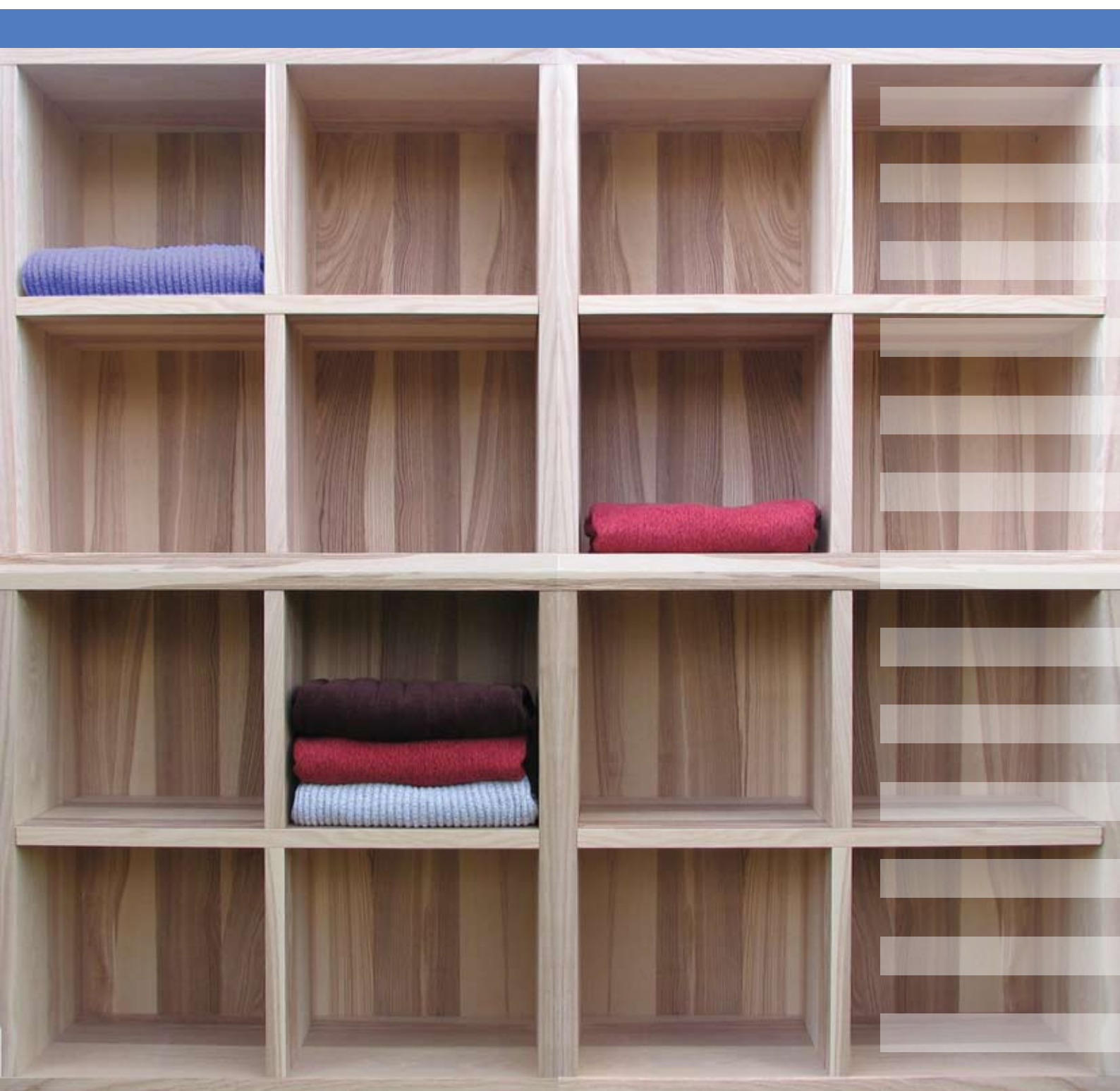


Business through the looking glass

Why the customer-centric retailer needs supply chain visibility



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Highlights

Shopping is a necessity for most, a hobby for some, and a therapy for others – depending on whether the products in the cart are food, fun or fashion.

And success in the retail industry, probably more than any other sector, is dependent on fulfilling these diverse, and often fickle, needs of customers – immediately. A potential customer who walks into a store and can't find what they want may never return, whereas a satisfied customer may become a valuable advocate.

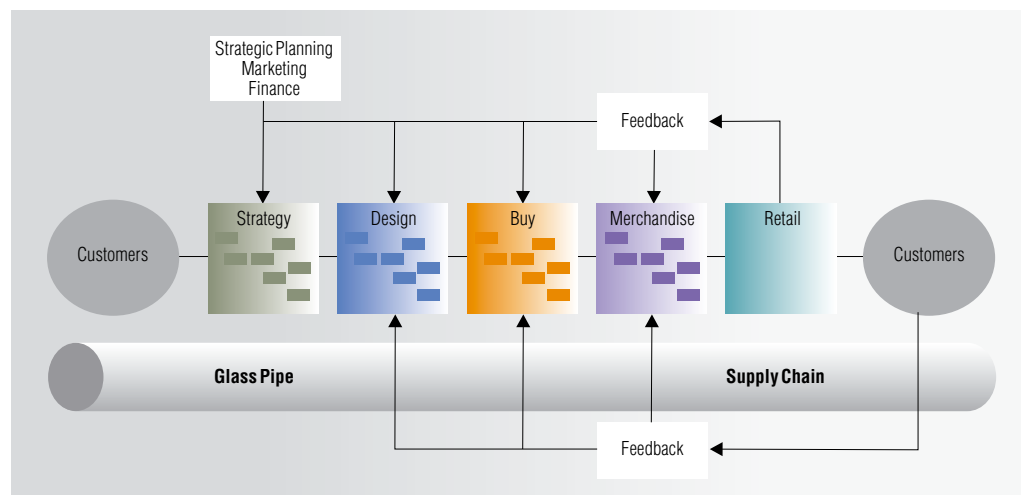
Most large retailers have a business intelligence solution in place today. But it's what they do with the vast amounts of data they now have access to that separates the truly successful merchants from the rest of the pack.

In today's multi-channel retail environment, where people can browse and buy on-line, via the phone or in the store, the most successful businesses will therefore be those that are truly customer-centric, and have an integrated supply chain with visibility of customer interactions, wherever and however they occur. This will enable them to capture customer information in real time and provide a rapid response to shoppers' buying behaviour.

Many large retailers may think they have adequate supply chain management in place, because they have a data warehouse with a Business Intelligence application running alongside it – but they are still only seeing part of the picture.

The supply chain pipeline is there (see figure 1), but it's not necessarily connected to all the sub-pipes leading to all the parts of the organisation that impact the business; and because it's not see-through, people who need critical information to make decisions quickly simply can't use it.

Figure 1: Information pipeline covering an enterprise, but with connections missing to key stakeholders such as marketing.



Highlights

Everyone in the successful enterprise is responsible for the customer experience, not just customer-facing staff. Employees in all business functions must have ready access to actionable information regardless of their job title.

The ultimate goal of today's on demand retail organisation is to have a glass pipeline running throughout the enterprise, giving an accurate view of demand and supply to anyone who needs it – employees, suppliers, business partners and – in many cases – customers. Only when there is complete integration of operations, with visibility to key data at every connection point, will a company be capable of presenting customers with the right offer via the right channel at the right time.

A few retailers in the UK have got it right, and are emerging as highly-successful multi-channel businesses, maximising available technologies to deliver exactly what their customers want, where and when they want it. But most have a long way to go.

In this paper we consider why on demand retailing must become a working reality so that everyone in the supply chain loop – from the marketing department to logistics to suppliers – can connect and collaborate to make the business more successful.

Joined up retailing

In an ideal retail world, a customer looking for a certain product in a busy high street outlet – a new design of jeans for example – would be able to check availability via a screen at a kiosk in store, which would give the number of items available and their exact location. This would save a frustrating search through rows of garments and gives customers – hopefully – a satisfying shopping experience.

A marketing professional, about to place an advertisement in the weekend newspapers would be able to find out whether there was enough stock available of the featured products to meet anticipated demand, and whether distribution staff were informed of the likely response to a promotion.

In another scenario, a customer who has bought several products online and then goes into the physical store to look at others in the same range would be recognised via the company's customer database when they take their purchases to the till. This makes the customer feel valued and enhances brand loyalty.

Highlights

Imagine a future state in which the available floor space of a high street shop is as flexible as the available page space of its website. With today's technology and the right information, that future state is clearly within reach.

This joined up, connected retail world is possible today, but few organisations are putting it into practice. Although Supply Chain managers have access to plenty of data, an on demand retailing operation goes several steps further; turning that data into a valuable resource available to all who need it.

The promise of a fully-integrated supply chain has been on the table for several years, but it's only recently that the final pieces of the infrastructure jigsaw puzzle have become available.

Now, it's possible to make the physical store as flexible as the company's web site. Merchandising departments can see which products are moving off the shelves quickest and can replenish them from other stores where demand is slower. As customers' buying patterns shift, retailers can quickly respond, altering the layout of the store if necessary, and adapting product mix and marketing communications to reflect levels of consumer interest.

Business benefits

It's been assumed that the only person who really worries about supply chain visibility is the supply chain manager. But for an on demand business, every department involved in meeting customer needs – from retail operations to marketing, merchandising and logistics – needs to share up to the minute availability information.

If all the stakeholders in customer satisfaction have access to the data they need, we would expect to see reduced out of stock situations, as products could be moved promptly from warehouses or other stores to meet local demand. There would also be a reduction in over-stocking, as companies would be able to predict customer demand much more accurately. As a consequence, capital requirements would be lowered, and there would be fewer markdowns of unsold items to clear products from the store.

Highlights

The power of visibility allows the retailer to reduce waste and lower costs while adding revenue through new customers and new products and services.

Additional benefits:

- *Reduced labour costs, as there would be fewer cycle counts, more efficient replacement algorithms, and less time spent in stockrooms*
- *Sales campaigns would be more effective, as promotional pricing and duration could be finely tuned to demand, and rather than a scatter-gun approach to marketing, companies could tailor their promotional campaigns to target audiences more likely to respond*
- *Demand forecasts would be more accurate so that production and inventories could be balanced between fast and slow-moving stores*
- *Shrink due to waste, over-production or theft – by staff or customers – would be reduced.*

All of these business benefits naturally drive down costs, which is one of two levers an organisation can pull to increase profitability. If you look at a typical retail company's business model, there are only two ways to improve the bottom line – one calls for increasing revenues by introducing new products or attracting new customers, which demands considerable investment. The other calls for reducing operating costs.

The on demand business model with a fully-integrated glass supply chain pipeline presses the second lever, enabling an organisation to increase its profitability with little capital outlay. This is what makes the glass pipeline such an interesting proposition.

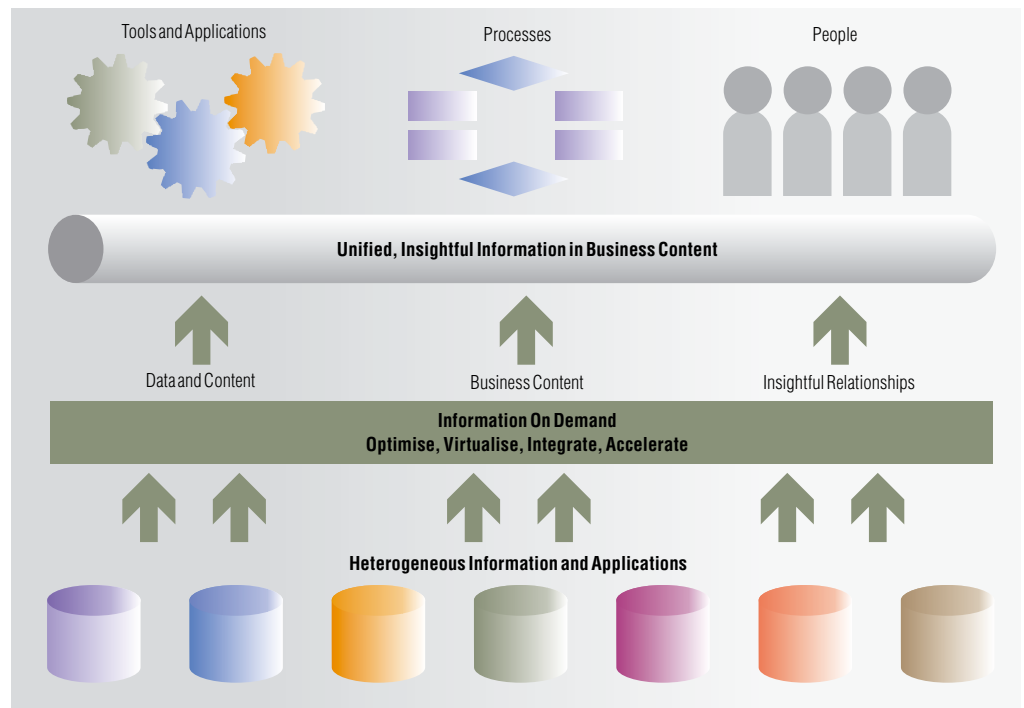
The power of visibility

Currently, information about what's happening across the enterprise on a day-to-day basis tends to sit within the domain of the Supply Chain Manager. Other departments in the organisation don't necessarily have access to inventory or availability information, and have to rely on the expertise of the Supply Chain professionals to get at the data they need. This means that Supply Chain employees' time is being taken up by internal requests for information, rather than focusing on optimising the performance of the supply chain.

Highlights

Another typical challenge is that, in most organisations, there are islands of technology and islands of expertise, but these are not always connected. People tend to feel protective about the information they own and usually demonstrate a reluctance to share it, viewing the data as a source of power and perhaps job security.

Figure 2:
Information from multiple applications needs integrating to deliver insights to business users.



However, as the VP of a retail research company says...”the true power of visibility is realised when it is accompanied by analytical capabilities for decision support and a means by which people can connect and collaborate to reach resolution and take action.”

Don't discount the organisational challenges of the Glass Pipe. Encouraging employees to trust and collaborate and share information goes against the prevailing culture in most enterprises, where those who have the data have the power.

The ability to connect and collaborate is therefore the turning point that transforms a successful business into an on demand enterprise. Within retailers, we sense a growing willingness to facilitate this.

It calls for greater trust and synergy between the technical and commercial sides of the business, and a new way of working. People have to adopt a ‘teaming to win’ approach rather than the more traditional practice of working in distinct departments.

Highlights

The e-commerce site is not just another channel. It's a rich source of data about a retailer's customers, who often share far more information about themselves and their personal preferences online than they will in-store.

As with most business transformations, ultimate success depends as much on the people as it does on the technology. Having a glass pipeline, with see-through ducts heading into every corner of the enterprise, isn't enough by itself. The business benefits will only be achieved if employees embrace this concept of co-operation.

Encouraging people to work closer together and to share information may initially require different incentive and compensation schemes, so that cross-company collaboration is rewarded financially. However, if enlightened management creates an appetite among employees for enabling customer satisfaction regardless of their job responsibility, breaking down the barriers between departments can be a whole lot easier.

Multi-channel experience

Looking at the current retail landscape, early predictions during the first explosion of e-commerce – that on-line shopping would overtake the 'real' thing – have fallen away.

Yes, there has been a 30% – 40% growth in the volume of on-line purchases, but these transactions still only account for around 4% of total retail spend. Instead of competing with e-commerce, the best retail performers have adopted integrated, multi-channel business models, so that customers can buy in a variety of ways. They can order on-line and pick up at the local store, for instance. These business models support the long-established mantra that it's far better (and cheaper) to find new reasons for your existing customers to come to you (through whatever channel they choose) than finding new ones.

Retailers can then use the knowledge they capture from on-line and in-store shopping to build the all-round customer experience. They recognise that in mature markets, there should be more of an emphasis on service, and less on the basic product.

Successful multi-channel retailers are therefore adding gifting and advisory services, as well as the proven 'if-you-like-this, you-will-probably-like-this-as-well' approach.

Highlights

The Moment of Truth has one common requirement across all its forms – data. Data about customers, about products, about transactions.

MOT tests

These offerings usually result from what we call the MOT – the Moment of Truth – for retailers, when companies look for ways to interact with their customers at key decision points to (help) close the sale.

MOT discussions concentrate on four areas:

- *Understand – which customers am I interested in?*
- *Attract – how can I provide them with the right information?*
- *Convert – how can I change potential buyers into long-term customers?*
- *Retain – how can I build a community of loyal customers?*

This Moment of Truth exercise is more compelling today, when the technology is far more advanced than it was a decade ago, and generates a lot more customer data.

The services creating the most excitement among retailers point to:

- *Understanding customers through customer intelligence and targeted promotions*
- *Attracting people through stock visibility, intuitive, fast interaction via the web site; e-ticketing and ordering via mobile phones*
- *Converting potential customers through assisted selling, in-store pickups and ordering in store*
- *Retaining a loyal base of customers through a range of social commerce initiatives, such as remembering a customer's birthday, their buying preferences or musical tastes*

Armed with the right data, companies can push forward with all four business imperatives. However, key people need to be able to access and analyse this data at the right time, and that is a considerable challenge without the connected glass pipeline, which is the focus of this paper.

The good news is that many retailers already have the technical infrastructure to support a quality pipeline, and creating the required analytical layer on top does not represent a massive investment in either time or additional infrastructure. It's more a question of how the information environment is configured, how data becomes decisions as it passes through the enterprise, and who has access to what data.

Highlights

Both external and internal influences are driving the need for supply chain visibility.

Trends to watch

Several trends in retailing strengthen the case for supply chain visibility, including:

- *Globalisation: Doing business around the world leads to a variety of management challenges – having the right information at the right place when it’s needed, as well as an array of relationship / human interaction / language / cultural hurdles to be overcome.*
- *Aging supply chain technology: the cost of infrastructure and the growing ratio of expense consumed by maintaining what we have v. investing in what we need. Many businesses are falling behind in their supply chain investments because legacy expense is consuming increasing proportions of the available IT budget.*
- *Supply lineage: highlighted by recent incidents over the quality of goods produced in China and, previously, with produce grown in the US. Being able to track and maintain the full lineage of a product from its source through to the end of its life presents massive challenges in data collection and management, as well as privacy issues.*
- *Balancing supplier oversight v. supplier responsibility: also highlighted by the Chinese product safety issues. There has been no consensus on the appropriate level of oversight of suppliers. Cost pressures tend to drive less oversight, but quality and safety concerns drive more oversight. This pendulum continues to swing at different rates across different industries at different points in time.*
- *Environmental (green) concerns: everything from materials selection to manufacturing methods, transportation and distance as well as the ability to recycle raises pollution and global warming questions. Companies singled out as ‘bad players’ can suffer as a result.*

Additionally, intense competition in the UK and some parts of Europe is increasing the reliance on Asia or Eastern European suppliers. Retailers who have traditionally worked through agents are moving towards direct imports. This is increasing the bought-in margin by between 10% and 50%.

Highlights

Information-based decision making must become a core competency of the successful retailer, whether those decisions are based on POS, customer, supply chain or product data – or preferably, some combination of all of them.

Meanwhile, the increasing demand for novelty value from consumers means that the traditional four seasons have been replaced by much shorter cycles – in some cases just four to six weeks.

Retailers therefore have to commit to much higher percentages of stock, before they have been able to assess true demand. The ability to move stock quickly to stores where demand is highest has therefore become crucial to profitability.

There is also a series of challenges in the global supply chain, which strengthen the need for on demand retailing. Products have to be brought to market faster and it's becoming more difficult to forecast demand. The opportunity window is smaller, so margins face the double impact of stock obsolescence and markdowns.

The move to global sourcing naturally lengthens transit times and impacts logistics costs. Of course, the issues that face retailers – whether that's fashion, food, or fun – also challenge overlapping sectors, such as petroleum companies who run vast retailing empires.

Every retailer, in no matter what guise, needs greater visibility of stock as it moves in and out of the organisation. However, as we said earlier, it is not a huge leap – in technological terms – to move from an adequate supply chain to an ideal retail environment with supply chain transparency and cross-company collaboration.

There's probably never been a better time to make the connection, and to ensure that when it comes to supply and demand, everyone who needs to, gets a look in.

Next steps

For more information on related topics and to browse through additional materials written by IBM specialists for business executives, please visit our web site: www.ibm.com/retail

You can also contact your IBM representative to discuss how to build the glass pipeline that will connect your organisation from end to end.

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