THE STATE OF THE RETAIL SUPPLY CHAIN

Results and Findings of the 2010 Study

Developed By

AUBURN
COLLEGE OF BUSINESS
Supply Chain Management

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2010 State of the Retail Supply Chain

RILA and Auburn University's annual study on the State of the Retail Supply Chain brings together the industry's leading retailers from North America to examine the year's current trends, best practices and the foremost issues impacting the strategy and planning of retail supply chains now and in the near future.

Through senior executive interviews, audience response surveys, and an online survey, this year's study set out to take a closer look into the results of 2009's state of the industry study and capture new insights from supply chain management (SCM) executives for 2010.

At the depth of the tumbling recession of 2009, SCM executives were focused primarily on survival and cost takeout. Today, as the economy slowly moves toward recovery, so does the attention of SCM executives. Fortunately for logisticians, supply chain management continues to be one of the few bright spots for retailers, including pre-, mid- and post-recession. More and more companies rely on supply chain management as a critical component to success and a bridge to better times.

As expected, on the top of the list of concerns for SCM executives is the speed of economic recovery. Retail supply chain executives are actively and aggressively pursuing strategies to meet economic challenges, while also seizing on opportunities to refine their capabilities, increase efficiencies, drive down costs and collaborate with merchandising and store operations to maintain optimal shelf-level inventories.

Inside the 2010 report, you will gain insights on the most pressing issues impacting retail SCM, the strategies retail executives are utilizing to gain a competitive advantage, the characteristics of best-in-class retail supply chains, and the emerging issues and challenges that retail supply chain professionals must consider when planning for the future.

RILA would like to thank Auburn University for their collaboration and leadership on this study. RILA also thanks Fortna for its support of this research study and its continued commitment to helping retailers achieve excellence in supply chain operations. Last, we would like to thank the many retailers who participated in this year's study. We look forward to continuing our collaboration with Auburn University and the retail industry's supply chain executives as the 2011 State of the Retail Supply Chain study gets underway.

Casey Chroust
Executive Vice President
Retail Industry Leaders Association

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About the Study

Overview of the 2010 Retail SCM Study

The U.S. retail sector in 2010 is best described as being in a state of flux. Retail sales, while moderately higher than 2009, are inconsistent from month to month and unemployment rates are stuck at 9.5 percent.[1] Consumers continue to be frugal, choosing less expensive brands and using debit cards for their purchases.[2]

Despite these challenges, analysts believe that consumers have rebuilt savings and will be open to spending more in the coming months.[3] The critical questions are what, how much, and when will consumers buy?

The unenviable task of correctly answering these difficult questions largely falls to supply chain management (SCM) professionals. They must establish an appropriate balance of inventory availability, cost control, and customer service to adapt to fluctuating demand. Hence, the concepts of responsiveness, agility, and leanness are focal points of retail SCM strategy in 2010.

2009 Study Recap

In contrast, participants in the 2009 study were embroiled in a fundamental battle—surviving the economic meltdown. As bankruptcies mounted, retailers scaled back plans for store expansion and revenue growth. Instead, they turned to SCM professionals to sustain profitability through cost cutting initiatives.

SCM executives were up to the task. They reduced transportation expenses in a time of unprecedented fuel price volatility, rationalized inventories with precision, and built cross-chain consensus around essential efficiency programs.

Forward-thinking strategies also received direct attention in 2009. Retail SCM leaders worked with company executives to establish stronger SCM-corporate strategy links. Efforts were made to create scalable supply chain networks, boost infrastructure flexibility, and streamline flows.

These initiatives provided immediate cost control benefits and resource conservation while helping retailers prepare their supply chains for the future. Full details of the 2009 study findings are available at www.retail-scm.com.

2010 Study Objectives

The purpose of the 2010 study is to continue our investigation of retail SCM and its essential role in organizational success. Our current research addresses four fundamental topics:

Current Issues

What external and internal concerns are driving SCM decision-making?

Supply Chain Strategy

How are SCM executives responding to the uncertain retail environment of 2010?

Best-In-Class Capabilities

What SCM competencies differentiate top retailers from their rivals?

Future Directions

Which emerging SCM issues and capabilities present strategic opportunities for retailers?

This report presents an in-depth analysis of each question. The results provide key insights for retailers and their supply chain partners.

"Our supply chain has to be adaptable and consumer centric. They want speed, visibility, and multi-channel product availability."

2010 Study Methodology

The goal of the 2010 study was to expand the scope of participation and to delve into emerging issues from the 2009 study. The Auburn University research team used three methods to capture the insights of retail SCM professionals and their supply chain strategies.

Senior Executive Interviews

As in 2009, this year's study began with a series of focus interviews. Telephone conversations ranging from 30 to 60 minutes were held with 28 SCM executives from major North American retailers. The semi-structured nature of the interviews provided an excellent opportunity to explore a variety of topics with the leaders and understand the primary challenges to creating exceptional retail supply chain capabilities.

In addition, nine SCM executives participated in panel interviews during the 2010 RILA Logistics Conference and the 2010 National Association of Chain Drug Stores Supply Chain & Logistics Conference. They offered perspectives on current trends and best practices in retail SCM.

Audience Response Survey

During the conference panel interviews and a presentation at the 2010 WITRON Retail Congress, 75 audience members representing retailers participated in a 12-question survey. Their views on SCM strategy, goals, concerns, and competitive advantage were captured via a clicker-based audience response system. Results were shared in real-time during the sessions and are incorporated into this report.

National Survey

An Internet-based 22 question SCM survey was developed to analyze the issues and themes uncovered during the interviews and conference sessions. A link to the survey was distributed by RILA and via direct email. More than 65 retail professionals participated in the survey.

Collectively, these methods captured a wealth of valuable information from 175+ retail SCM experts. Our research team compiled the data, reviewed interview transcripts, and analyzed the results. This whitepaper reveals our key findings via discussion, graphics, and expert quotes.

Study Participants

We thank each SCM professional who took an active role in the study. They represent a wide array of retailers, a sample of which includes:

AAFES	Giant Eagle	PETCO
Academy Sports	HEB	REI
AutoZone	Home Depot	Safeway
Big Lots	Hy-Vee	Sam's Club
Buy Seasons	JCPenney	Sears Holdings
Canadian Tire	Jo-Ann Stores	ShopNBC.com
Casey's General Stores	Kroger	Sobeys
Christopher and Banks	Lifeway	Sports Authority
Collective Brands	Lowe's	Staples
CVS	Meijer	Target
Disney Store	Michaels Stores	Tween Brands
Dollar Tree	Nike	ULTA Beauty
Family Dollar	Nordstrom	Vitamin Shoppe
Famous Footwear	Office Depot	Walgreens
Follet Higher Education	OfficeMax	Wal-Mart
Food Lion	Pacific Sunwear	Wegmans
Footlocker	Pep Boys	Winn-Dixie

Current Issues Impacting SCM

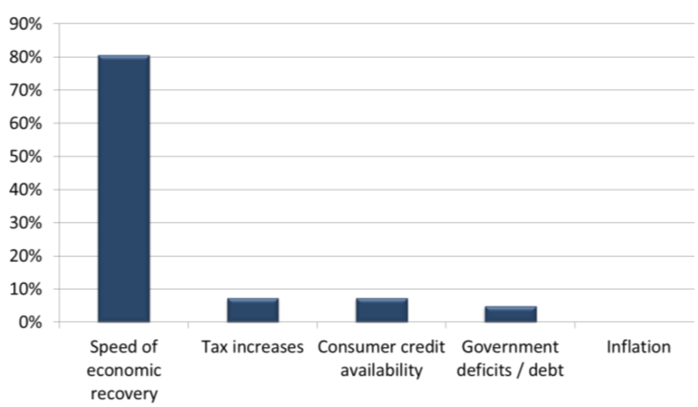
Retail SCM Executives Must Juggle Multiple Priorities and Challenges

Strategies, capabilities, and investment priorities are largely inconsequential unless you put them into the context of 2010. What worked in the past may be irrelevant, given our current marketplace realities. Hence, in each stage of the research we asked participants about their SCM concerns by posing the question: "What supply chain issues keep you awake at night?"

The Macro Concerns

Supply chain executives face a wide variety of barriers to success. However, most of them are minor nuisances compared to the 800-pound gorilla they grapple with every day. It's still "the economy, stupid" to paraphrase the old political catchphrase. Figure 1 reveals that all other potentially major concerns pale in comparison.

FIGURE 1: SLOW ECONOMIC RECOVERY IS THE DOMINANT ISSUE FOR SC LEADERS

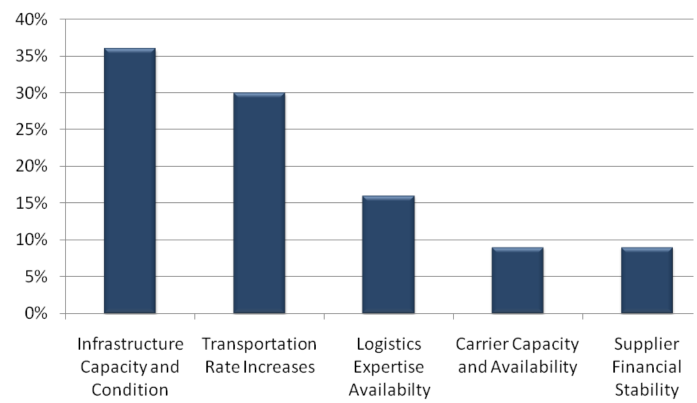


A related issue of economic recovery shape – U, L, V, or W – was another point of concern. This inability to foresee the macro-trends makes it extremely difficult to develop supply chain strategies, demand forecasts, or purchase plans.

Supply Chain Challenges

While economic uncertainty remains, the retail supply chain executives aren't ignoring growth-related issues. Figure 2 suggests that they are now keeping a close eye on issues normally associated with freight volume increases.

FIGURE 2: DISRUPTION-FREE, EFFICIENT FREIGHT FLOW IS THE PRIMARY SUPPLY CHAIN CONCERN



The results are a sharp contrast from the 2009 study when infrastructure, rate, and people issues were the least of the executives' worries. The sentiment has shifted from a survival mode to a vision of future growth opportunities.

"We're already seeing retailers making a bet on the recovery. They are rebuilding inventory levels and hiring above needs."

Of course, a return to growth has its own set of challenges. The executives can't get caught flat-footed if port capacity, equipment availability, or other issues become acute. They need solid contracts, carrier relationships, and contingency plans in place for various recovery scenarios.

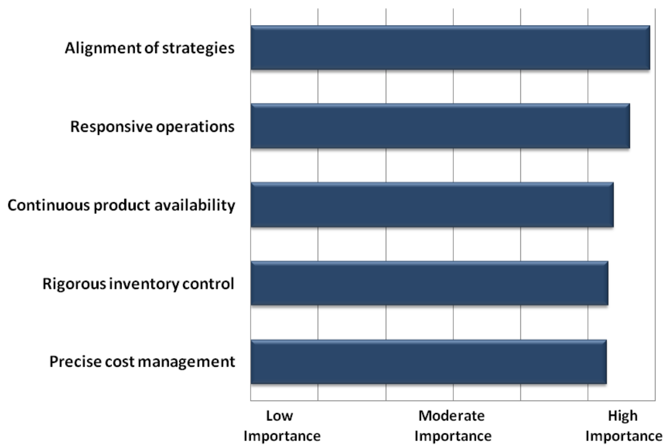
"Nobody can look you in the eye and tell you how quickly we are going to come out of this or how much pain is yet to come."

“Economic challenges are forcing retailers to get lean. At the same time, they have to figure out how to be agile.”

Internal Issues

In addition to battling economic uncertainty and supply chain challenges, retail SCM executives must handle internal stakeholder demands and issues. These demands are varied and complex. Figure 3 highlights the internal requirements that drive supply chain activity and investment.

FIGURE 3: COMPLEX INTERNAL REQUIREMENTS CREATE SUPPLY CHAIN CHALLENGES

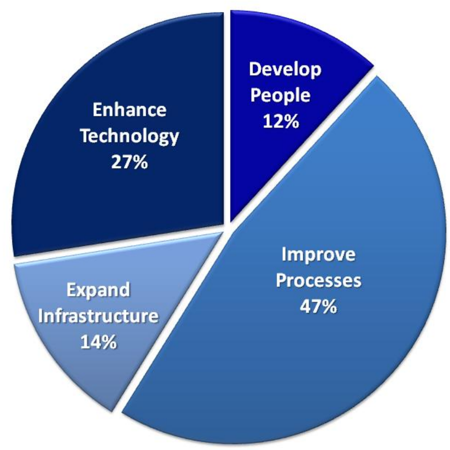


Collectively, these internal requirements elevate the importance of SCM. Retailers now assign greater responsibility to their SCM executives. However, supply chain teams are required to fulfill seemingly incongruent goals. They must balance requirements for service responsiveness against cost control, product availability against inventory rationalization, and high delivery frequency versus transportation efficiency.

Investment Priorities

Juggling these oft-changing internal priorities is a major challenge for retail SCM executives. They must develop adaptive strategies, implement flexible processes, and make wise investment decisions. Their spending priorities for 2010 are featured in Figure 4.

FIGURE 4: CAPABILITIES AND SYSTEMS DOMINATE 2010 RETAIL SCM SPENDING



Similar to 2009, current spending is focused on the enhancement of supply chain capabilities. The current study also reveals an increased willingness to invest in information systems. These investments are keys to developing cross-chain visibility and responsive capabilities. While growth may be on the horizon, there is not a major need to expand distribution infrastructure.

“Our investment plan is heavy on technology as it relates to running the business. We have to utilize data to make better decisions about redesigning and improving our supply chain.”

The Takeaways

While the current business environment is not quite as chaotic as 2009, there is still no shortage of external and internal issues to keep retail supply chain leaders awake at night. They face an uncertain economic recovery, supply chain constraints, and demanding internal customers. Fortunately, SCM leaders are up to the challenge. As the next section indicates, they are actively pursuing strategies that attack these issues and add value to the organization.

Supply Chain Strategies

The Expanding Role of Retail SCM

Business strategy outlines the plan to achieve competitive advantage in the marketplace. The supply chain organization must develop its own strategy to ensure supply chain operations support overall company goals.

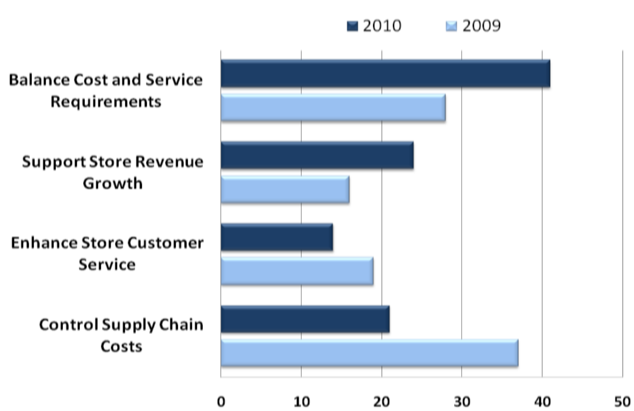
"An exceptional supply chain must be tailored to the customer experience you're trying to have."

With the economic downturn deepening in 2009 executive comments on SCM strategy were primarily focused on short-term cost cutting activities. While controlling costs remains important, our 2010 findings suggest retailers are returning to a more balanced perspective and are striving to broaden the supply chain organization's impact throughout the business.

Strategic Focus of Retail SCM

The most basic strategies described by retailers include growth, cost control, customer service enhancement, or a balance of cost and service. We surveyed participants to understand the current state of retail supply chain strategies. Figure 5 shows how retailers have shifted their strategic focus from 2009 to 2010.

FIGURE 5: STRATEGIC SCM FOCUS



The strategies being most emphasized in 2010 are cost/service balance and revenue growth. In fact, two-thirds of survey particpants identified one of these strategies.

This finding is due in part to the major commitment to cost reduction the past two years. In many cases retailers have little opportunity left for significant cost cutting. This also signals an optimistic attitude about the near-term economy. In contrast, strategic emphasis on cost control dropped significantly in the 2010 results compared with a year ago.

The Role of SCM in the Retail Organization

Figure 6 highlights questions concerning the role of SCM across the retail organization.

FIGURE 6: STRATEGIC IMPORTANCE OF SCM

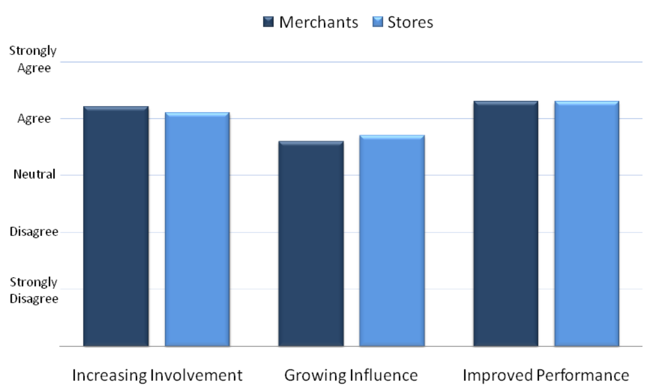
SCM is understood by the CEO as critical to retailer success. 84% of participants answered either agree or strongly agree, with only 4% disagreeing with the statement. In fact, the top supply chain officer reports to the CEO in 55% of retailers, and an additional 34% of the time the top supply chain officer reports to a COO, CFO or other senior executive. The response to the second question demonstrates the growing importance of SCM throughout the retail organization. This has led to SCM extending its influence across the entire retail organization.

"Getting all the pieces connected – merchants, inventory, logistics – all those components must become integrated as part of an overall strategy."

Integrating SCM across Departments

The best performing companies form tight bonds across departments. The functions benefiting most from this integration in retailers are the store and merchant organizations. Figure 7 shows respondant's views on cross-departmental integration.

FIGURE 7: INCREASING INTERACTION OF R-SCM WITH OTHER RETAILER DEPARTMENTS

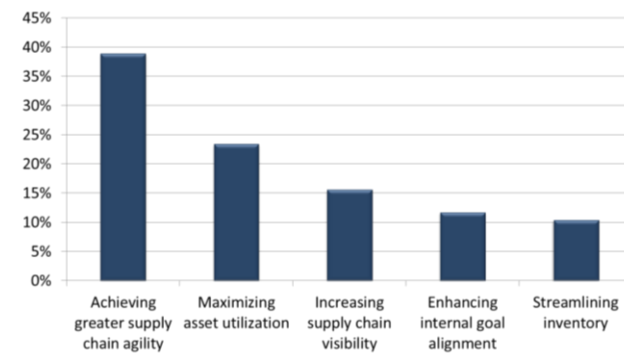


The retail SCM function continues to expand it's role relative to the upstream merchandising function and the downstream store operations function. As the figure shows SCM involvement with both store and merchant functions is growing. It is interesting to note that study particpants believe strongly that SCM greatly improves store and merchant performance. SCM influence over store and merchant decisions is also increasing, but those surveyed were less emphatic.

Agility: A Key Element of SCM Strategy

It's expected that retailers must deal with an ever-changing environment. The best retailers realize that success – or even survival – requires quick adaptation and response to trends.

FIGURE 8: PRIMARY SUPPLY CHAIN GOALS



Agile supply chains are those that are able to rapidly respond to new customer requirements and unexpected competitive influences. The retailers that survived the poor economy of the past 2-3 years have already accomplished the belt-tightening and inventory streamlining needed to ensure they operate efficient supply chains. The strategic emphasis has shifted to agility as the path to establishing competitive differentiation.

Combining agility and efficiency appears to be the strategic goal going forward. For example, several executives described the push to create true multi-channel operations that support large retail store replenishment orders and small online customer orders from a common distribution facility, while lowering total cost. Those that accomplish this goal will create an agile, cost efficient infrastructure competitors will find difficult to overcome.

The Takeaways

The strategic importance of SCM continues to gain importance, and the best retail supply chains are leading the trend toward developing agile operations in the face of a dynamic marketplace.

"There is a growing awareness at the C-level that a nimble, flexible supply chain is critical."

Best-In-Class Capabilities

Extending the Sphere of SCM Control

An ongoing goal of the research is to identify those supply chain capabilities that differentiate leading retailers from the competition.

In 2009, we identified four practices that are the building blocks for superior SCM. They include:

Strong Distribution Network Best-in-class retail supply chains have deployed strong networks capable of moving large quantities of product with exceptional economies of scale. These retailers leverage facilities, relationships, and information technology to drive costs down.

Flexible Capacity The logistics infrastructure established by best-in-class retailers is not *one size fits all.* They rely upon multiple distribution methods – traditional DCs, direct store delivery, and cross docking – as well as third party resources to scale capacity up/down as needed.

People Development People are the foundation of SCM success. Best-in-class retailers recognize the need to find talented people and develop their skills. The team must also be instilled with a core belief in the mission of the organization and given the tools to succeed.

Strategic Alignment Top retailers realize that SCM is not a necessary evil. It must be part of the organizational fabric. They have taken steps to break down functional silos and holistically manage processes. Common goals, SCM councils, and staff sharing are also important.

During the course of the 2010 study, it was clear that these four best practices continue to drive retail SCM success. In particular, participants expanded the theme of alignment to include structure, strategy, and metrics, as keys to competitive advantage.

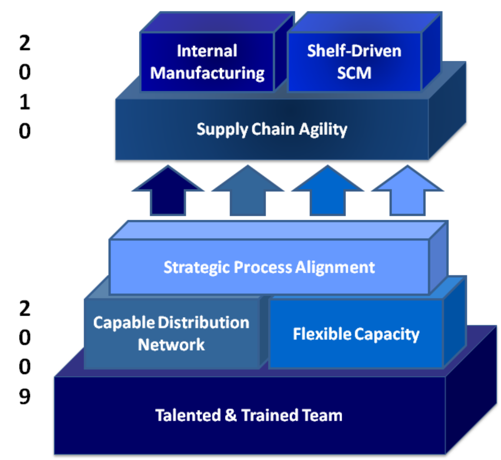
"It's critical to align the business units to ensure that all the pieces come together."

When discussing best-in-class capabilities, numerous retail SCM executives highlighted the risk of complacency. They note that it is a surefire way to lose competitive advantage.

"Best-in-class organizations do not rest on their laurels. They are always figuring out better methods for what they already do well today."

Hence, leading retailers are pursuing new competencies and innovations build upon the initial set of best-in-class attributes from 2009. As Figure 9 highlights, they serve as the foundation for the current capabilities.

FIGURE 9: BEST-IN-CLASS CAPABILITIES



Collectively, these 2010 best-in-class capabilities extend the sphere of SCM control. Agile retailers can address upstream supply problems with internal manufacturing solutions. Likewise, downstream supply chain agility helps retailers improve product availability on the store shelf.

It is important to note that these initiatives do not represent power grabs by SCM executives. Instead, they are applying supply chain resources and strategies to operations in need of improvement. These logical expansions of supply chain responsibilities contribute to retailer success through stronger internal alignment and cross-chain synchronization.

"It's about managing all of the different streams and making sure that you have the right products in the right streams based on how the consumer is addressing you."

Supply Chain Agility

In the last few years retailers have dealt with tremendous external changes. The trend has continued in 2010. Retail SCM executives worry that transportation industry consolidation will negatively impact contract negotiations, rising labor rates in China will affect purchase costs, and an economic recovery will create spikes in fuel prices. Collectively, these issues will drive reviews of sourcing decisions and may lead to near-shoring or on-shoring.

"As things turn around and fuel prices creep up, will Far East sourcing strategies be challenged?"

SCM leaders realize that agility is a mandatory competency to effectively address changing marketplace conditions. However, few retailers have established highly agile supply chains. Figure 10 highlights this discrepancy.

FIGURE 10: THE AGILITY CONUNDRUM

Percent of Respondents	Statement
90%	Believe that ***"Responsive operations capable of meeting changing requirements"*** are highly important to SCM excellence.
16%	Strongly agree that ***"We operate an agile supply chain, capable of rapidly responding to changing business requirements."***

Clearly, agility is desirable but only a small segment of retailers have managed to harness this best-in-class capability. Companies must deploy a multi-faceted initiative to achieve agility. Our research revealed that three components underpin this essential capability.

The first agility driver requires retailers to focus on fundamental logistics capabilities and simplify supply chain processes. An agile retailer supply chain must "get back to basics" and support the core business with clear processes. By making the supply chain easier to understand, use, and manage, best-in-class retailers boost agility as well as efficiency and reliability.

"We're trying to find ways to simplify, to get back to basics with our core processes."

The second component of an agile supply chain is strong information systems. The technology must provide visibility and support cross-chain collaboration. Best-in-class retailers also use technology to create flexible, scalable supply chains that are capable of meeting changing market demand.

The third aspect of supply chain agility is speed. Best-in-class retailers focus on shortening lead times throughout the supply chain and having product strategically located for effective demand response. These retailers work closely with vendors and transportation providers to reduce replenishment cycle times.

"Any time I take time out of my process I take waste out of my process."

Shelf-driven SCM

While retailers may manage distribution center processes and suppliers successfully, it may be how they perform inside the store that matters most to consumers. Extending supply chain control and influence beyond the store dock door and the retail shelf is a capability that sets best-in-class retailers apart.

“We’ve sped up the supply chain and reduced costs, but we aren't aligned with what is happening at the store shelf. So now we need to get into space planning.”

Supply chain executives at best-in-class retailers are working to integrate shelf-space planning into supply chain planning. This involves alignment of shelf capacity and store reorder points with shipping quantities and frequencies. Shelf-driven SCM practices will reduce cost and positively impact the customer experience.

“That last 50 feet of the supply chain is our ‘Red Zone.’ To score, we have to execute flawlessly inside the store and get product to the shelf.”

Additionally, best-in-class retailers are linking upstream decisions to shelf requirements. They are working with suppliers to create case and break pack configurations that align with demand, store operations, and shelf space. These retailers are also employing distribution practices such as piece-picking to give stores ordering options for varying shelf configurations.

Further, supply chain leaders are collaborating with store operations managers to design strong processes for dock door to shelf product flows. They are using lean and six sigma principles to optimize receiving, backroom management, and and shelf restocking operations. This growing level of interaction and impact is highlighted in Figure 11.

FIGURE 11: SUPPLY CHAIN LEADERS ARE TAKING ACTIVE “RED ZONE” ROLES

Internal Manufacturing

Internal manufacturing, often linked with private label products, is on the rise. Best-in-class retailers use internal manufacturing to drive cost out of the supply chain. Owning the production echelon eliminates supplier markups and may leverage the retailer’s existing logistics network, minimizing inbound freight costs.

Internal manufacturing also gives greater control over product flow and availability. This may allow for reduction in safety stocks for these items.

“We’ve quadrupled our self-manufacturing volume in a year and plan to continue to grow.”

This best-in-class capability is most prevalent in the grocery industry. Kroger owns 40 plants that produce 39% of its store brand bakery, dairy, meat, deli and other private label items.[4] HEB (12 plants) and Publix (10 plants) also have extensive internal production capabilities.[5,6]

Grocery is not the only area of retail benefiting from internal manufacturing. Apparel retailers have also developed production capabilities. The most notable example is Zara, one of the world’s fastest growing retailers. The company controls manufacturing of the merchandise sold in its worldwide network of over 3,000 stores.[7]

The growing importance of store brands is closely tied to internal manufacturing for many retailers. Store brand designs may be changed more easily and inexpensively. Importantly, store brand designs can be adjusted to ensure they provide distinct offerings not found in national brands.

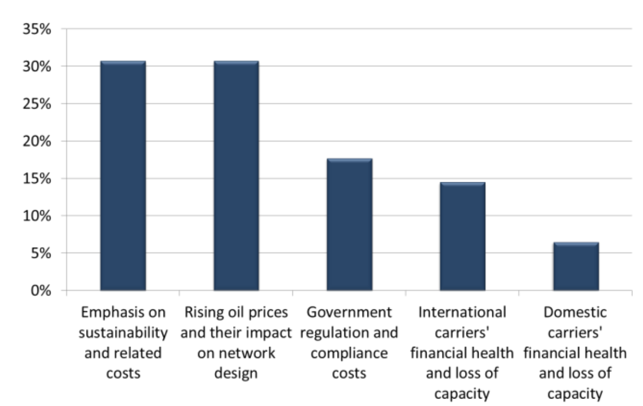
A Look into the Future

Previewing the Likely Hot Topics for 2011

As executives assess the future of retail supply chains, most see a challenging landscape ahead. From the instability of fuel prices to the challenges of multi-channel distribution, retail supply chain executives must prepare for a wide range of issues and meet them head-on.

We asked retail SCM executives to look into the crystal ball and identify specific issues that will impact long range planning. Figure 12 reveals that sustainability and oil prices are dominant concerns, followed by regulation and international transportation. These issues and other two others are briefly addressed below.

FIGURE 12: LONG RANGE SCM PLANNING ISSUES



Sustainability

Sustainability is not a new issue for retail SCM executives. They have already experienced the social discourse and "green" promotional aspects of sustainability. Today, their interest is moving to the business benefits of sustainable supply chains, particularly the financial savings.

The executives discussed opportunities for cost savings via packaging reconfiguration and waste reduction,[8] fuel conservation, and use of energy efficient equipment and facilities. Most are actively pursuing related initiatives.

The real challenge to making sustainability a centerpiece of supply chain strategy is to accurately quantify an initiative's impact. Developing an ability to articulate the dual cost/sustainability benefits of packaging modification, near-shoring, or an empty miles reduction program in the CEO's language (e.g., the income statement impact) will be essential.

"The time is coming when retailers must be able to communicate the virtues of their supply chain savings initiatives from an environmental standpoint."

Fuel Issues

Retail supply chain executives remain concerned about the future of oil prices. Though they have settled well below 2008 prices, events like the Deepwater Horizon oil spill in the Gulf of Mexico and discussions of "peak oil" create concerns about long-term supply. Ongoing vigilance and investigation of alternative fuels will be needed.

Another legitimate fuel cost concern is the short-term impact of economic recovery. As demand for oil increases, prices are likely to rise. At the same time, an increase in customer demand will boost retailers' fuel consumption for product movement. The net result will be greater pressure on retail supply chains to manage fuel expenses and control delivery cost per unit.

Government Regulation

Keeping pace with the regulatory environment is a never-ending battle for retail SCM executives. Retailers must monitor the escalating role of government in international trade, supply chain security, transportation, and more.

“The way customers interact with the retailer in the future will be different than the past. Can traditional supply chains respond to the needs of more demanding customers?”

Supply chain executives must be proactive in understanding and shaping proposed legislation that will impact supply chain strategy and operations. At the forefront are two key issues.

Proposed carbon legislation has the attention of many retail supply chain executives. Mandatory caps on emissions, quantification of carbon use, and articulation of carbon offsets are the chief supply chain issues. A key problem will be developing common standards and best-in-class methods for measuring and communicating carbon reduction performance.

Retail supply chain executives must also keep an eye on national freight policy development. Current proposals call for greater safety, heavier reliance on multimodal transport, and major cuts in carbon dioxide emissions. Issues yet to be fully addressed include infrastructure funding, compliance costs, and user impacts.[9]

International Freight Service

After a tumultuous year for international carriers, many experts predict that the pricing pendulum is beginning to swing in the favor of the service providers. Ocean carriers have strategically removed capacity from the system to stabilize rates and have resorted to “slow steaming” in an effort to reduce operating costs.

Obtaining high quality, timely service at a reasonable cost will be the retailer challenge for late 2010 and 2011. They will need to focus on securing containers and berths for peak seasons and negotiating equitable rates.

“After a ridiculous and unnecessary down and up rollercoaster ride, we'll probably end up close to rate levels where they were two years ago.”

Multi-Channel Retail SCM

Our interactions with supply chain leaders highlighted great interest and trepidation regarding multi-channel (store, online, phone, catalog, etc.) retailing. They recognize the need to provide customers with fast, reliable order fulfillment from any desired channel with. Over 65% of our RILA Conference session audience indicated that their e-commerce revenues will grow faster than store revenues in 2011.

The experts also realize that supply chains must evolve to support multi-channel retailing. Typically, retail supply chains treat each channel as a stand-alone business. Less than half of the retailers integrate fulfillment activities, thus missing out on the opportunity to leverage inventory and assets across multiple channels.

“We have to get serious about multi-channel and stop treating it like a hobby.”

Technology Enhancement

IT investment among the study participants is currently centered on upgrades of ERP, WMS, and TMS. Their current focus is enhancing cross-chain visibility and operational efficiency.

“We’re investing in IT when there’s truly an ROI - a new WMS with voice-picking technology.”

To meet the wide range of future challenges, retail executives must exploit technology to a greater extent. Future outlays will need to support regulatory compliance, process integration, and business intelligence. Some of the supply chain leaders suggest that electronic product codes, particularly RFID tags, can play an important role in retail operations. Only time will tell if the promise of RFID becomes a reality.

Summary

Final Remarks from the 2010 Retail SCM Study

Supply chain management continues to be one the few bright spots for retailers in 2010. Amidst the tempest of inconsistent sales, an on-again / off-again economic recovery, and vacillating transportation rates, retail SCM executives and their teams provide a calming influence and safe harbor for their organizations. Through it all, goods continue to flow to the store shelf in an efficient, effective manner.

Despite the external uncertainties, the strategic focus has shifted from all-out cost cutting to a balanced perspective where supply chain service and cost are equally prioritized. Supply chain leaders realize that they must meet customer expectations of continuous product availability while simultaneously rationalizing inventories and reducing waste.

With the support of top management, retail SCM executives are moving forward with numerous initiatives to meet this dual goal. Investments to refine supply chain capabilities and enhance internal alignment are being made. Supply chain leaders are working closely with merchandising and store leadership in pursuit of greater cross-chain agility, asset utilization, and visibility.

While the vast majority of retailers recognize the critical role of SCM, innovative organizations are expanding the sphere of SCM control. Supply chain leaders are taking on manufacturing roles, engaging in store operations with shelf-driven SCM, and shaping multi-channel capabilities. Their intent is to create competitive advantage in these areas through greater supply chain agility and responsiveness.

Looking forward to 2011, retail supply chain leaders will be called upon to take greater roles. They must support organization-wide strategies, maximize returns on SCM process improvement and technology investments, and champion the development of best-in-class capabilities. As always, retail supply chain executives must manage a host of external hot topics, minimize potential risks, and avoid service disruptions. Adeptly juggling these SCM responsibilities is essential for long-range organizational success.

"There is huge upside supply chain potential for most retailers. If we manage to synchronize the various parts, eliminate variability, and reduce inventory, we will truly create economic value for the organization."

Research Resources

[1] U.S. Bureau of Labor Statistics and U.S. Census Bureau Reports

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About the Organizations

2010 Retail SCM Study

Auburn University College of Business

The College of Business seeks to bring the unchanging values of Auburn University - Practical Education and Research, Honesty, and Hard Work - to a changing world. Through the creation and application of business knowledge, we fulfill the needs of our many constituencies. Through professional programs that integrate individual responsibility, initiative, and teamwork with essential knowledge, we help students with diverse backgrounds become Auburn Men and Women, able to succeed in business without compromising those values that make success worthwhile.

Fortna

We design, implement and support complete end-to-end solutions for our clients through supply chain consulting, material handling systems implementation and systems selection and implementation. Our "no-silos" business approach ensures alignment strategically, financially and operationally and brings our clients' supply chain strategy to life. Our integrated services and unmatched supply chain design tools have provided long term and trust-based relationships with clients in a wide range of industries including multi-channel retail, consumer products, electronics, parts distribution and third party logistics.

Retail Industry Leaders Association

RILA is the home of the world's largest and most successful retail companies, whose executives participate in RILA for its unique educational forums, its effective public policy advocacy, and its advancement of the retail industry. RILA membership includes more than 200 member companies - from Abercrombie & Fitch to Walmart - representing more than $1.5 trillion in sales. Through its board of directors, Leaders Councils, committees and working groups, RILA members determine the issues and focus areas for public policy, educational offerings and research.

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