



Managing at the Speed of Reality

A transformation is taking place in the retail supply chain. Success will be measured by how well supply chain professionals use information and technology to improve overall business value. A supply chain strategy that is linked with operational excellence can provide success for not only the company, but also for its customers.

What's in store for supply chain and retail management professionals in the decade ahead? Prediction is very difficult, yet it is certain that the retail industry will continue to be among the most challenging and competitive sectors. This complexity should cause retailers to rethink how they manage the impact of these challenges on their supply chain. Over the next decade, information-driven collaborative supply chains will form the core of retailers' business models. Today, most supply chains are built on inventory. Inventory reserves are quite common to ensure that risks are balanced with "just-in-case" demand requirements. Companies have built-in safety stocks to adjust for inconsistent supply sources, which instills a level of constant "buy-more" trade off to make up for those suppliers who can't ship on time. To meet these challenges, the retail industry is beginning to look at the supply chain as a strategic opportunity within a broader company strategy. Retailers who have made the paradigm shift to information-driven supply chains have the visibility to sense, predict, and plan demand at granular levels and in real-time. They have upside flexibility and streamlined sales and operations planning that cut across silos.

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In a 2006 report from Economist Intelligence Unit, CEOs' top five priorities focused on driving operational excellence, streamlining innovation, managing risk and compliance, driving revenue growth and maximizing shareholder value. These goals may be more difficult to achieve than others, but in retail, when you mix competitive environment, uncertainty in global markets, thin margins, and volatility of consumer spending – it makes the objectives seem impossible to achieve. What we do know is that the supply chain is shifting and the demand side is more demanding than ever. Managing at the speed of reality has become the new norm. Retailers must transform their business to focus on a supply chain built on information, instead of inventory. Inventory turn is a common metric used in Retail. The calculation is simple; turn is equal to COGS (cost of goods sold) divided by inventory. The challenge for retailers is to focus on more productive uses of inventory. Also, with globalization and global sourcing, retailers must look to optimize supplier networks to decrease supply variability while still delivering on customer expectations of more products on the shelf.

