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2015 Supply Chain Research Supplement

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Omni-Channel's Next Big Thing

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RVCF 15 Years of Collaboration

The Trading Partner Interface Of The Future

The next generation of retailer-supplier communication

by Kim Zablocky, founder,
Retail Value Chain Federation (RVCF)

Communication between retailers and suppliers will look very different in the near future. In order to meet the increasing demands of the consumer, control costs, and enhance collaboration, retailers and suppliers must improve processes for sharing data and extract as much value as possible from that data. The Trading Partner Interface of the Future, as conceptualized by RVCF, will achieve these goals while strengthening relationships between retailers and suppliers. By exploring the key areas of retailer-supplier communication, this report provides insights into what such a solution would entail and the business benefits it would create. Stakeholders in technology companies should take note that it is our vision that unrestricted, synchronized data sharing is the direction of the future.

What Is The Trading Partner Interface Of The Future?

RVCF has embarked on a three-year initiative to advance the concept of the Trading Partner Interface of the Future. Our extensive experience in working with retailers and their suppliers has enabled us to conceive of this neutral, cloud-based platform, which would be accessed through a portal, providing all stakeholders with visibility of data that is current, complete, accurate, transparent, and visible. Product setup, supplier onboarding, planning and forecasting, order management, replenishment, payment and reconciliation, returns, and end-of-product life cycle would be automated. Essentially, the Trading Partner Interface of the Future would allow the free flow of information while minimizing and, in many areas, eliminating the need for human intervention.

RVCF launched this initiative by bringing together three respected service and technology providers in 2014 — APEX Analytix, Retail Solutions, Inc. (RSi), and Compliance Networks — to analyze current and future trading partner needs. The overall goals of the Trading Partner Interface of the Future are to improve operational efficiency, increase speed to market, enhance the customer experience, advance the retailer-supplier relationship, and enable all stakeholders to take full advantage of the value of data.

The Functionality Cycle

Sharing of data involves a number of moving parts across the retail value chain. This Functionality Cycle, developed by Kevin Harris at Compliance Networks, provides a general framework that illustrates the relationships between key retail activities and the back-and-forth flow of data in the Trading Partner Interface of the Future. As indicated in the graphic at right, the cycle begins with high-level strategy, proceeds through category management, merchandising, finance and accounts payable, operations, and supply chain, and eventually returns to finance and accounts payable. It is important to analyze each area and how all parties can benefit from next-generation communications.

Strategy

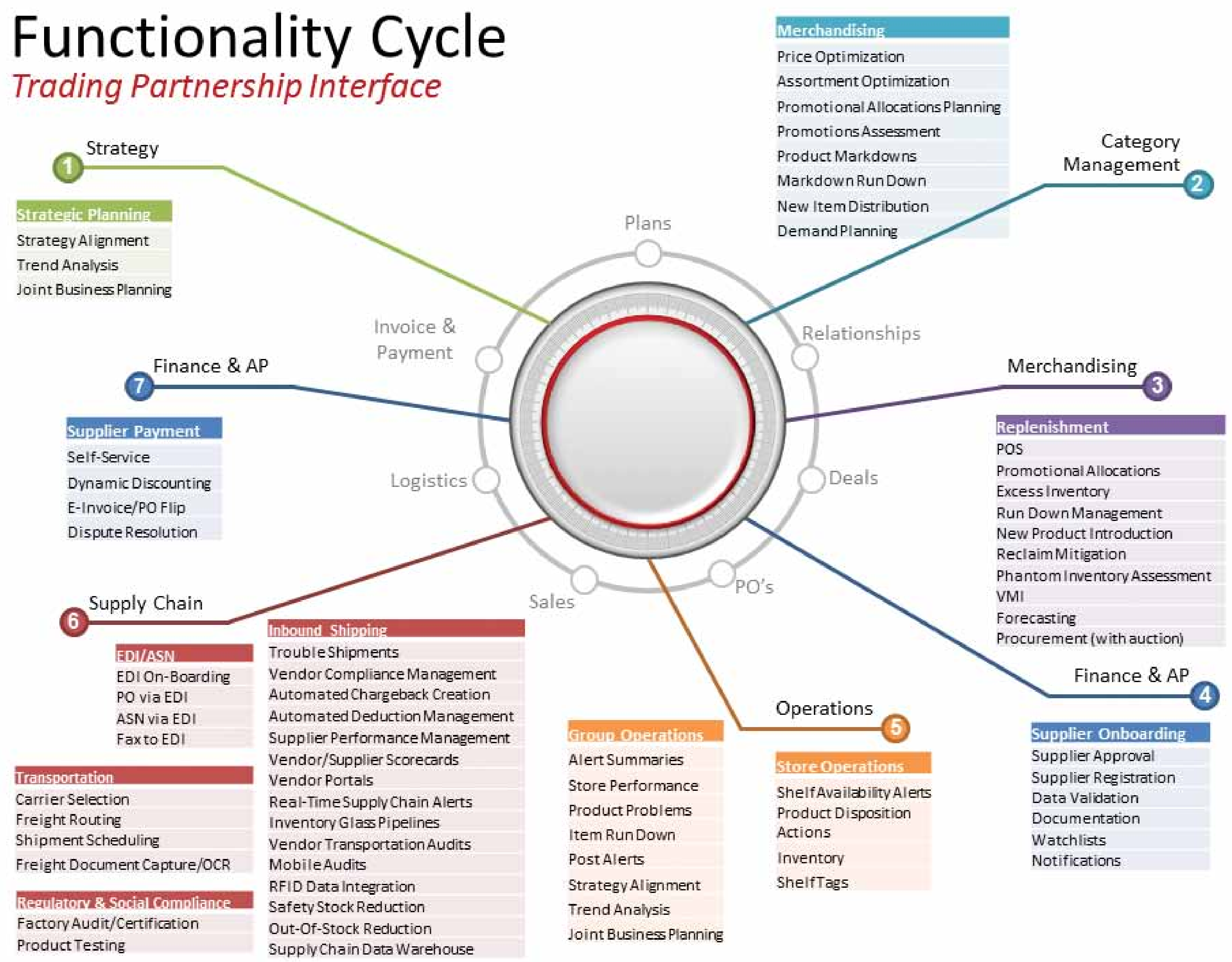
The Trading Partner Interface of the Future would enable retailers and suppliers to follow the model currently used by best-in-class retailers to leverage data. In this model, strategic goals are tied to day-to-day execution. Best-in-class retailers are working with granular levels of data and collaborating with suppliers on high-level joint business planning and performance scorecarding, as well as detailed use case collaboration, both internally and externally. They're also adding extra value to profit-and-loss statements by improving operations, store alerting, and digital services.

Sharing the right data and using the right metrics are critical to improving top-line sales and bottom-line margins. More than basic sales and inventory data, this involves sharing more functional, deeper data, including promotional calendars, reclaim, planogram assortments, and forecasts. Advanced metrics such as master data, store data, store flow, and distribution center inventory can be used to support future use case objectives.

Data must also be shared more efficiently, using technology and processes that make data sharing simple, secure, and efficient. According to the RVCF *Summer 2014 Study*, email is still the most common tool used by retailers to share data with suppliers. Email is not only inefficient, error-prone, and labor-intensive, but it limits the amounts and types of data that can be shared. The *2014 Supply Chain Insights Retail Scorecards Study* found that more sophisticated tools for sharing data, such as portals, aren't widely used by North American retailers.

Category Management

From a more tactical perspective, retailers are taking advantage of collaborative data sharing to execute on use cases, which can drive sales and reduce expenses. For example, retailers go through category resets at least once per year. This process typically involves evaluating not only the overall performance of categories and subcategories, but also the performance of suppliers. Evaluation can go all the way down to the item level, including item performance review, item rundown analysis, and new item



introduction analysis, followed by promotion effectiveness and postreset analysis (scorecarding). This data is important when gauging the effectiveness of the retailer in terms of sales and revenue, as well as the quality of the customer experience.

Category management is directly tied to supply chain, and data is the lifeblood of supply chain and replenishment. Consider the job of a replenishment group after a new product launches. They must ensure forecasts were accurate, distribution goals were met, and inventory was in the correct stores. Retailers need the support of suppliers to ensure that the right product gets to the right place at the right time.

Finance & Accounts Payable

Finance functionality is absolutely essential to the Trading

In Partnership With: RVCF RSR

Partner Interface of the Future, a fact reinforced by the RVCF *Summer 2014 Study*, which found that 80 percent of respondents currently share accounting information with partners. Unfortunately, this often requires the management of diverse data sources from multiple systems and disparate sites and processes. However, the right technology can provide an integrated, seamless solution that enables retailers to efficiently and cost-effectively onboard new suppliers, manage changes, resolve issues, and share information. Another major area of leverage for a portal for the finance organization is dynamic discounting, a value driver for the company contributing to cash management and working capital objectives. These benefits explain why a recent (November 2013) APEX Analytix/Ardent Partners survey found that adopting a supplier portal is the second-ranked priority, trailing only initiatives to reduce staffing costs.

The APEX Analytix/Ardent Partners survey (results shown at right) also found supplier registration and onboarding to be the most commonly desired vendor portal function. This would replace the slow, error-prone process of manual onboarding. When supplier registration is automated through a portal, information is captured in a central repository and easily accessed and updated by both parties. Submitting information online rather than email or paper reduces errors and ensures compliance with onboarding requirements. Validation of supplier data occurs on one platform instead of many, allowing retailers to eliminate duplicate vendors in the system, verify tax identification numbers, identify high-risk characteristics in a company, and ensure that all necessary documentation, including W9s, W8s, and insurance certificates, are captured. A portal automates these vetting processes for faster, more accurate onboarding.

Operations

Once product has been delivered to the store, store-level data is essential to boosting sales and margins and improving customer experience. Best-in-class retailers are sharing data with their supplier communities to help improve on-shelf availability and store conditions. Sophisticated algorithms and prioritized alerts are used to find items that are about to go out of stock, have on-shelf availability issues, or have excess inventory and are producing high carrying costs for the retailers.

It is easy to say that certain processes and data are making a difference, but without measurement, you don't know the true impact. That is why providing suppliers with scorecards for categories, subcategories, and operations is so important. Delivering those scorecards through a next-generation portal provides tremendous value within the retail organization and to the supplier community.

Research Demographics

Company Size		Geographical Span	
Under $5 billion	28%	USA	78%
$5 billion - $10 billion	13%	Canada	50%
$10 billion - $20 billion	21%	Europe	33%
More than $20 billion	39%	Latin America	30%
Title		Middle East	21%
EVP/SVP/General Manager	10%	Asia	20%
CFO/VP Finance/Controller	10%	Australia	15%
Senior Director/Director	26%	Africa	13%
Senior Manager/Manager	42%	*Unless otherwise noted, charts show data of between 55-70 respondents.* *Graph data courtesy of Ardent Partners*	
Staff (Buyer, Agent, etc.)	8%		
Other	6%		

Supply Chain

The R**VCF** *Summer 2014 Study* found that nearly 87 percent of respondents ranked collaboration as "very important." This is extremely important to the Trading Partner Interface of the Future because data from disparate, internal and external corporate silos becomes much more actionable and valuable for analysis and decision making when it is integrated. Accurate, complete, and integrated data that is visible to, and shared with, other stakeholders is an essential foundation for effective collaboration. In addition to granular supply chain data, communication must also include the sharing of ideas, intentions, and objectives so all parties can succeed.

An online portal enables trading partners to share performance data and metrics, analyze historical data, and improve operations. This activity creates a significant amount of supply chain data. When this integrated data is accurate, complete, current, and visible, it is capable of supporting strategy development, operational planning, and the creation of merchandising plans.

Emerging predictive analytics creates an additional layer of value to data. Predictive analytics enables supplier risk assessment, retailer risk assessment, the reduction of safety stock to reduce inventory costs, and the increase of safety stock to reduce out-of-stocks and lost sales.

Invoice Processing

As the functionality cycle returns to finance, the Trading Partner Interface of the Future can reduce the time spent on invoice processing and administration, benefitting both retailers and suppliers. Although EDI is used very successfully by many companies, certain types of invoices, such as goods-not-for-resale, adjustments, and credits, don't flow well through EDI.

An online portal can be used to submit and receive invoices electronically and "flip" a purchase order into an electronic invoice. These invoices can be integrated into the retailer's workflow system. The elimination of time-consuming, manual processes and paper reduces costs and payment errors. Visibility into purchase orders can make it possible to proactively avoid discrepancies on the back end instead of reactively resolving them.

The self-service capabilities of a portal provide suppliers with real-time visibility into the status of all invoices and payment details from the retailer's accounts payable system. Suppliers are empowered to access relevant information whenever they need it by simply logging in rather than picking up a phone or sending an email when they have a question.

As mentioned earlier, a key financial component enhanced by the use of a portal is dynamic discounting, which offers enormous growth potential for the retail industry. The *2014 APEX Analytix-Compass Benchmarking Survey* found that top quartile discount capture is $6.5 million per billion in spend, while best-in-class is almost two-and-a-half times higher at $17 million per billion. By leveraging invoice status information accessed through a portal, opportunities for accelerating payments can be identified. The supplier receives payments early in exchange for a discount, a process that can be managed and tracked in a more automated fashion when using a portal. Best-in-class solutions include advanced methodologies to drive adoption and improve supplier collaboration in order to achieve mutual working-capital objectives.

Conclusion

The Trading Partner Interface of the Future would make it possible for stakeholders to find new and better ways to leverage existing data. Such a cloud-based platform, accessed through a portal, would provide broad visibility into data, from high-level strategic planning data to individual transactions and item-level data. When this data is effectively managed, all trading partners benefit through:

- Improved efficiency and accuracy
- Greater transparency and visibility
- A better customer experience
- Faster revenue recognition
- Improved margins for both retailers and suppliers
- Seamless data sharing and collaboration
- Better decision making driven by the right data
- Stronger trading partner relationships

Because no single vendor is currently capable of designing and implementing such a solution, R**VCF** is looking for additional service providers, including but not limited to those specializing in demand-planning and predictive analytics, to contribute to the further development of this concept in collaboration with other partners and stakeholders. For the immediate future, the focus of the initiative will be on domestic brand procurement.

When the flow of information slows or stops, there are serious consequences to both retailers and suppliers. These consequences should no longer be viewed as an accepted cost of doing business. A next-generation platform for data sharing and communication can be a true game-changer for the retail industry. Ultimately, the Trading Partner Interface of the Future will provide a single, shared version of the truth that balances the needs and interests of all parties.

Retail Supply Chain Strategy: The Next Big Thing

an excerpt from the full-length report by Brian Kilcourse and Steve Rowen, managing partners, Retail Systems Research (RSR)

As consumers gain power, not only do they start shopping in more complex ways, they expect retailers to be able to fulfill their increasingly complex demands quickly — and without issue. As a result, the next-generation supply chain is truly "the next big thing" for retail.

The retail operating model has two sides: the selling side, where customers interact with retailers, and the buying side, where retailers interact with suppliers and business partners. Between the two sides are processes to plan, execute, and analyze business operations. To deliver financial results, retailers focus on three distinct strategies: to increase revenues ("sell more stuff"), to reduce expenses through continuous process improvement ("run better"), and to increase margin with effective supply chain strategies ("buy better, turn it faster").

The traditional operating model is based on the assumption that consumers begin and end their shopping experiences in one place, usually the store. But that assumption is no longer valid; the explosive consumer adoption of "smart" mobile phones has triggered new anytime/anywhere shopping behaviors.

The innovations being offered on the sell side challenge the traditional uni-directional supply chain model: In "the old days" the store was the final destination for inventory. Now, with multiple customer order-fulfillment options, stores may become active nodes in the supply chain — they not only receive inventory, they ship it. The question is, how do retailers do that without destroying profitability? That is the question we wanted to explore in this study on supply chain strategy.

Why Winners Win

Given all of the changes that are still ongoing on the sell side of the retail model, it is no surprise that Retail Winners are much more concerned about how their supply chains are positioned to meet the new challenges than other retailers. As a matter of fact, the only thing that Winners agree on with their lesser-performing competitors is that store inventories aren't accurate enough. Without visibility to accurate store-level inventories, there are only two options to meet consumer demands for new order-fulfillment options: Either risk customer dissatisfaction from an out-of-stock that prevents order fulfillment, or carry more inventory as a buffer to poor visibility and accuracy. Retail Winners are far more concerned that lack of accurate store inventories has led to "too much inventory in stores" and even more so to "too many out-of-stocks." Taken together, that translates into an overarching Winners' concern that the wrong inventory is ending up in the stores. Others remain more sanguine, especially about "too much inventory" in stores. But Winners know that inventory = cash, in a form that devalues quickly.

Business Challenges: A Winner's Story

Winners are far more attuned to consumer demand: 47 percent say that the consumer's increasingly fickle and unpredictable nature is the biggest challenge to supply chain execution — something only 33 percent of all other respondents note. In many ways, this really is *THE* challenge of the new supply chain: The power paradigm has shifted, consumers are in control, and not only do they want an increasingly customized selection of products, but they expect these products delivered (from far-off points of manufacture) faster and at even lower prices than they currently pay today. It is a seemingly impossible task to take on, and Winners know that if they plan to "be there" for tomorrow's consumer, cracking this code is the lynchpin to their success. It's also why their second-biggest concern — pressure from competitors to achieve same-day fulfillment to consumers — is pressing on them more than on their peers.

Supply Chain Feels The Impact Of Anytime/Anywhere Shopping

When RSR last surveyed retailers' attitudes about their supply chain strategies in early 2012, we found that other than an overarching (but undefined) desire to fix "the whole supply chain" through "continuous process improvement," retailers had no clear majority opinion around which supply chain opportunities presented the best future for their companies. In 2012, favored opportunities covered the gamut of supply chain functions but were inconsistent.

Today, much has changed in retail. Consumers' mobile-enabled shopping behaviors are now more than a "shiny object," as retailers have had to internalize what complex paths to purchase mean to their businesses. What were experiments in omni-channel order fulfillment have now become table stakes for many. That in turn has given rise to opportunities such as rethinking "how sales and cost-of-sales are allocated in cross-channel fulfillment," optimizing "fulfillment based on the most profitable inventory opportunity," and adding "endless aisle with trading partners via drop ship." These opportunities are as popular for non-Winners as Winners.

In fact, rethinking how sales and cost-of-sales are allocated is approaching a consensus top opportunity for retailers. Retailers are finally acknowledging that several "channels" may participate in creating one successful sale. This represents yet another nail in the coffin of the notion of "same-store sales" as an accurate measure of how a business is performing; while over 90 percent of all retail sales still are completed in stores, there is no reliable number that indicates how much activity in the digital realm affected those sales. But retailers intuitively know that the digital influence is big — perhaps even for a majority of sales.

Winners Look Everywhere

It is almost a truism that (up until recently) the most important sustainable advantage that any retailer could have is a best-in-class supply chain. This might lead to the erroneous assumption that Winners aren't willing to examine their supply chains' weaknesses in light of the new anytime/anywhere selling environment.

But as we saw in the 2012 report, Retail Winners have not prioritized digital channels in a vacuum. Because they are working harder than their peers at building the connections among channels, they also see more clearly the impact these investments will have on the underlying infrastructure that makes omni-channel possible — most particularly supply chain.

Across a spectrum of opportunities, Winners show much more willingness to challenge the status quo than average and laggard retailers. Most notably, they are willing to challenge a "one-design-for-all" concept when it comes to their DC flow designs and layouts, as well as distribution methods inside the DC, and instead show a willingness to optimize local DC operations as local demand dictates.

Retailers generally don't want to send more work to locations where local governmental regulations on import/export security requirements are more strict. But Winners in particular do want to hold suppliers more accountable via contract compliance than average and underperformers. This is driven by Winners' desire to find ever lower cost supply locations; average performers and laggards aren't nearly as focused on this objective.

Technology Enablers: Wishing The Fog Would Go Away?

And as we stated in our 2012 report, "with the continued pressure from consumers around … a seamless cross-channel experience, retailers' reticence to address supply chain issues will rapidly become barriers to their future success."

It is no surprise that in 2014, retailers place the most value on system-wide inventory visibility, followed closely by store inventory levels and online/direct channel inventory and DC-available inventory. These are prerequisites to an efficient cross-channel customer order fulfillment offering.

As a measure of how much consumers' complex shopping behaviors have affected retailers' attitudes about this issue, it's worth noting that in the 2012 study only 45 percent of retailers assigned a high value to "integrated inventory visibility" — now that number has grown to 72 percent. And not surprisingly, the high ranking is driven by Retail Winners (84 percent, compared to 65 percent of all others). But disappointingly, the number of retailers who claim to have solved the challenge is virtually unchanged from 2012 — 45 percent then compared to 47 percent now. Again, Winners drive that result, with 61 percent claiming to have enabled "a lot of visibility" compared to 39 percent of all others.

Given that, one has to ask, "How accurate is that visibility?" While enabling real-time updates is the best answer, implementations are still significantly lagging. For example, Winners in particular place a lot of value in "real-time updates to inventory from transactional systems," but overall, implementations are quite low (34 percent), and Winners are only marginally better (38 percent) than the overall average.

Retailers express a concern about too much inventory in stores and too many out-of-stocks, and so it's easy to see the impact of lack of real-time accuracy (even if they can query store-level inventories from anywhere in the enterprise): Retailers either maintain higher safety stock levels to avoid disappointing consumers, or they turn away business. Either way is too expensive, and as a result, it's retailers' biggest "to-do."

What It All Means

Given that the majority of retailers believe that they will have to rethink their supply chain strategies to accommodate emerging cross-channel fulfillment, there is only one conclusion that can be reached from looking at the state of technology: Retailers are just getting started on what may turn out to be the most challenging part of the conversion from a store-centric retail operation to a true omni-channel offering. This is why RSR is so confident in saying that next-generation supply chain is truly "the next big thing."But retailers simply can't afford to wait too long to get started.

Bootstrap Recommendations

How can you change the supply chain side to be more flexible and react more quickly? Retail Winners show a marked preference to "modify, not replace." Here's how they plan to do it:

Think Globally, Act Locally

Once inventory gets to the retailers' DC, then supplying local demand is key. Winners, concerned that they have the wrong inventory in their stores, know that there is no "one-size-fits-all" DC model. They are thinking about how inventory movement profiles differ depending on the markets each DC serves, and even distribution methods inside the DC.

Real-Time Accuracy Is A Prerequisite For Everything Else

There is no single "to do" more important for retailers everywhere than creating the ability to accurately "see" inventory anywhere in the enterprise at any time. Retailers must be able to predict demand with more confidence and respond more quickly as demand changes.

A Quicker, More Nimble Response To Customer Orders

The next-generation supply chain not only needs more flexibility on the supplier side, but retailers know that they have to be quicker on the customer side, too. Retail Winners in particular are focused on meeting consumer demands for shorter order-to-delivery cycles, with capabilities like same-day ship, drop-ship direct to consumer, and drop-ship vendor direct to stores.

Pay People To Do What You Want Them To Do

Retailers need to rethink how sales and cost-of-sales are allocated in cross-channel fulfillment scenarios. Also, retailers should consider realigning their companies' organizational structures to be less channel-specific.

The Static Operating Model Is Dead

The imperative for the next-generation supply chain isn't "how to get goods to market in the most efficient way" but "how to service customer demand in the most efficient way." RSR has recommended to retailers that they must design the customer experience from end-to-end. How that customer experience is designed will dictate the extent of changes required on the supply chain side to service the selling side. Retail Winners believe that their best bet is through continuous improvement of their processes and keeping what's best in their current supply chain design. But they also know that the new model won't be static — and it must be designed with flexibility in mind, giving them the ability to bend without breaking as new demand emerges. ■

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