

# White Paper

## Facing the New Retail Reality

### The Top 5 Issues Facing Retail Supply Chains Today

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*What you will learn:*

- ✓ How to drive profitability with the ever changing consumer demands and Omni-channel expectations
  - ✓ How to integrate and synchronize business processes to get total visibility across the global supply chain
  - ✓ How to be more agile and anticipate compliance and quality issues
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## Executive Summary

Retailers today are faced with unprecedented challenges ranging from shifting retail formats, overabundance of consumer choice, fast-changing technology, greater focus on quality and price to a tough economic climate. The result is that those who are not constantly innovating run the risk of falling behind. This white paper looks at the top five supply chain challenges that retailers face today and maps out a series of strategies to address these challenges based on research and direct experience in supporting retailers to maintain a competitive advantage in a highly competitive market.

## Introduction

Based on extensive industry research and consultation with industry analysts and our customers, we have identified the following top key five challenges that retailers commonly face. In no specific order, these challenges are:

## The top 5 issues facing retailers today

1. Slipping profit margins
2. Inefficiency in operations
3. Lack of responsiveness to trends
4. Poor quality & regulatory compliance
5. Inability to integrate selling channels

*"Supply Chain volatility and uncertainty have permanently increased"*

**Supply Chain Digest**

## Slipping Profit Margins

### *A perfect storm of retail challenges*

The bottom line is profit and one might say that retailers today are facing a perfect storm of challenges to profitability. "Improving profit margins," was cited as one of the top objectives driving IT investments (45.7% overall) in an IDC Retail Insights Survey. The global economy is still on uncertain ground, consumers have ever-changing expectations and price-sensitivity exacerbated by the great recession. All affect retail sales. While pressure exists to keep prices low, at the same time raw material and other costs are increasing which is making it harder to remain profitable.

## Operational Inefficiency

### *Managing complexity and rapid change*

Managing complexity and rapid change is probably the hardest thing for a retailer to do; yet this is necessary if they want to maintain an efficient operation. Lack of communication, collaboration and consistency across organizations are hampered by silos of information and lack of visibility across key supply chain functions. Dependency on manual and cumbersome processes holds companies back and operations running on spreadsheets are not scalable. According to a 2014 Supply Chain Benchmark study from Boston Retail Partners, "46% North American Retailers use static spreadsheets to manage their supply chain planning." While supply chain management is often still not a boardroom agenda item, companies want leaner inventory, more efficient processes and just-in-time delivery, which supply chains must implement and support.

## Trend Responsiveness

### *The unrelenting consumer*

Consumers are demanding greater variety of cheaper, high quality, socially responsible products, delivered across multiple channels, consistently and in less time. It's clear that today's consumers are focused on convenience and driving the demand, and they expect their retailer of choice to provide this convenience across all channels. There is a significant disconnect between what consumers want from an Omni-channel retailer and the Omni-channel capabilities that retailers are providing today and this starts with a disjointed and less than streamlined supply chain. More seasonal ranges and assortments must be developed, sourced and produced just-in-time to service multiple markets, channels and meet consumer demands. This requires a seamless and agile supply chain.

## Quality & Regulatory Compliance

### *Compliance is not a choice*

Consumers expect quality products regardless of whether they are branded, private or exclusive label and they hold retailers accountable for supplier quality. At the same time, compliance is increasing in complexity as governments and consumer bodies' mandate and enforce more regulatory measures and quality standards. Corporate social responsibility is no longer an option – labor, environment and product quality directly impact both brand image and the bottom line. Today's consumers are more knowledgeable and look at the compliance and regulatory adherence as part of the brand.

## Omni-channel Integration

### *Variety breeds complexity and dissociation*

Multiple selling channels are expanding outside of brick and mortar retail including online retail which is expected to grow at a CAGR of 10%+ through 2015. According to Shop.org, consumers today use at least three channels when shopping, spend up to ten times more and generate 25-50% more profit, with a much higher rate of customer loyalty. Consistency of product offering, quality, price and customer experience is required across all channels. Different selling channels usually operate independently which results in duplication of effort and inefficiencies throughout the supply chain starting as early as planning and sourcing of the products. To ensure the success of consistency across multichannel programs, retailers must align organizational objectives, transform business processes, streamline order and inventory management and deliver consumers pertinent information.

# Top 5 Strategies to Meet the Challenges

Going forward, in order to respond quickly to increasingly unpredictable consumer demands and ever-more complex markets with targeted product development and sourcing decisions, retailers and brands will need to ensure that their design, merchandising, logistics and suppliers are more integrated process-wise than ever before. They will need a carefully selected stable of sourcing regions as well as supplier partnerships setup to provide them with a high degree of control, agility and visibility into the end-to-end supply chain. In order to simplify global sourcing, retailers need to transform by adopting collaboration and becoming more social throughout the enterprise. This will result in a fast friction-free supply chain. The supply chain business processes from plan to pay should be streamlined and integrated on a single intelligent collaboration platform in the Cloud.

## 1. Drive Profitability

### *Preparing for the storm*

Expanding direct global sourcing and growing private label ranges will continue to be key retail margin improvement initiatives. Successful retailers will seek to mitigate pricing pressures by providing more features and choice, by adding more assortments and scaling their product development, sourcing and production activities. Retailers must also renegotiate supplier agreements to more of a partnership and rethink their distribution channels. Greater visibility and predictability into cost components throughout the product lifecycle will also be an ongoing margin improvement priority, as will be the requirement to adopt new technology to support these initiatives. According to an IDC Global Retail Insights survey, “Retail Product Lifecycle Management (PLM) applications improve bottom-line and top-line performance by enhancing supply chain visibility and responsiveness, eliminating the gaps between planning and execution.” A PLM platform that delivers all users globally with the same visibility and collaboration will support the transformation initiatives.

## 2. Streamline Operations

### *Build a visible collaborative supply chain*

Building a more efficient supply chain involves optimizing resources, accelerating product cycle times, reducing inventory and enabling greater communication and collaboration across internal and external stakeholders. Retail supply chain process improvements supported by best-in-class technology allow you to connect disparate functions and enable true end-to-end supply chain collaboration. Shifting from manual

processes performed in isolation to centralized automated processes should continue to be a priority for most retailers. According to IDC, retailers who adopted PLM solutions in their organization saw: increased gross margins of 5-9%, a more unified sourcing process with reduced costs of 25%, a reduction in lead times of 15-20%, direct sourcing cost savings of more than 12%, improved compliance and improved product quality and safety.

### 3. Swift Response

#### *Flexible, able and ready*

Accurate, real-time information integration and sharing provides flexibility, responsiveness and the ability to make informed decisions. Technology enabled process solutions such as Retail PLM and integrated strategic sourcing help retailers to streamline their supply chains to manage growing complexity and fast track their product development. Collaboration internally within the operational areas and the external extended supply chain of partners, suppliers and vendors are essential to providing flexibility and the ability to react quickly to meet delivery dates.

### 4. Proactive Compliance

#### *Anticipate compliance requirements*

Retailers today need to anticipate rather than react to compliance requirements. Processes and systems, which proactively manage, track, update and report on quality and compliance data mitigate risks and prevent downstream problems. A zero tolerance quality and compliance policy; a real-time supplier management process based on collaboration provide the most effective consumer brand loyalty insurance policy. Some of the approaches towards compliance of best-in-class retailers include; working with suppliers/partners to build management capacity; training workers and managers on labor rights, health and safety protocols; and tracking key performance indicators. Other initiatives might include evaluating and instituting ways to empower workers; examining purchasing practices to assess violations and increasing reporting and audits providing the supply chain with real-time findings.

## 5. Seamless Channels

### *Integrating processes builds same experience*

Retailers now have to put the systems in place to provide the back end supply chain processes to ensure the eco-system is working together and remove the silos of workers and systems supporting the supply chain. Integration of information, visibility into processes, combined with accurate and timely information sharing is essential to retail channel integration. These new processes, business transformation and technology solutions enable retailers to effectively understand, service and manage The Omni-channel retail demands.

## WHAT can you do?

Each retailer should define its own priorities and establish a change strategy which at minimum considers the following:

- + Identify current barriers of visibility and operational inefficiencies from concept to fulfillment.
- + Establish a strategy that provides real-time collaboration with the extended supply chain to meet short and long term objectives.
- + Create the KPI's and analytics to manage your business real-time project by project and holistically holding all parties accountable.
- + Partner with a vendor with expertise in global infrastructures and cultural differences to guide you and assist you in change management to improve the supply chain.

## Conclusion

The unfolding retail landscape is looking very different to the old one. Who could have predicted that online retail sales would overtake brick and mortar sales in the space of a few decades? To thrive in this new paradigm, retailers have had to reinvent themselves by creating their own brands and finding new markets to source and sell their products. Most importantly success in the new era will be defined by who has the most creative and efficient supply chain, where products are manufactured virtually and distributed to consumers seamlessly through multiple channels.

#### About the Author



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Tim Chiu serves as the senior vice president of client management for CBX Software. He has over 20 years of experience in supporting global sourcing automation and information technology that enables collaboration between global commerce communities. Tim has helped numerous leading retailers and brands improve global sourcing efficiency by implementing retail merchandising, global sourcing, vendor management, and vendor collaboration solutions that provide measurable benefits. With a varied background in IT and workflow process consulting, Tim is a frequent speaker on the topic of global sourcing for the retail industry.

## About CBX Software

CBX Software has simplified the business of global sourcing; transforming traditional methodologies into fast, friction free supply chains through our real-time cloud based Total Sourcing Management Platform (TSM). We help retailers, brands and manufacturers manage and empower the supply chain from plan to pay - one intelligent collaboration solution for an enterprise to plan, spec, source, assure quality, order, make, inspect, ship and pay. Over 20,000 users in more than 30 countries rely on CBX including: Target, Safeway, Kmart and others. Visit us at [cbxsoftware.com](http://cbxsoftware.com), follow us on Twitter at [@cbxsoftware](https://twitter.com/cbxsoftware), like us on [Facebook](https://www.facebook.com/cbxsoftware) and visit our [LinkedIn](https://www.linkedin.com/company/cbxsoftware) page.

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