

Retailers' Search for New Growth Opportunities Requires a Streamlined Operations Model

A prescriptive guide to help retailers in deploying an effective and comprehensive operations, financial and supply chain strategy using modern ERP for retail.



Retail commerce's growth in terms of stores, sourcing, supply chain partners and overall supply chain footprints extends into new channels, brands and international locations. Such trends highlight an increasing need for streamlining the financial and physical supply chain. The three pillars of a streamlined operations strategy for brand expansion and international growth must include creation of one view of demand that leads to higher demand forecast accuracy, development of multi-attribute consumer insight-led assortments to suit local and inter-country product affinity, and deployment of a single view of order (from sourcing to delivery), integrated finance and logistics, and real-time inventory.

Introduction

The status quo surrounding redundant and outdated operations is no longer an option for retailers who aspire to execute profitably both locally as well as internationally. The uncertainty in Europe over Brexit, rising wage pressures in low cost sourcing countries, rising inventory unit costs, weak global freight transit and major currency fluctuations are macro trends that are shaping sourcing and supply chain operations for global retailers. However, despite such a tepid outlook, products still need to be sourced, customers need to be serviced and new markets need to be conquered.

**Ranked 2.56
on weighted
score out
of 3¹**

The single biggest business challenge related to sourcing and retail supply chain operations is the need for greater speed to market.

In order to respond to speed to market and customer demand, a number of retailers are going beyond their traditional footholds into new markets, such as international expansion, with an aim to serve new customer segments with the right assortment generating unique revenue streams.

While finding faster response to customer demand is the age-old problem for retailers, the importance of streamlined operations has amplified lately and may just be the silver lining that retailers are desperately seeking today. Retail commerce is growing in terms of increased investments in stores, digital, sourcing, supply chain partners and overall supply chain footprints in new international locations. Such trends highlight a growing need for streamlining the financial and physical supply chain operations.

This report details why and how retailers must deploy a comprehensive strategy to streamline financial, supply chain and merchandising operations in the context of new retail growth drivers including international markets expansion and new business models and brands.

The Reality of Retail Operations and Related Business Challenges

To drive new growth, many mid-size and large retailers in recent years have painstakingly introduced and pieced together new stores, channels, brands, and multi-country presence executing day-to-day to sales, distribution, and operationally-related functions.

This growth includes functions and processes in the physical stores, digital channels and distribution centers such as sourcing, product development, precision assortment/collections & merchandise planning, inventory management, logistics, order management, supplier management, fulfillment, merchandising and financial management.

In order to run operations effectively, retailers need strategic, well-coordinated and balanced operational capabilities. However, in reality, the true state of global retail operations for a wide majority of retailers is quite different. This reality has often been created by rapid expansion. Gaps within sourcing, logistics, inventory, merchandising, order management and overall operations are plenty. Moreover, managing geographically dispersed stores across countries, distribution centers, digital channels and a robust trading partner network is difficult to execute. Several retailers are facing significant costs in their international operations due to complicated contracts with franchise stores, local suppliers and other local partners.

As cited earlier, the speed to market and expansion challenge is engulfing retailers across the board. However, the lack of seamless operations is manifested in several related business and operational challenges including:

1. Demand-supply gaps

Demand forecast accuracy is a function of reading demand signals at customer points-of-decision on a timely basis across sales channels and developing accurate forecasts for merchandise buys in line with market trends.



More than 1 in 3 retailers believe the most critical challenge is the lack of predictive tools to forecast customer demand accurately leading to lack of sell-through, demand-supply gaps and margin loss.²

More than 1 in 3 retailers deal with a large group (1000+) of suppliers that are spread in different parts of the world which makes sharing timely and accurate forecasts with the supplier community a challenge.³

2. Non-budgeted cost overheads

Additional business complexities surface when retailers launch multi-brand stores, outlets, digital channels and expand into new countries/markets including complex regulatory, equity partnership and franchise requirements. Such complexities often lead to hefty unforeseen investments and other overheads that delay time to market and profitability.



1 in 2 retailers are encountering high cost of store operations due to a gradual increase in wage rates, rising real estate cost, and high fulfillment and merchandise unit costs.⁴

3. Legacy systems and processes

Several problems exist related to outdated enterprise resource planning (ERP) and other operational systems (e.g., merchandising, sourcing, finance, etc.) that retailers use across different brands, channels, supply chains and in different countries. There are several vital missing links including lack of process integration, disparate systems interfaces, disconnected data management and inconsistent key performance indicators (KPIs). There is a need to bridge strategic planning, budgeting, business process automation and day-to-day execution in a global yet local setting to effectively manage and optimize operations.



3 in 5 retailers believe a big challenge for them is the outdated and siloed nature of operational systems that counteract the benefits of unified and streamlined multi-country operations.⁵

A global retailer with multiple brands, stores and channels located in a few countries in addition to the home country can find these challenges daunting; especially in the fiscally unpredictable environment retailers operate in today. In the next part of this report, we will explore how retailers can overcome these challenges through a combination of strategies, capabilities and technology enablers.

Key Impact Areas



Achieving higher demand forecast accuracy

A renewed emphasis on streamlined operations is required to make international and brand expansion successful. This renewed emphasis should focus on achieving one view of demand and higher demand forecast accuracy so that retailers can timely sense demand and optimally source.

Addressing and managing demand as close to the consumer and market trends as possible but supported by global demand planning optimization can help retailers overcome many of the challenges of international and brand expansion. Benefits to the business include improved inventory turnover and faster cash-to-cash cycles.

Additionally, in distributed store, fulfillment and logistics environments that are spread over several countries or different brands, retailers need an integrated ERP optimization approach - one that provides one view of financials, orders and cost management for optimal resource and financial operations management. Streamlined financial operations requires deep financial insights across all operations regarding invoices, payments, charge backs and settlements in the sourcing to delivery process followed by the retailers and their partners. But that is only one aspect of the needed capabilities.



Deploying multi-attribute consumer insight-led assortments

The second aspect, which is a critical component in addressing retail's growth, brand expansion and international operations, is the multi-attribute consumer insight-led assortments that are needed to help retailers support brand, local and inter-country product affinity. Only 4 in 10 retailers possess such a capability today.

In an expansive brand and international environment, retailers also need to align merchandise plans with the assortment plans and allocation. Both global and local assortments require retailers to allocate appropriate SKUs at the brand, category, department or class levels to meet local demand for merchandise availability based on product preferences and affinities by customer groups. This capability helps retailers maintain optimum levels of pre-season, in-season and end-of season assortments to engage customers and sell merchandise at a profitable margin.

Key Impact Areas



Exerting control over global supply chain

Alongside multi-attribute and consumer-insight led assortments, the third big strategic capability is exerting control over global supply chain in terms of achieving a single view of order (from sourcing to delivery), integrated finance and logistics, and real-time inventory management. This capability helps retailers maintain robust supplier relationships, optimum inventory visibility, and accurate in-stock levels. These steps help retailers and suppliers attain one view of product/order throughout the supply chain cycle, and ensure profitable sell-through and efficient fulfillment of demand.

Case study #1

A global luxury fashion retailer is unifying its operations across its growing set of international locations. Local decisions and execution supported by global optimization across demand planning, supply chain management, and financial management and costing is helping this brand leader deliver a more consistent customer experience while improving profitably.

Building Capabilities and Enablers for Streamlining Operations

Retailers need a unified and integrated retail enterprise resource planning (ERP) and streamlined operations platform approach to streamline international operations. Across different brands, countries, supplier and distribution sites, global retailers require homogenous standards to create one view of customer, product, order, and finance across different brick and clicks operating models. These capabilities and technology enablers for streamlining international operations are based upon 3 pillars:



Effective demand management with accurate forecasts

This pillar is one of the most complicated capabilities with system requirement areas of retail planning and execution. An effective demand forecasting strategy requires a demand signal repository (DSR) that can read, analyze, and calculate different demand scenarios using both structured and unstructured demand data.

Besides demand data aggregation, demand signal repositories need to possess advanced algorithms, heuristics, advanced forecasting, re-forecasting, and scenario-building capabilities. Retailers must be more agile in addressing this operational and strategic planning and the budgeting-related shortcomings.

Effective demand management and forecast accuracy also enables companies to better balance top line and bottom line with merchandise planning, buys, order management and allocation. As a result of high forecast accuracy, retailers can respond to global demand through more accurate bulk orders, direct drop shipments, alerts and allocation.



1 in 3 retailers consider demand forecast accuracy/demand signal repositories (DSR) as a top 3 investment area for merchandising improvements in 2016 and beyond.⁶



Assortment/collection planning and management based on multiple attributes

Assortment planning in an expansive brand or international context is no easy task as it involves a careful balance between country-level localized needs, product affinity and inter-country assortment requirements that need common attribute-based planning (product, consumer affinity related, others). A good example is fashion and apparel retailers who operate in a multi-country European retail model. Many such retailers create an equal number of common and localized collections or assortments to sell through merchandise in countries where some demographics and affinities are similar. Better integration of multi-attribute based planning is needed for more optimum pre-season, in-season and end-of season merchandise and assortment plans.



2 in 5 retailers currently create assortments based on multiple attributes.⁷



Single view of operations & financial processes with integrated global supply chain logistics

With consumers expecting anytime, anywhere shopping and fulfillment, retailers and suppliers have to work together to find out alternative delivery and order fulfillment models, which will have an impact on the existing transportation and logistics models.



1 in 3 retailers are fulfilling customer orders directly from suppliers/manufacturers.⁹

Global omnichannel transactions that have the maximum impact on a retailer's:

31% transportation & logistics models

29% network expansion strategies

29% technology systems

28% supply chain tier network



2 in 5 retailers using 3rd party or e-fulfillment partners.¹⁰

⁷ EKN 3rd Annual Customer-centric Omni-channel Merchandising Survey, 2015 | ⁸ EKN 3rd Annual Omni-Channel Merchandising Strategies, 2015

⁹ EKN Order Management survey, 2014 | ¹⁰ EKN Order Management survey, 2014

As indicated in [EKN's 2015 supply chain network effect report](#), multi-country transactions generate huge volumes of data related to products, inventory, sales, invoice management, payments, etc. In addition, these transactions increase the complexity of various processes, which manual processes/systems cannot handle/support.

Manual process/systems are highlighted as the key retailer-supplier collaboration challenge, but with growing number of transactions and resulting increase in supply chain complexities, retailers will have to adopt new automated technology systems. These systems can support huge volume of data, automate and create real-time visibility for different supply chain related processes including but not limited to inventory, order, logistics and financial management.

The top-3 most important processes to be positively impacted by implementing technology system (in terms of automating the process) are:¹²



Purchase order management



Compliance/audit management



Product specification management



4 in 5 retailers would have done some form of automation by end of 2015 to purchase order management, sales orders capture and invoicing and payment tracking by deploying an appropriate solution for it.¹³

The more cohesively these solutions are tied using a platform strategy¹⁴ the better the solution performance for the retailer as they can create order visibility and collaborative source-deliver-payment settlement process environment.

¹¹ EKN Thriving in the Omni-Supply Chain Via Network Effect Report, 2015 | ¹² EKN Order Management survey, 2014 | ¹³ EKN Order Management survey, 2014

¹⁴ Note: Platform strategies relate to developing and manufacturing a family of product variants derived from a common platform and/or modular architecture. Reuse of components, processes and design solutions leads to advantages in learning curves and economies of scale.

Case study #2

One of the world's largest retailers is expanding into new markets through a new brands model. Supporting this new model required this retailer to implement a new retail management system (from finance to the point of sale) that provides the flexibility to support local market requirements while providing the global management capabilities to drive its low-price business model. This retailer relies on global supply chain management capabilities to support its low-price model, including an innovative automated store replenishment capability to lower costs of product ordering.

Conclusion

Building a 21st century global retailing operation requires re-thinking and in many ways re-engineering multi-country, multi-channel and multi-site operations including merchandising, financial supply chain and physical supply chain. However, it cannot be done at all once. A phased approach is ideal to transform international retail operations.

Streamlining international operations requires a unified and updated ERP-led strategy along with an integrated platform approach that comprises of varied point applications such as sourcing, product development, precision assortment/collections & merchandise planning, inventory management, logistics, order management, supplier management, fulfillment, merchandising and financial management.

Any global retailer that wishes to improve the status quo surrounding their multi-country operations should plan on adopting three pillars that aid streamlining international operations integral to the unified ERP and platform approach:



- Effective demand management with accurate forecasts.



- Assortment/collection planning and management based on multiple attributes (from sourcing to delivery).



- Single view of operations & financial processes with integrated global supply chain logistics.

Recommendation

ST

Short-term

MT

Medium-term

LT

Long-term



Conduct a comprehensive operations audit covering organization, process capabilities and technology with a focus on ERP and point applications that enable one view of customer, order, finance, logistics and supply chain. Identify in-country and multi-country process and technology integration gaps. ST



Adopt or update causal or time-series based integrated demand forecasting systems for all channels and change legacy ERP-based approaches for improving demand latency throughout the enterprise. MT



Focus on creating shared visibility for all internal and external stakeholders into short-term customer demand. As demand is generated or changes, the supplier is able to deliver the necessary stock of items. MT



Create a micro-assortment and advanced clustering strategy for precision merchandising. Establish assortment localization and advanced store clustering by using local store market category variance analysis, unit/volume analysis, multiple product/consumer attributes and data related to other local market events including sudden demographic shifts, competitive factors, cannibalization, halo effect and specific revenue per square foot shifts. MT



Pursue real-time data sharing/connectivity in critical areas such as sales data, contract management, unified sales and purchase order visibility, product specifications, compliance, materials management, quality, shared logistics, shipping notices, supplier performance, finance, payments and settlements. MT

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