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RETAIL SUPPLY CHAIN COLLABORATION:

3 CATALYSTS FOR SUCCESS



Retail Supply Chain Collaboration

Collaboration: *A recursive process where two or more organizations work together to realize common goals by sharing knowledge and learning, and by building consensus.*

The business of retail continues to push forward on a rapid pace of innovation, creating major challenges for supply chain teams. Today's retailers attack the market with activities ranging from developing unique products to helping customers finance their purchases.

With suppliers more geographically dispersed than ever, a product mix that has become broader and more complex, and increasing pressure from ever-shortening product lifecycles, retail supply chain teams must look for ways to improve in-stock availability, introduce new product offerings, manage volume on door-buster promotions and streamline omni-channel initiatives. Retail supply chain executives face strategic questions like:

- "How can I best serve my customers?"
- "What kind of supply chain network should I use?"
- "How much inventory do I need and where?"
- "Can we handle the volume on the next promotion?"
- "Are we meeting the needs of customers in all our markets?"
- "How can we leverage technology more efficiently?"

One source of guidance comes from Deloitte's comprehensive Retail Supply Chain Maturity Model. A major theme that emerges from this model is that *leading retailers focus on collaboration with their suppliers*. However, according to the Aberdeen Group, less than 50% of mid-market retail companies collaborate with their core suppliers[1].

Deloitte and Logility have helped a wide spectrum of retailers and suppliers exploit collaboration opportunities. This paper presents the critical touch points that can produce a more consumer-centric, agile, innovative, and efficient value chain.

1 Aberdeen Group; Retail Supply Chain Collaboration: Why Mid-Market Companies Struggle to Keep Pace, February 2013

Retail Supply Chain Maturity Model

Deloitte has developed a **Retail Supply Chain Maturity Model** that identifies industry leading practices for retailers. Below is an extract illustrating the Demand Planning and Vendor Collaboration dimensions:

	Developing	Performing	Leading
Forecast Methodology	Managed in Excel	Managed using advanced forecasting tools	Managed using multi-dimensional advanced forecasting tools
	Algorithms based on historical information	Algorithms based on limited demand history and seasonality	Algorithms based on many inputs specific to category, down to actual SKU
	Output at the department/class level	Output at the department/class level or style level	Output at the style or color or size level
	Not tied to financial plans	Manually tied to financial plans	Reconciled with financial plans
	No lifts for promotions or other volume events	Few lifts for promotions or other volume events	Several lifts for promotions or other volume events
	New item forecasts are created manually	Forecast by linking new items to like item profiles; additional analysis required	Forecasts auto-created by linking new items to like item forecast profiles
	Updated annually or semi-annually	Updated semi-annually or monthly	Updated in real time
		System may be integrated with business intelligence	Systems are integrated with business intelligence
			Considers advanced factors (e.g. lifts from affinity items, adjusted history)
			Constructed bottom up from store sales
Vendor Communication	Communication cadence with vendors is inconsistent	Communication cadence standards established, limited adoption	Communication cadence standards monitored at higher levels
	Communication managed by merchants, no cross coordination	Communication coordinated within channels	Communication coordinated across channels, entirely automated
	Communication is manual, via email	Communication is split between automated, via EDI, and manual via email or paper	Communication and vendor information are automated in a portal/repository
Vendor Collaboration	Collaboration between manufacturer and retailer siloed by function	Change coordination by collaboration	Collaboration between merchant groups and cross-channel, cross-functional teams
	Cooperative opportunities are often overlooked and poorly executed	Cooperative opportunities are captured inconsistently, often on ad hoc basis	Cooperative opportunities are executed efficiently across value chains
	Organization is poorly adapted to support collaborative efforts	Organization is adapted to support joint collaboration	Organizational structure is effectively aligned to support joint strategic planning
		Inconsistent to consistent execution	Help vendors develop strategies to support mutual long-term goals

Figure 1. Deloitte Retail Supply Chain Maturity Model

Retail Supply Chain Collaboration: 3 Catalysts for Success

Collaboration is an essential step toward a more consumer-focused and agile supply chain. Retailers and their trading partners should synchronize their entire value chain from beginning to end, and collaborate at every point of the planning lifecycle.

Three areas are especially key:

1. Bridge the gap at the early stages of the product lifecycle
2. Build a demand-driven network: design for agility and resiliency
3. Be connected and work closely with suppliers in a collaborative fashion

Let's take a look at these three areas in more detail.



Figure 2. Key Retail Supplier Collaboration Areas

1. Bridge the Gap at Early Stages of the Product Lifecycle



Provide actionable early estimates for the upcoming season to suppliers based on your aggregated plan.

What it provides: Supply chain visibility allows partners to make more informed decisions, specifically related to key raw materials or limited production capacity.

Why it is crucial: Without early supply chain involvement, product win rates, speed-to-market, and margins can all suffer.

What's the challenge: Developing an early, detailed forecast for supply can be challenging. Many retailers create plans at a high level, such as category or product family level, but have insufficient resources to break these plans into detailed forecasts early in the planning process. However, there is no question: the supply chain performs better when demand is shared as early as possible in the product lifecycle.

Advice from the pros: Leverage multiple forecasting models to fit the variety of products in your portfolio. Employ advanced techniques to accurately disaggregate higher level forecasts down to more granular levels. Disaggregation can be based on key attributes such as product characteristics or raw materials (e.g. fabric). This technique leads to optimal supply planning decisions both in the early stages of the planning season and when building strategic plans three-to-five years out. Increased visibility streamlines the demand-to-supply translation and helps you better manage vendor capacity and availability of key components.

Technology enablers: The Logility Voyager Solutions™ suite provides demand disaggregation based on proportional profiles.

Multiple, time-phased profiles can be employed, based on the attributes and demand histories of products with similar characteristics. Profiles can be tuned to the different stages of a product's life cycle.

Logility Voyager Proportional Profile Planning lets planners work at a level of aggregation that matches their business needs, at an earlier point in the product life cycle. Planners can allocate the high-level forecast very accurately across specific attributes at lower levels (e.g. product characteristics, raw materials, and others) to answer supply requirements.

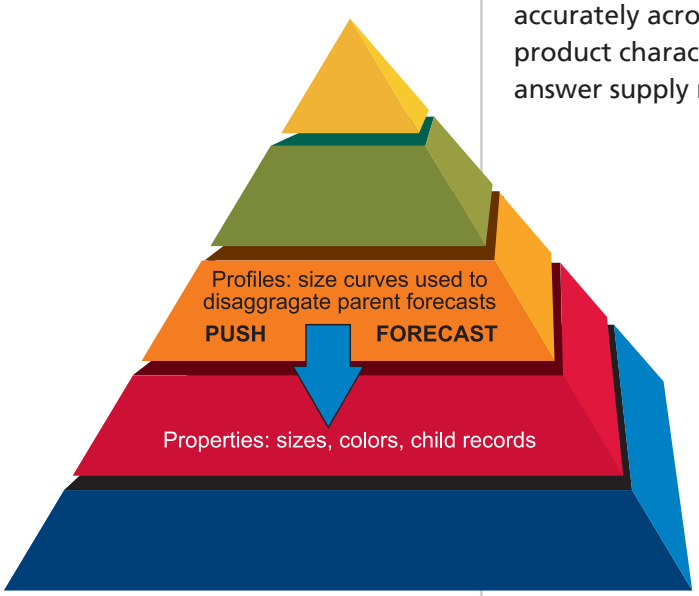


Figure 3. Disaggregate High-Level Forecasts Down to the Granular Level with Logility Voyager Proportional Profile Planning

Source: Logility 2014

2. Build a Demand-Driven Network: Design for Agility and Resiliency



Reduce risk and boost margins by replacing expensive inventory with better information as you collaborate with trading partners to synchronize supply and demand.

What it provides: A demand-driven value chain that serves the consumer by modeling partners and logistics constraints from the store to the factory floor.

Why it is crucial: Poor synchronization with suppliers and other trading partners can lead to an underperforming supply chain that exhibits longer lead times, higher transportation and expediting costs, and lost sales.

What's the challenge: Rising supply chain complexity and need for greater supply chain resiliency. Demand-driven networks maximize sales and in-stock performance by promoting a more consumer-focused mindset. Driving the supply output from the lowest demand level—what consumers are actually buying—enables retailers and partners to coordinate their supply chains like one company, thereby jointly reducing costs.

Advice from the pros: Develop segmentation strategies to optimally support the unique requirements of different consumers, allowing for improved agility and responsiveness. Define groupings of similar product/customer combinations by comparing key characteristics, such as margin, velocity and variability. Analyze your plans from a number of perspectives, such as product, category, channel, region, and margin.

Determine where your supply chain should be differentiated to better suit those requirements through product stocking, delivery methods, manufacturing approaches, or other efforts. Establish differentiated processes and an agile network for your fashion-driven products, as distinguished from your basic products that must always be available.

Technology enablers: Use Logility Voyager Solutions to model all aspects of the supply chain, including key trading partners, allowing you to build demand and supply plans based on the lowest demand level, on a rolling horizon, and to create a complete and dynamic demand-driven model of the extended enterprise.

Use Logility's simulation capabilities to proactively redesign and re-optimize the supply chain under changing conditions, analyze impacts on cost, revenues and risk, and support cross-supply-chain trade-off decisions.

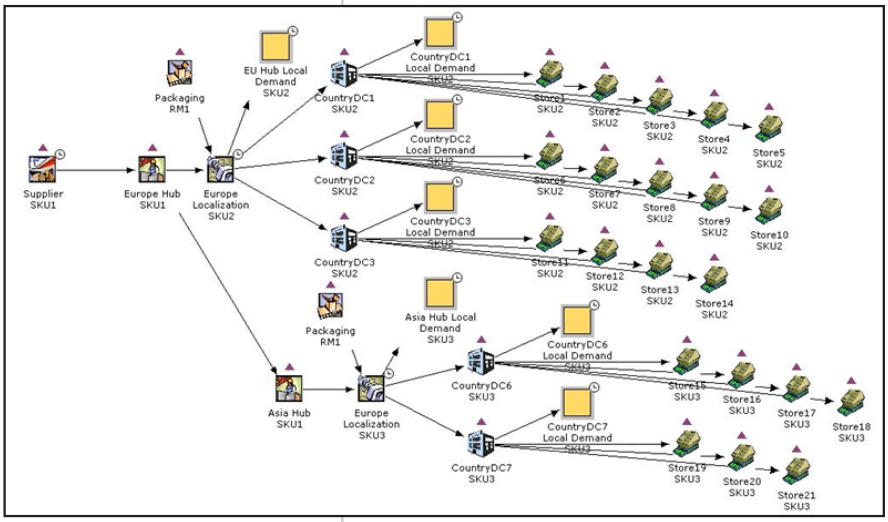


Figure 4. Retail Supply Chain Network Model, from Supplier to Store Door

3. Be Connected and Work Closely with Suppliers in a Collaborative Fashion



Enhance visibility and collaboration with your suppliers to increase the performance and awareness of the value chain, reduce complexity, and increase in-stock performance.

What it provides: Information sharing with supply partners through enhanced visibility and an established process.

Why it is crucial: To improve performance and mitigate risks and complexity, retailers must ensure their supply chain partners are aware and can proactively react to changes in strategies. This creates joint value for all partners and supports more informed decision making.

What's the challenge: Collaborating through the use of one shared platform, providing all partners ready access to information and the ability to perform real-time analyses. Partners can also make updates to their plans, which can become immediately visible in the context of your business.

Advice from the pros: Retailers should apply analytics to drive value within their supply chain. Sensing typical demand data such as POS is no longer sufficient. Retailers should leverage unstructured 'big' data, such as social media or loyalty data to improve their understanding of the end-customer, and also incorporate chain-wide signals.

In addition, retailers should treat their suppliers as partners by sharing key data and insights, moving away from solely transactional relationships. Sharing key data such as sales, inventory and forward plans allows suppliers to improve their performance (fill rates, inventory, lead times, and more). On the other side, retailers should leverage their partners' product knowledge and expertise through the collaboration process, ensuring they have clear visibility to their plans (such as capacity and inventory) to take action accordingly.

Technology enablers: Leverage Logility Voyager Solutions for a comprehensive view of demand, inventory and supply. You can explore and analyze disaggregated/aggregated data in order to focus on the level of granularity best suited to the business context. Voyager's global supply chain views can help gain insights into the most profitable products, customers and channels, improve supply chain strategies and maximize end-to-end performance.

Leverage the Logility Voyager Collaborate solution—an online global trading partner platform that allows retailers to transact, communicate and share information in real time with their partners across the globe.

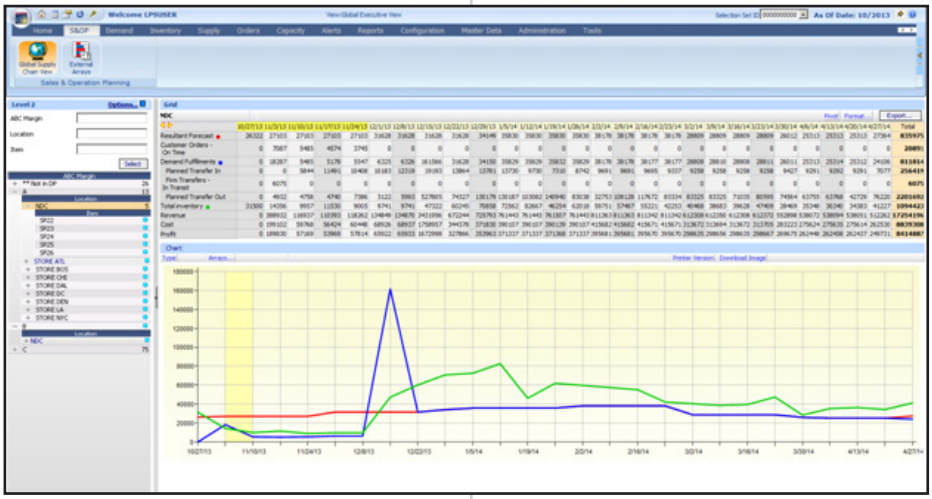


Figure 5. Global Supply Chain View of Forecast, Fulfillment and Inventory Alignment in Logility Voyager Solutions

Case Study

One Organization's Collaboration Journey

Who: A leading purpose-built footwear company specializes in work and outdoor products that can stand up to conditions around the world, from Middle East oil fields to Midwest cornfields. Going to market via a retail network, dealer channels, and directly owned stores, their continuing growth in product portfolio, volume and retail network footprint eventually made working with suppliers and partners around the world too complex and challenging to plan in spreadsheets.

Challenge: Traditionally, forecasts were managed at the style level, but significantly degraded at the style-gender-size level. In the apparel and footwear business, a forecast may be quite accurate at the style level but deviate greatly at the SKU level (for instance, a popular men's shoe style in one country migrated into sales of women's sizes over time), leading to backorders. Actual demand shifts the curve in real time, much faster than a once-a-year review cycle can respond to.

Key suppliers also depend on visibility of future demand to balance capacity planning and scheduling. While the supplier relationships were solid, an innate skepticism often caused suppliers to modify their monthly production plans to reflect their opinion of the appropriate SKU level mix. This often resulted in lower supplier service levels, which in turn caused the company to suffer lower fill rates with retailers.

Solution: The company invested in their supply chain people, process and technology, including APICS certification as well as implementing Logility Voyager Solutions. Only four months after launching the new software solution, the company, its suppliers, and retailers began reaping benefits based on more detailed and accurate information, increased visibility, and better service.

Improvements: The company has moved into the forefront of information sharing with suppliers, who now boast they have real-time access to "the best information we've ever had." Even suppliers with limited technology experience have been thrilled with the new level of visibility, ease-of-use and accuracy.

- Suppliers receive a forecast every month, and can drill down to actual SKU-level demand in real-time, over a 12-month rolling horizon
- Collaboration with global distributors helps planners understand order patterns across international markets and create more accurate global consolidated forecasts
- Level-loading between suppliers is more effective, and the company can pull demand in or push production out with confidence
- Planners have better visibility to upcoming retail promotions, and access to comprehensive demand history data gives them confidence in making forward-facing decisions
- Planner-buyer collaboration on new product launches results in products getting to market on time and on target
- Scorecard of forecast accuracy in monthly Sales and Operations Planning (S&OP) meetings shows service levels have improved tangibly
- Retailers experience more full-order replenishments and on time deliveries

Results

"Game-changer" is an exact quote from a senior executive at the company. With supply chain visibility and execution dramatically improved, it is fair to say that Logility Voyager Solutions has transformed the company's supply chain performance.

- Forward visibility tripled to 18 months of demand—publishing 12 months to suppliers for collaborative planning
- Inventory reduced across the network by 27%
- Forecast accuracy improved by 30%, based on Weighted Mean Absolute Percentage Error (WMAPE)
- Fill rates increased by 8% to 10%
- Lead times shortened by an impressive 30%
- S&OP process time cut in half

Takeaway: The immutable law of the retail world is: "Consumers want what they want when they want it, at a price they are willing to pay." Retailers need to collaborate closely with their suppliers in order to stay ahead of changing customer needs. Trustworthy information, access to demand data, and reliable, granular, forecasts allow them to stay ahead of the market, no matter where in the world demand is changing.

Conclusion

The ability to deliver the right product at the right time, cost-effectively, is more than the just a cost of doing business—it should create value.

Successful collaboration with suppliers and partners has helped retail leaders transform their supply chains into strategic differentiators. Your supply chain can also be transformed, but it requires maximum visibility and collaboration between all trading partners at every step of the planning lifecycle.

Many retailers and manufacturers are adopting processes that promote partnerships, and turning to integrated technology that allows information to flow seamlessly across the value chain, reducing inefficiencies and pain points, while increasing overall performance.

Three catalysts for success are:

1. Bridging the gap at the early stages of the product lifecycle
2. Building a demand-driven network, designed for agility and resiliency
3. Becoming connected and working closely with suppliers in a collaborative fashion

Accomplishing successful collaboration and across-the-board visibility is definitely within reach. It is critical to have the right software technology and processes in place, but once they are, you can achieve the game-changing benefits that a collaborative, customer-driven value chain provides.

How Deloitte and Logility work together

Deloitte is a strategic Logility partner, performing supply chain transformations for Logility customers globally.

How can Deloitte help?

Deloitte works with clients to develop strategies, define future solutions built on leading capabilities, and implement process and technology solutions. Deloitte is as strong in helping clients execute a plan as it is in crafting it.

Deloitte has deep expertise related to all aspects of retail planning and commits to bringing you the right team and expertise. Deloitte's proven approach is based on the following guiding principles:

- Value Driven—prioritize critical value drivers to maximize benefits for the organization and identify "quick wins" to speed value prior to system go-live
- Leading Practices—leverage Deloitte's expertise of multi-branded and omni-channel retail business models to ensure the end state is scalable and flexible to support your business needs
- Accelerated Implementation tools and methodologies—a comprehensive set of proven tools and detailed methodologies, including Enterprise Value Delivery Implementation Methodology and IndustryPrints (leading practice business process models), can accelerate your implementation, improve quality and reduce internal and external costs

Deloitte realizes the importance of combining deep process and technology experience with practical business strategy. Spanning consulting, financial advisory services, and tax and risk management worldwide, Deloitte's integrated approach helps companies use their supply chain operations to deliver more value across the business.

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How Deloitte and Logility work together

How can Logility help?

The Logility Voyager Solutions suite provides comprehensive visibility and close collaboration across the entire supply chain, from suppliers to stores, to manage complex supply chain challenges.

Faced with aggressive competition and rapidly changing consumer preferences, retailers and manufacturers around the world rely on Logility Voyager Solutions to synchronize promotional and replenishment schedules, improve in-stock positions, and bring trading partners together to work toward a common goal. Logility Voyager Solutions provide enhanced supply chain visibility and collaboration for demand planning, supply and inventory optimization, replenishment, manufacturing planning and scheduling, sales and operations planning, and more.

With Logility, supply chain teams can put the right products in the right places at the right time, driving costs lower, increasing flexibility and resiliency, and raising customer loyalty—a recipe for retail success.

Get In Touch

Deloitte and Logility create retailer-supplier collaboration by incorporating business-leading practices and technology that's easy to implement and easy to use. For more information, please reach out to us:

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