décor, Improvement, Automotive	19%
General Merchandise: Discount, Mass Merchant	31%
Hospitality, Restaurant, Retail Services, Entertainment, Other	7%
Boutique Retail	3%

- Headquarters/Retail Presence:

USA	89%	92%
Canada	1%	28%
Latin America	0%	14%
UK	0%	14%
Europe	2%	19%
Middle East	1%	9%
Africa	0%	3%
Asia/Pacific	7%	15%

- Year-Over-Year Sales Growth Rates (assume average growth of 4.5%):

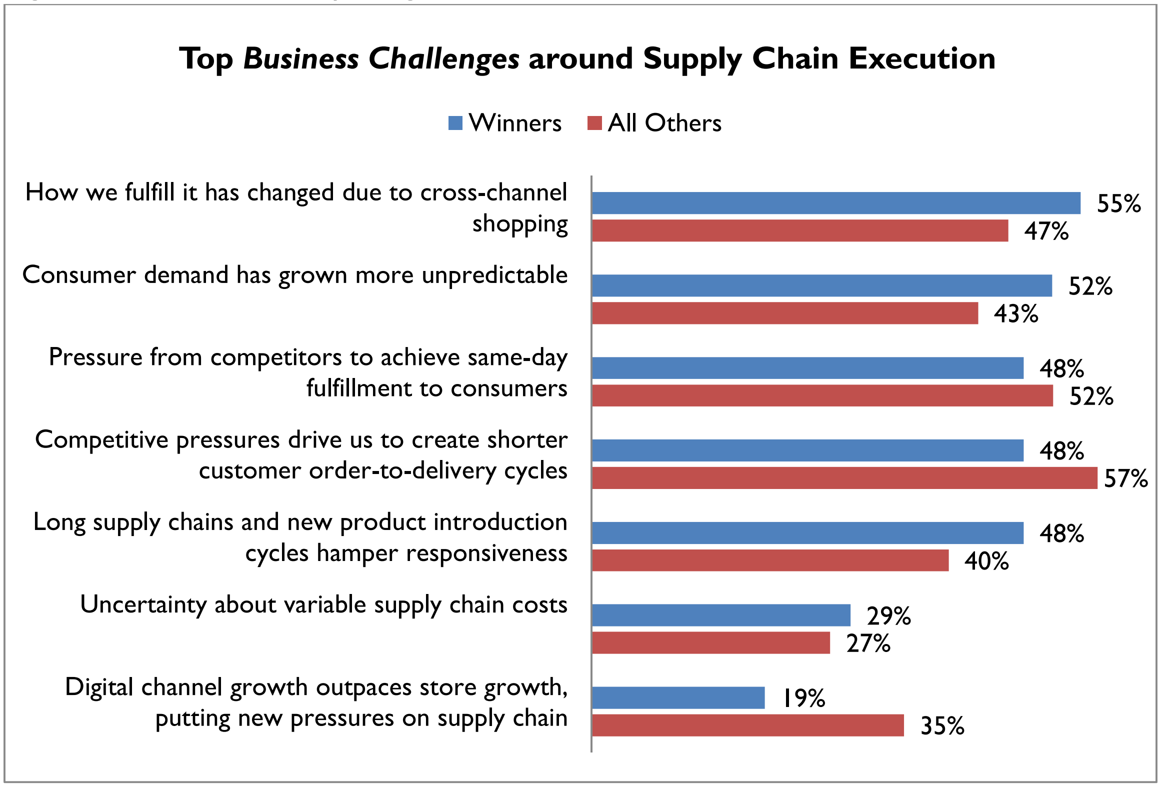
Better than average	34%
Average	63%
Worse than average	3%

Business Challenges

A Brave New World

There has never been a shortage of external challenges pushing Retailers as they seek to get the right product to the right customer at the right time. The retail world has been complicated enough for decades. But for Retail Winners, the new consumer's behavior patterns are only adding force to those existing pressures (Figure 5).

Figure 5: Focus Is Everything



Source: RSR Research, October 2015

What's quite telling about this data, however, isn't just how Winners – no doubt more focused on a customer-centric selling model than their underperforming peers (it's a large part of what's aided in their Winning, after all) – are feeling more pressure from the new consumer. It's also every bit as informative to notice the areas where non-Winners (average and lagging retailers) more frequently place a higher emphasis.

Notice the third and fourth data points in Figure 5 above: non-winning retailers are much more likely to attribute business challenges to their competitors, depicted here as competitive pressures to achieve same-day fulfillment, and to create shorter order-to-delivery cycles. Fretting over competitive pressures has long been a hallmark of lagging retailers, but in these particular cases, it is especially dangerous.

Consider the data points at hand: same-day-delivery is an *enormously* difficult undertaking, and in many ways only makes sense for certain products *or* in certain markets. Should a retailer mark this as a must-do simply because one of their competitors is working toward it? What if it is a geographically unsound target for their specific audience? As is always the case, it makes far more sense to work towards goals that fit your consumer base's unique needs, rather than looking over a shoulder at what competitors are up to. It's a trap that Winners consistently avoid.

Instead, Winners are more focused trying to understand what new fulfillment ideas for *their specific customer base* will have the most appeal. They know channels don't really exist in consumers' minds anymore, and are focusing their efforts on discovering what "responsive" will look like in the near future.

The Returns Floodgates Open

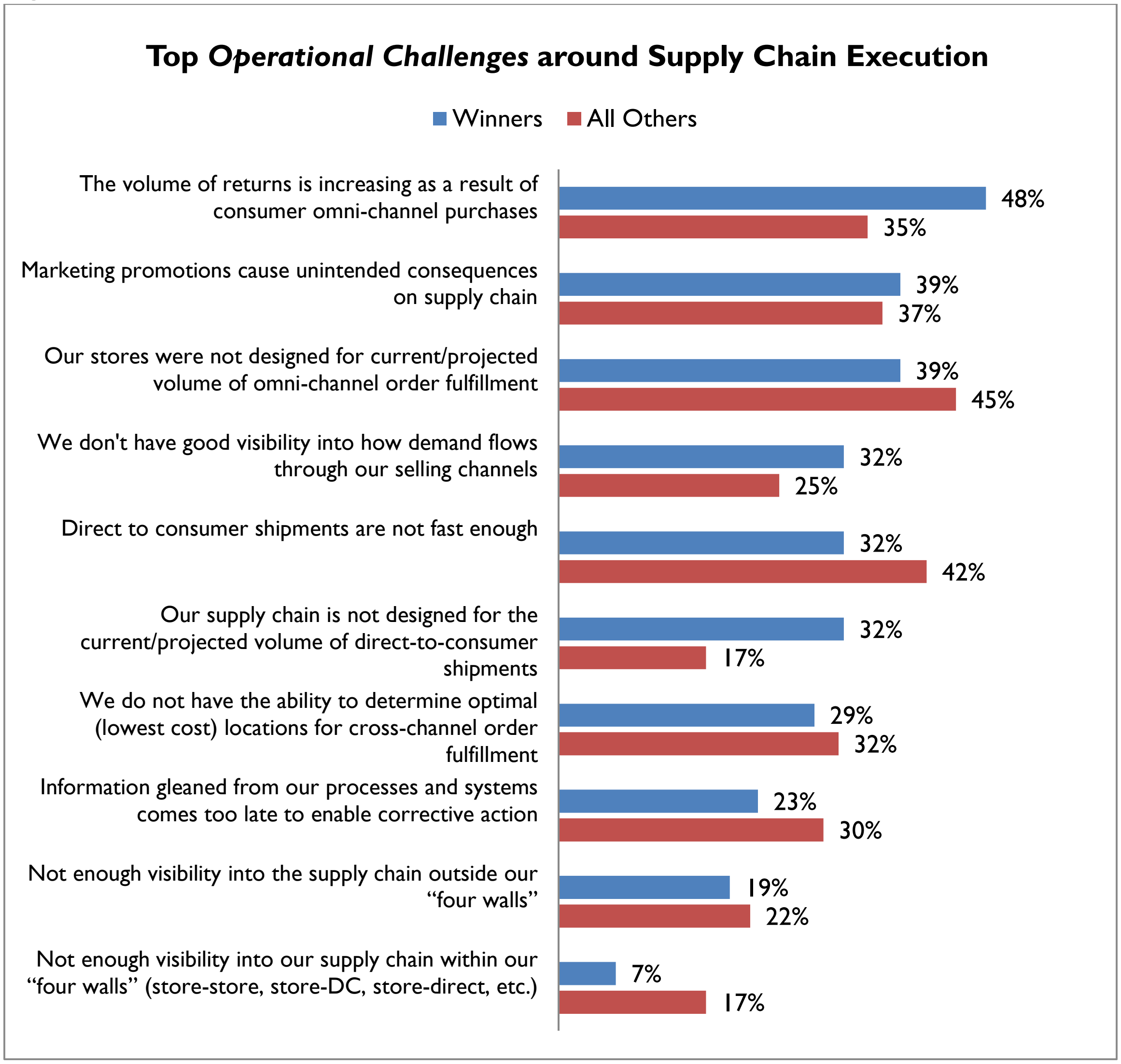
From an operational standpoint, the story of differences between performance groups continues to unfold.

Are the best performers receiving more merchandise returns as a byproduct of the consumer that shops them? Are they simply more aware of the matter because they have a better finger on the pulse of what's going on in stores? Is a greater percentage of their business coming from digital channels? If so, we would expect the volume of returns to be higher than store-based sales. That's an age-old direct-to-consumer problem.

Perhaps all of the above feed the most frequently cited operation challenge currently plaguing Winners.

As consumers evolve, becoming more focused on getting "the-just-perfect-product", shoppers are rapidly leaning towards buying more products online, only to happily return the less desirable of those products either via carrier service or on their next trip to the store (Figure 6, below).

Figure 6: Order More, Return More



Source: RSR Research, October 2015

It's a retail truism that return rates are far lower in stores than they are in direct-to-consumer sales. And returns do present an operational challenge. Yet amidst all that pain, an in-store return may indeed present a cross-sell, up-sell, and ancillary sale opportunity. Could an increase in "buy online/return in store" ultimately be harnessed to present the same opportunity? Reverse logistics are expensive, and this will only put further demands on the supply chain.

The best performers are also a bit more likely to face operational challenges relating to visibility. They are more acutely aware of chaotic paths to purchase and feel the gap in understanding how demand flows through their selling channels. They feel the unintended consequences of marketing promotions (often done outside the awareness of other departments). Finally they face the stark reality that their current supply chain was developed long before anyone could anticipate the volume of direct to consumer shipments that we see today.

Average and lagging retailers point to the inadequate speed of those direct-to-consumer shipments. They are also more likely to point to information being delivered too late to be actionable. How can this be?

The answer is quite simple, really. While some retailers complain that their supply chains (and their supply chain partners) lack speed, power, and capability, Winners know their supply chain needs to be modernized to meet new demands.

Opportunities

Forecast Better, React Better

One of the main challenges for retailers going forward is that the new supply chain has to consider stores not only as destinations for inventory, but also as potential sources to accommodate surging customer demand for cross-channel order fulfillment. The legacy one-way "one-to-many" relationship between the supply chain and selling locations has given way to a more complex two-way "many-to-many" design. The result so far has been chaotic, and many retailers don't know whether new fulfillment processes are profit creating or profit destroying. But while the supply chain was not intended to support more complex many-to-many activities, retailers have been engaging in cross-channel fulfillment anyway – because customers want it. **The overarching opportunity is to figure out how to offer new order and fulfillment options to consumers and still be profitable.**

In our 2014 study, retailers rated "rethinking how sales and the cost of sales should be allocated across channels" as the top opportunity. It was a useful start; retailers needed their employees in every channel to support customers' buy anywhere/get anywhere shopping. But Retail Winners were also thinking about more systemic opportunities, favoring "improving cross-channel forecasts" and "real-time monitoring of supply chain conditions" more than other retailers. One year later, other retailers have caught up to the importance of those two opportunities (Figure 7).

Figure 7: Systemic Changes

Source: RSR Research, October 2015

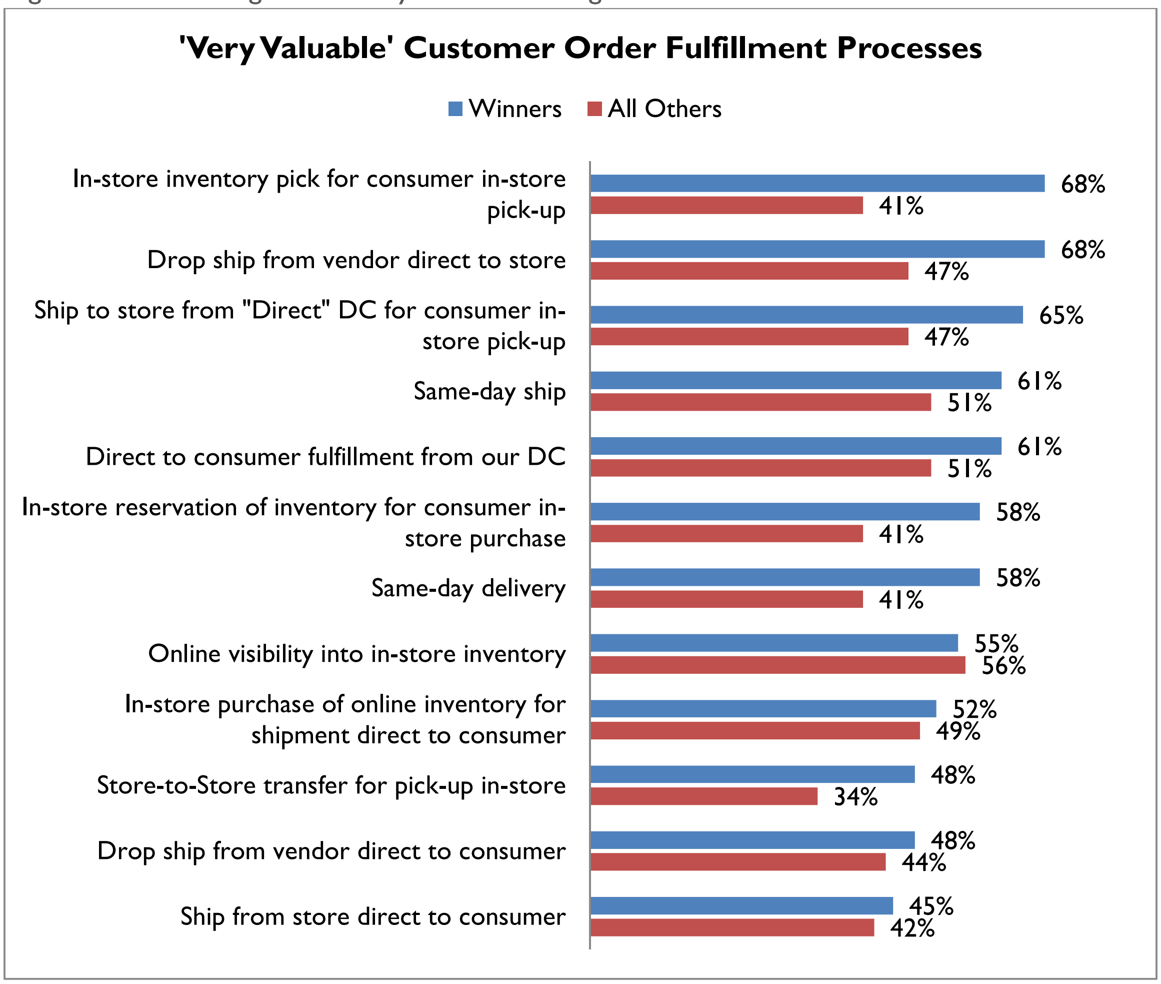
Other retailers generally have come to agree with Winners: they need systems to be updated. The goal is to forecast better by considering consumer behavioral patterns gleaned from pre-transactional activities in the digital realm like browsing, social media, etc. But they also agree that they need to react better when the unexpected still happens, thus creating the desire for more real-time monitoring.

While Winners also remain focused on improved forecasting, they have moved on to think about operational excellence in the context of consumers' buy anywhere/get anywhere shopping. They rate re-optimizing "warehouse flow between cases and eaches", and optimizing "fulfillment based on the most profitable inventory opportunity", as their top opportunities. Over-performers don't want to merely cope with cross-channel activity, they also make money at it. Just as in the past, this means shaking excess cost out of their operational processes - in short, "optimizing".

Execute Better

We saw in the **Business Challenges** section of this report that over-performing retailers in particular most frequently rate "how we fulfill it has changed due to cross-channel shopping" as a top-three business challenge. But Winners also see new fulfillment options as some of their most valuable operational opportunities (Figure 8).

Figure 8: Sourcing Flexibility – A Winning Trait



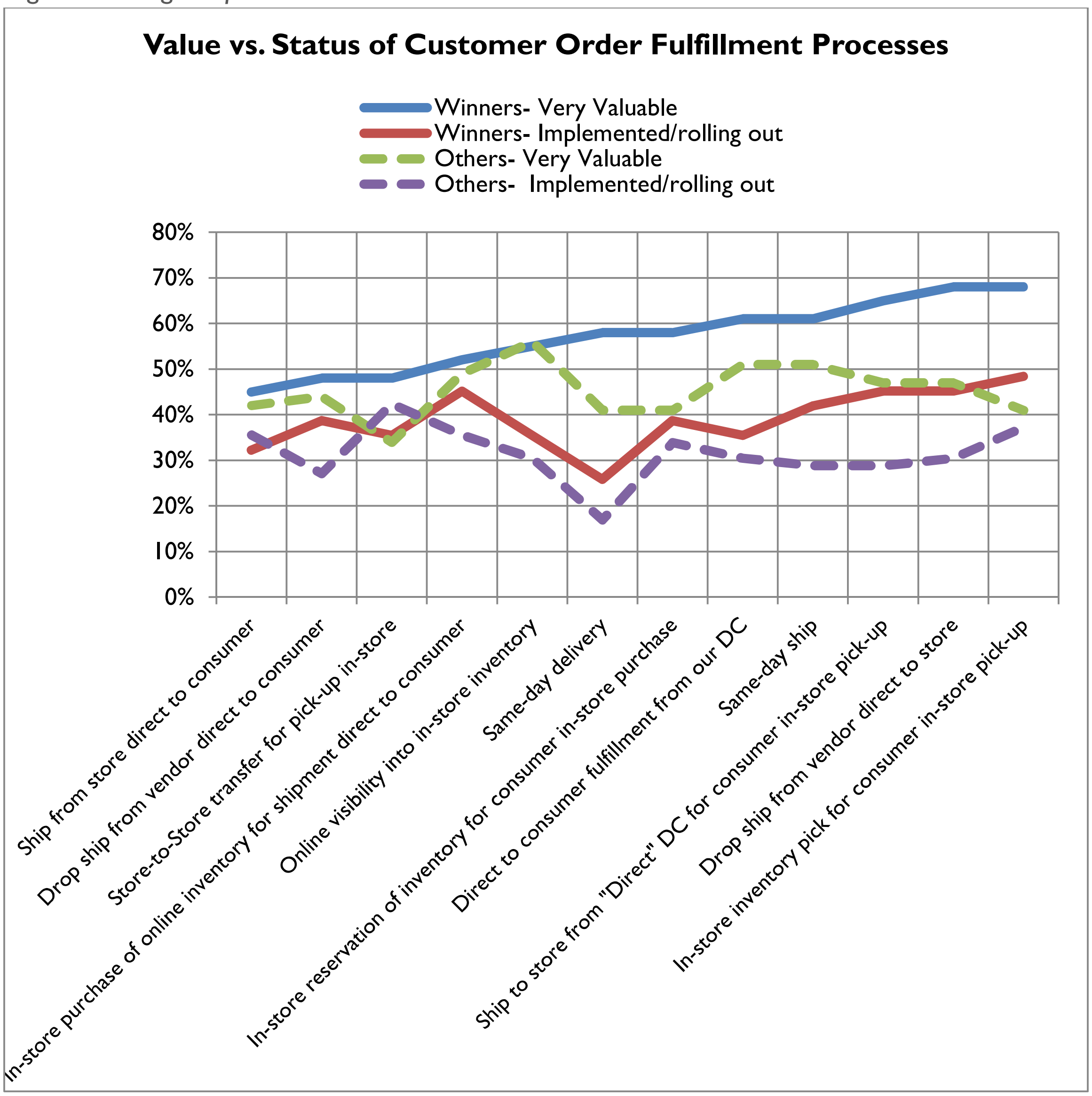
Source: RSR Research, October 2015

Across the range of options, over-performers put more emphasis on those opportunities than average and under-performers do. The most startling difference relates to "click & collect" (in-store inventory pick for customer pickup in-store). That's hardly an innovative idea at this point, and many of the world's best retailers now offer it as an option. We wonder what those retailers are thinking.

Getting It Done

Aside from agreeing with Winners that "online visibility into in-store inventory" is important, average and lagging retailers seem particularly enamored with direct delivery options to consumers. But while Winners also give those options priority, they give far more priority to options that will get consumers into the store. That helps explain why Winners have also gone farther in implementing them (Figure 9).

Figure 9: Big Gaps



Source: RSR Research, October 2015

Regardless of the performance level, however, it's clear there's still a lot of work to be done. So beyond figuring out how to offer new order and fulfillment options to consumers in ways that bolster profitability, **retailers' next greatest opportunity is to close the gap between the importance they assign to various processes and putting them in place**.

Summing Up the Opportunities

Consumers' new digitally enabled shopping behaviors represent a big change to the entire retail industry. When it comes to the impact of those behaviors on the supply chain, our survey respondents aren't necessarily questioning whether or not they need to implement operational changes. Rather, they are trying to get them prioritized properly so that they can implement those changes and move into a better, more profitable position.

While retailers generally agree that they need to **forecast better, react better and execute better**, there's some disagreement when it comes to the details. Winners put more priority on optimizing activities within their supply chains to better accommodate eaches flow from the DC to the stores and direct fulfillment centers, and on optimizing cross-channel order fulfillment to maximize the profitability of each order. But they also put a lot more emphasis on fulfillment options designed to encourage customers to go to the store. These retailers know that once a customer is inside the store, some of the most tried-and-true practices to satisfy that customer – and increase value of the transaction – can be employed.

Organizational Inhibitors

Behind Closed Doors, Real Differences

It's only logical that Winners would have a different set of internal obstacles in their plans to modernize their supply chain than their peers. Figure 10 highlights *just how differently* these two groups view a landscape that is seemingly identical from an outside point of view.

Figure 10: Similar Roadblocks, Different Reasons

Source: RSR Research, October 2015

Winners break from their competitors in a number of ways. Their most frequently cited internal challenge – getting their supply chain, merchandising and marketing teams to work in harmony – is also everyone else's. But the *reasons* this is an obstacle for them are different. **Average and lagging retailers are far more likely to report that the marketing department's increasing influence is driving unintended supply chain consequences**. This is a sticking point we've discovered in several recent reports.

And lack of investment in new selling and product information channels is coming back to haunt average and lagging retailers. Twice as many cite the emergence of new channels popping up too quickly for their inability to either assess their overall impact or support them.

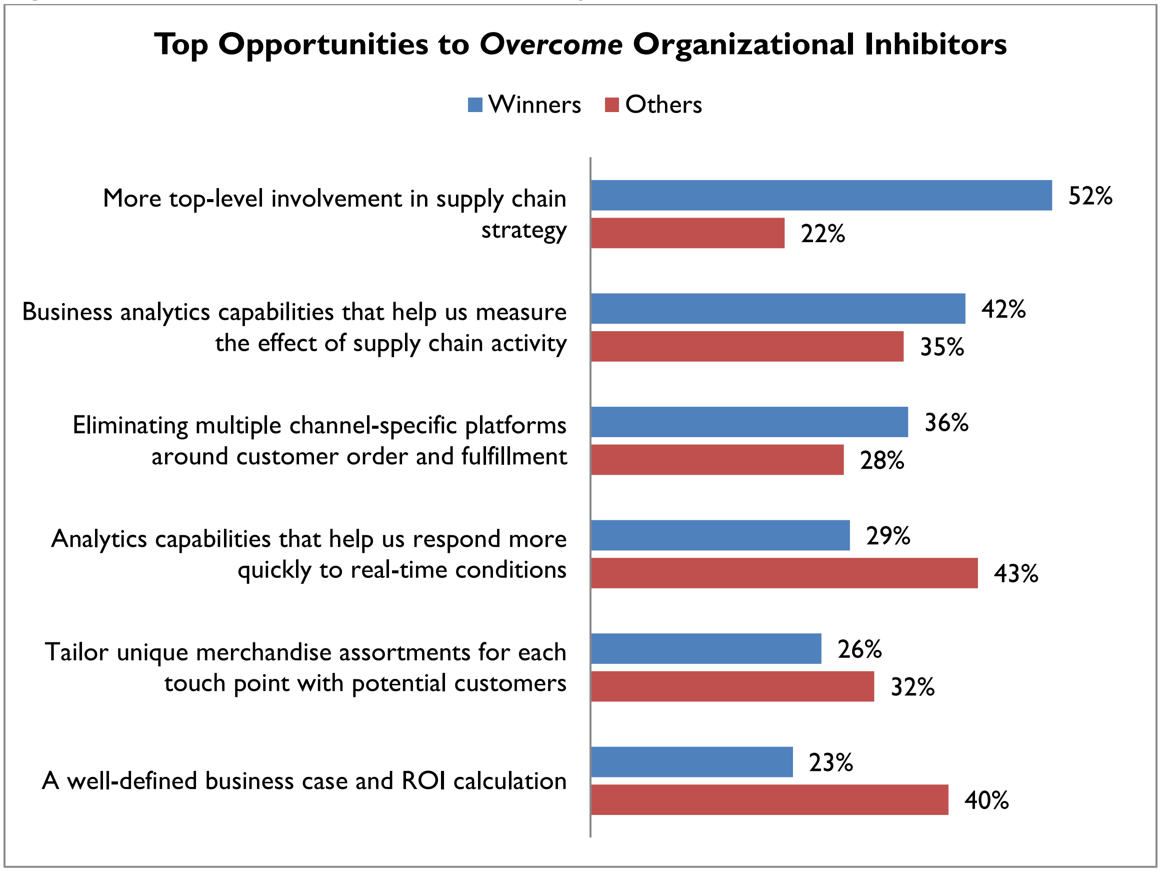
As is typical, Winners are looking at the metrics they currently use to assess supply chain efficacy. Nearly twice as many over-performing retailers report that the way they are measuring their supply chain today is based on antiquated metrics. These retailers understand that the days when cost efficiency was enough have passed.

The new consumer demands flexibility, as well. She doesn't care how a retailer manages its problems. She just cares that it can meet her needs. Quite simply, she will reward those who do with repeat business – she will shun those who can't. The best performing retailers are actively seeking new ways to fulfill these needs, even if it adds a degree of complexity and/or expense in the meantime, at least until these processes can be one day systematized and made more efficient. No one has ever cost-cut their way to success, and Winners know that *the ground work they are laying today to meet customer demands in new ways will play a vital role in determining their ability to play on in the future*.

What Now?

Given what we've seen so far, when we look at how retailers plan to get past these roadblocks, it should come as no surprise that performance plays an enormous role in how retailers prioritize what needs to happen next (Figure 11)

Figure 11: Winners See A Different Way Out



Source: RSR Research, October 2015

For Winners, it all boils down to one thing: getting more top-level executives involved in their overall supply chain strategy. This makes perfect sense: It is Winners who understand that they need to alter the metrics measuring supply chain efficiency. That simply can't happen without top-level engagement. Nor can virtually any of the opportunities they previously identified.

In fact, this single data point serves as one of the most telling indicators of this entire report: Retail Winners know that the supply chain really is the next big thing. They recognize that it needs to change. And that can't happen without C-level engagement.

It is now time to examine the ways technology can best help get them there.

Technology Enablers

Seeing Is Believing

In the **Opportunities** section of this report, we highlighted that the overarching opportunity for retailers is to figure out how to offer new order and fulfillment options to consumers and still be profitable. A key to achieving that objective is having visibility into inventory in something approaching “real time”, to support reliably committing inventory for sale. Since 2012, RSR’s supply chain benchmarks have shown that retailers across all performance groups and verticals rate “enterprise-wide visibility” and “real time inventory updates from transactional systems” among the most valuable technology enabled capabilities (Figure 12).

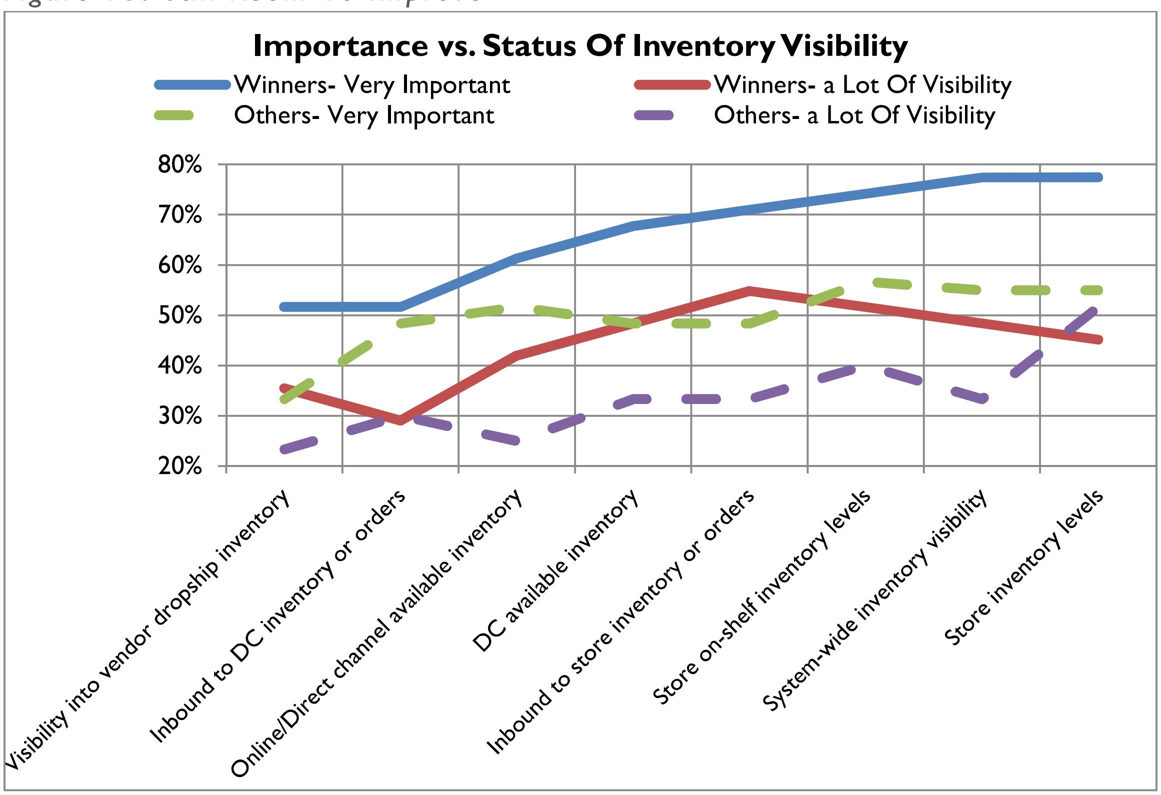
Figure 12: Chipping Away

Hi-Value Tech Enablers	2015	2014	2013	2012
Enterprise-wide inventory visibility	51%	57%	72%	83%
Real Time Inventory Updates from Transactional Systems	56%	66%	77%	76%

Source: RSR Research, October 2015

While the relative value assigned to these capabilities has trended down as retailers focus on other issues, “inventory visibility” continues to be a critical must-have, particularly for Retail Winners (Figure 13).

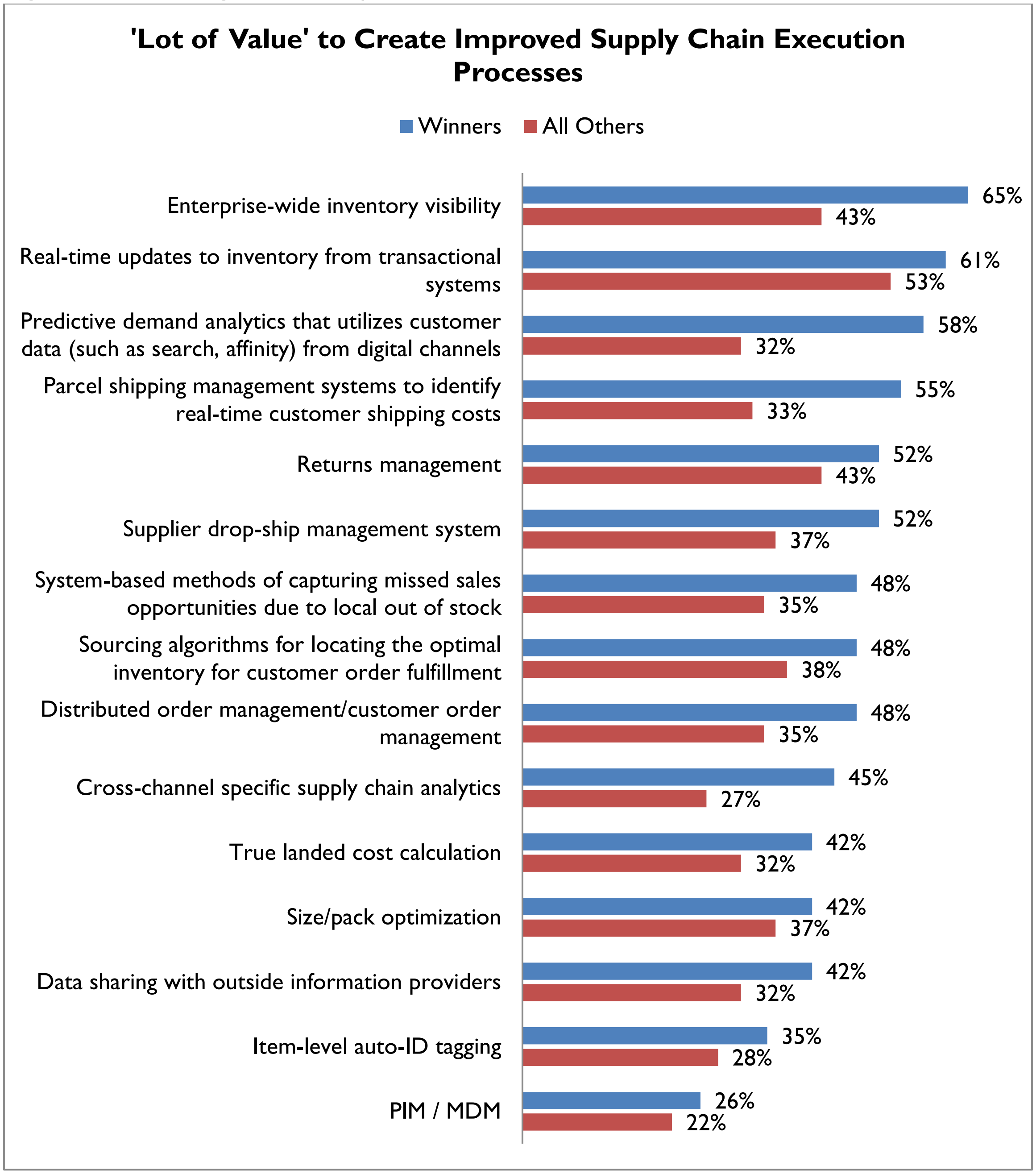
Figure 13: Still Room To Improve



Source: RSR Research, October 2015

Some retailers have advocated enabling not only employees, but also *customers* to see on-hand, inbound, and on-order inventory, to allow them to choose between higher cost immediate fulfillment and other lower cost shipping options (for example, by waiting for "on order" inventory to become available). While we saw earlier in this report that only 13% of our survey respondents rate "not enough visibility into our supply chain within our 'four walls' (store-store, store-DC, store-direct, etc.)" as a top-three operational challenge, Winners and others still strive to effectively "see" inventory throughout the enterprise. So it is no wonder that "enterprise-wide inventory visibility" and "real time updates to inventory from transaction systems" continue to be the most highly valued technology-enabled capabilities, particularly for Retail Winners (Figure 14).

Figure 14: A Long List Of Operational To-Do's



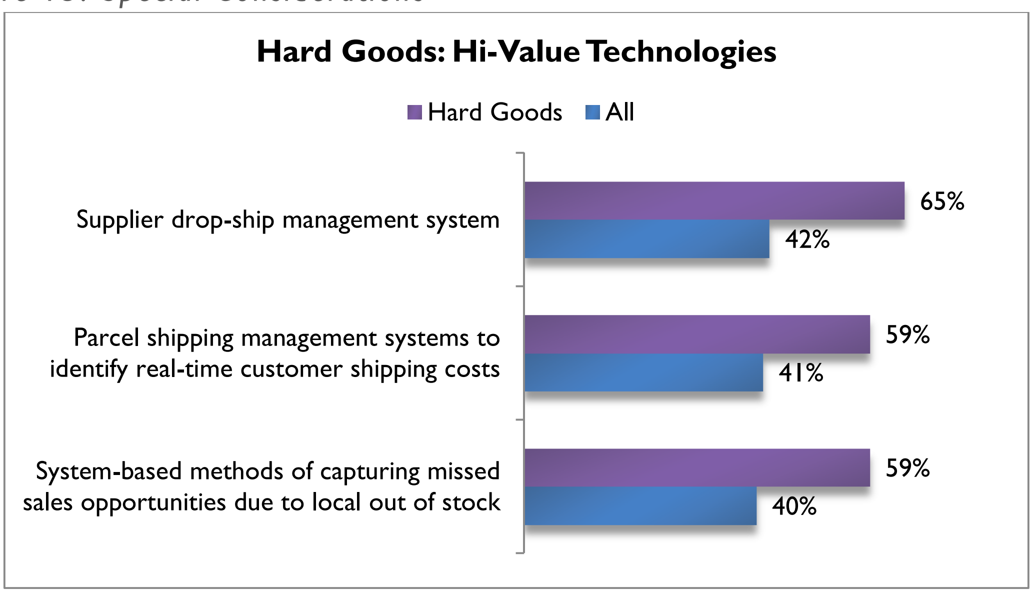
Source: RSR Research, October 2015

Differences Of Opinion

Across the board, Retail Winners put more value on technology enabled operational capabilities related to supply chain execution than do average and under-performers. But it's particularly interesting that over-performers give so much more relative weight to "Predictive demand analytics that utilizes customer data (such as search, affinity) from digital channels". In RSR's 2015 benchmark on BI & Analytics (***Advanced Analytics: Retailers Fixate On The Customer***, March 2015), we saw that Winners more highly rate analysis of non-transactional signals from consumers' digital paths to purchase. Their goal is to understand those paths better and focus their marketing efforts accordingly. In this study, we see that Winners also want to use those same signals as early indicators of *demand*. Winners also put more value on cross-channel analytics than others do. In the context of supply chain, these analytical capabilities should help retailers determine how best to align inventory to demand.

There are other differences of opinion between our survey respondents as well. For example, Hard Goods retailers (including Consumer Electronics, Home Décor, Home Improvement, and Automotive), are much more focused than their peers on the shipping side of direct fulfillment, either direct-from-vendor or from internal fulfillment locations (Figure 15). These retailers also show much more interest than their peers in systematically tracking lost sales opportunities resulting from local out of stocks. The relatively high ticket value and higher shipment costs of the merchandise they sell drive these interests.

Figure 15: Special Considerations

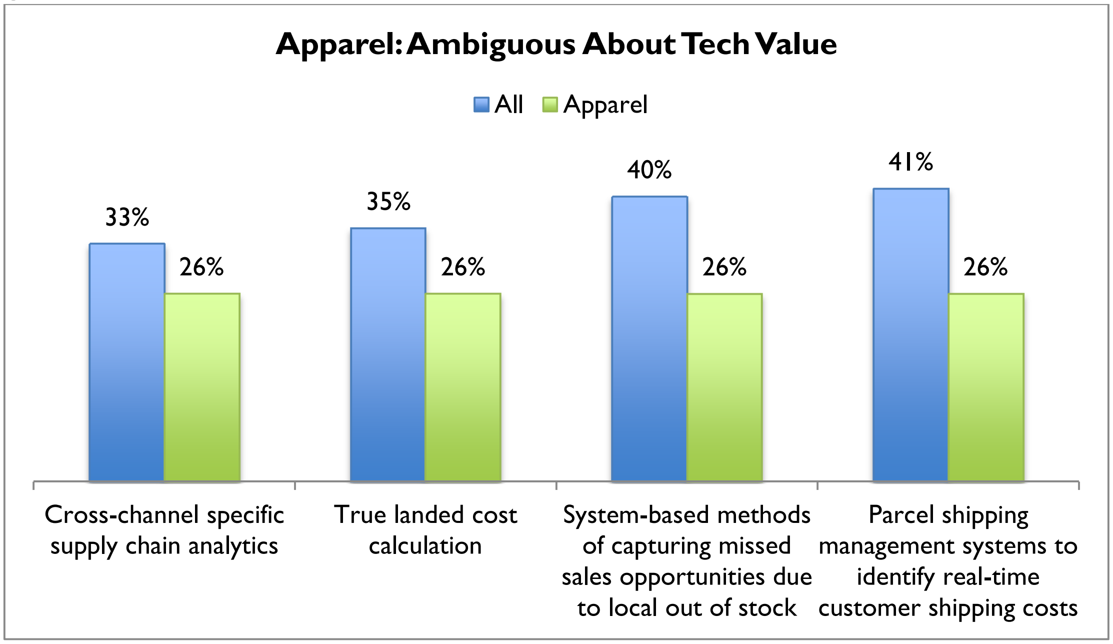


Source: RSR Research, October 2015

Hard goods retailers also express more interest in "cross channel specific supply chain analytics" than either Apparel (26%) or FMCG/GM (3%) merchants do. This is a nod to the fact that in order to sell their highly commoditized goods (that are also offered by pure-play market aggregators like Amazon), they promote cross-channel fulfillment to differentiate from the competition.

In contrast, when looking at how the different verticals value certain technology-enabled capabilities, Apparel retailers are the least enthusiastic about the possibilities (Figure 16).

Figure 16: Faint Praise



Source: RSR Research, October 2015

These findings are paradoxical. In our most recent study on Cross-channel Retailing (***Omni-Channel 2015: Taking Time, Money, Commitment And Technology***, September 2015) we found that Apparel retailers rate multi-channel customers as "significantly more profitable than single channel customers" much more highly (36%) than either FMCG and GM retailers (23%) or Hard Goods retailers (5%) do. But the findings in this study suggest that Apparel merchants are leaving money on the table by failing to analyze costs associated with cross-channel fulfillment that negatively impact the profit of each fulfilled order.

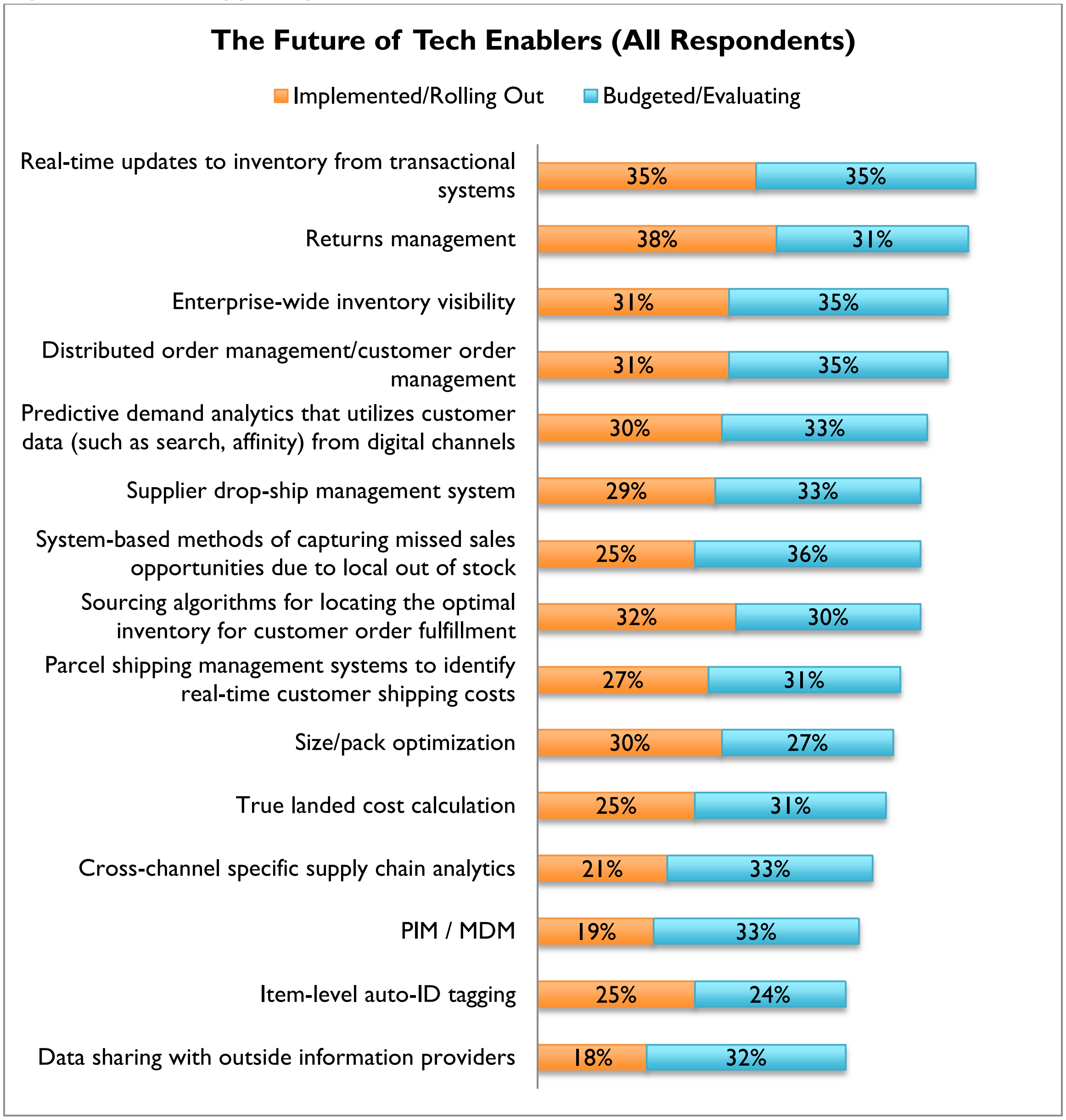
Apparel retailers also aren't as concerned about missing sales from local out of stocks as they should be, perhaps in the belief that shoppers are loyal to their Brand and will not substitute if they can't find exactly what they are looking for. It's also possible that investments in "endless aisle" technologies mitigate the impact of out of stocks. Hard goods retailers on the other hand pay close attention to those details, knowing that there are many other sources for the merchandise they sell.

Deep Into The Change Cycle

It's clear from survey responses that retailers are deep into the change cycle to improve their supply chain capabilities "within the four walls" of their enterprise, focusing primarily on how to effectively align inventory to demand coming from the different selling channels. Towards that end, their focus tends to be on three things at once: visibility, analytics, and operational efficiencies.

Being able to "see" inventory in real-time across the entire enterprise remains the top focus for retailers (Figure 17, below) and while approximately 1/3 of retailers either have or are rolling out those capabilities, another third are budgeting projects to achieve 360° real time inventory visibility. Surprisingly, 14% of all our survey respondents indicate that they have "no plans" to accomplish either "enterprise-wide inventory visibility" or "real time updates to inventory."

Figure 17: A Staggering To-Do List



Source: RSR Research, October 2015

Taken as a whole, the list of technology enablers being addressed by retailers now is staggering. All but the last two (“item-level auto-ID tagging” and “data sharing with outside information providers”) either have been or soon will be addressed by a majority of retailers. As we would expect, and beyond the data in the chart above, Retail Winners are ahead in having implemented certain capabilities, for example “real-time updates to inventory from transactional systems” (48% compared to 35% overall), “returns management” (52% compared to 38% overall), distributed order management (42% compared to 31% overall), and “predictive analytics that utilizes customer data from digital channels” (42% compared to 30% overall).

What about “outside the four walls”? While there’s clearly a lot of work being done to address inside the four walls capabilities, working with partners appears to be a Winner’s strategy. We saw earlier that Winners more highly value “data sharing with outside information providers”; when it comes to the implementation status of that capability, 39% of Winners either have implemented or are rolling it out, and another 61% have it on the books as a budgeted project. Winners understand that they are part of a value-delivery ecosystem with no boundaries.

What It All Means

The Supply Chain function has long taken advantage of technology's capabilities to enable the retail enterprise to scale up. While matching supply to demand in a consumer-driven business has never been easy, it has gotten much more difficult since consumer adoption of internet enabled mobile devices and the resulting new "omni-channel" shopping behaviors. While the basic objectives of the supply chain have not changed (to get the right products in the right quantities to the points closest to demand at the right time), the variables that go into that equation have proliferated. Most importantly, consumer demand is unpredictable and shifts constantly. As a result, supply chains must be more agile than ever before, able to redirect supply as demand requires.

The problem of course is that "agility" comes with a price tag. Retailers might feel compelled to order product in smaller quantities with shorter delivery cycles, but that limits their ability to negotiate the best cost-of-goods and increases logistics costs. Store level fulfillment of cross channel orders requires labor that didn't have to be considered in the "old days" when the store was the only source for consumers and they served themselves. Returns weren't the industry-wide problem they are today, and store-to-store shipments were the exception, not the rule.

To absorb these new costs and maintain or even improve profitability, retailers have to find new efficiencies. That's where technology can help. But most of all, retailers must keep up with consumers, who expect both the products and accurate information about those products to be available to them *on demand*, anytime and anywhere.

That can only be achieved with the help of an infusion of a new generation of technology. As we intimated in the **Research Overview** section of this report, modernizing core legacy systems such as Supply Chain is a risky undertaking. But in order to meet the demands of the new-generation selling environment, it's one that must be addressed. The good news for retailers is that modern commercially available solutions are far more "production ready" than the software of old, whether they are delivered on-premise or on-demand. The bigger challenge is to adapt business processes to take full advantage of what new information and technologies have to offer.

BOOTstrap Recommendations

Recognize The Supply Chain Moves Omni-directionally, And React

Inventory flows TO the selling locations, and FROM or BETWEEN the selling locations, just like customer orders do. This phenomenon is inherently more complex, and complexity breeds cost, so retailers have to develop new metrics that are centered around activities that consumers value. There is no “one size fits all” design for the new supply chain – it depends heavily on preferred consumer paths-to-purchase, and that in turn implies that retailers know what those paths to purchase are, and focus on optimizing the ones they most favor.

Fundamentally, every retailer needs to develop metrics that measure the true “cost to serve” of each order.

Inventory Visibility Is A Must

Accurate inventory visibility across the entire enterprise in “near real-time” remains the single most important technology enabler in the new model. This means on-hand, on-order, and in-transit inventory. This change could mean modification or even replacement of source transaction systems such as the in-store POS, but without accurate and timely inventory information, retailers will not be able to move forward and serve customers profitably.

Enhance Forecasting With New Data

Retailers are moving towards more localized assortments, based on local demand. This implies complex forecasting, planning, and allocation processes that consider not only past purchases and traditional market metrics, but also non-transactional signals from the digital realm, such as search, affinities, and social media comments. Store forecasting also needs to be both more reactive and more granular – which may require different forecasting techniques to be used in conjunction with the traditional time series statistical forecasting approach. The goal is to glean demand as soon as possible, to shorten the lag time between demand changing and reacting to meet that demand.

Move Beyond The Obvious In Order Fulfillment

Fulfilling from the location nearest the consumer might not always be the best option. Avoiding a markdown in a distant inventory location might be a better decision than just going for the lowest possible shipping cost.

When optimizing fulfillment, several things have to be considered: First, where is the inventory? Second, where can the order be fulfilled that doesn’t jeopardize a higher profit in-store sale? Third, does the fulfillment location have the labor available to perform the task? Fourth, how soon does the customer want the product? Some retailers are considering varying the shipping costs charged to consumers based on how soon they want their purchases delivered – is that an option?

Returns And Reverse Logistics Loom Large

Returns volumes are going to go up, not down. Stores accepting returns need a systematic way to easily determine whether a returned item should be returned to stock, discounted in-store or sent to the DC for allocation to an “overstock” outlet or auction site, or written off. Without a system to help make that determination, return item handling will likely be chaotic and add tremendously to cost. Look to best practices from traditional direct-to-consumer retailers like catalog operations.

Collaboration With Partners Is Key

While most of retailers' focus is "inside the four walls" of the enterprise, the supply chain extends to manufacturers and suppliers as well. Retailers in the past have (at best) shared aggregated demand with trading partners, but in a perfect world, they would share granular disaggregated demand, so that manufacturers' forecasts would more closely align with the retailers'.

Active Leadership Matters

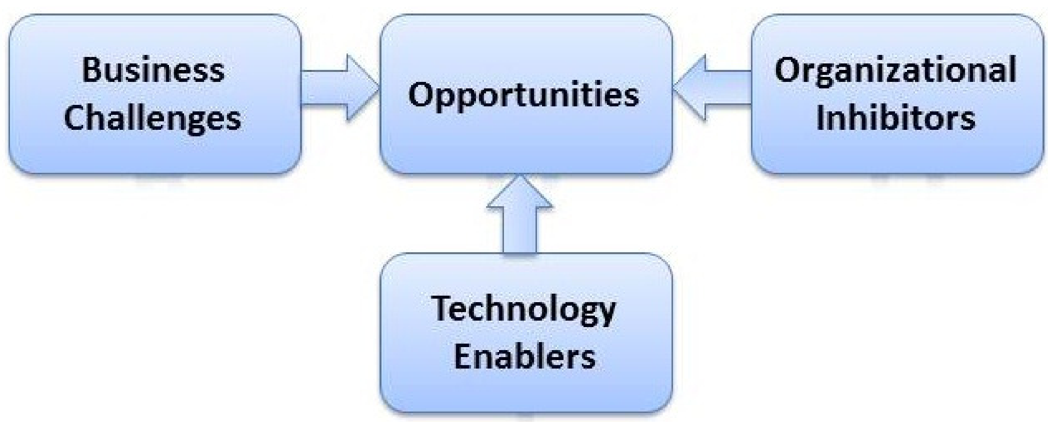
Just as the Omni-channel customer experience needs to be designed by a cadre of key line-of-business executives from Store Operations, E-Commerce, Merchandising, Marketing, and the Supply Chain, so too must the new supply chain be designed by those executives. The balance between high service and optimized supply is difficult – too much emphasis on one could destroy sales, too much on the other could destroy profits. "Agility" adds cost. How agile does your supply chain need to be? That will be entirely driven by your customer experience design.

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 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.