



White Paper

Redesigning Retail Operations: A Digitally Connected Supply Chain for Accelerated Performance

About the Author

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Abstract

Retailers currently operate in an omnichannel environment that is driven by digital technologies, and marked by swift changes in consumer needs, expectations, and purchase behavior. While these evolving trends impact all areas of retail operations, retailers need to focus on the heart of their omnichannel operations – the supply chain. Only a fundamental redesign of supply chain processes, with technology at its core, can enable retailers to thrive in this demanding omnichannel environment.

Improving warehouse management, logistics, and distribution is one challenge. The greater challenge, however, is establishing real-time visibility across the supply chain and gaining a holistic view of customer order fulfillment. This calls for automation of processes and integration with technology such as analytics, to build a collaborative, digital, and demand and data driven supply chain.

In this paper, we explain how retailers can efficiently achieve these goals. We discuss the unique challenges posed by the omnichannel environment, and provide best practices to help transform supply chain operations and accelerate business performance.

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Understanding the Imperatives of the Omnichannel Environment

Brick-and-mortar retailers have begun their multichannel journey in earnest. In India, non-store revenue is currently less than three percent for most retailers. This is indicative of a high potential for growth. The primary objective for multichannel initiatives is geographical expansion and revenue enhancement, which is likely to be driven by the online marketplace as a growth channel. However, with an eye on improving customer experience, retailers have a strong focus on their ecommerce websites.

Smaller players view this as an opportunity to compete on a more level playing field with chain stores: the non-store channel has led to a democratization of brands. Large players will have to be equally nimble when dealing with an increasingly demanding and educated customer who is a first adopter of any new technology.

The omnichannel environment is hence experiencing exponential growth, helped by the adoption of smart mobile technologies for shopping. The phenomenal change brought about in consumer preferences and behavior is forcing retailers to reconsider their traditional operational models. This puts the supply chain at the threshold of a major transformation. Figure 1 shows the primary objectives of omnichannel strategy for retailers.

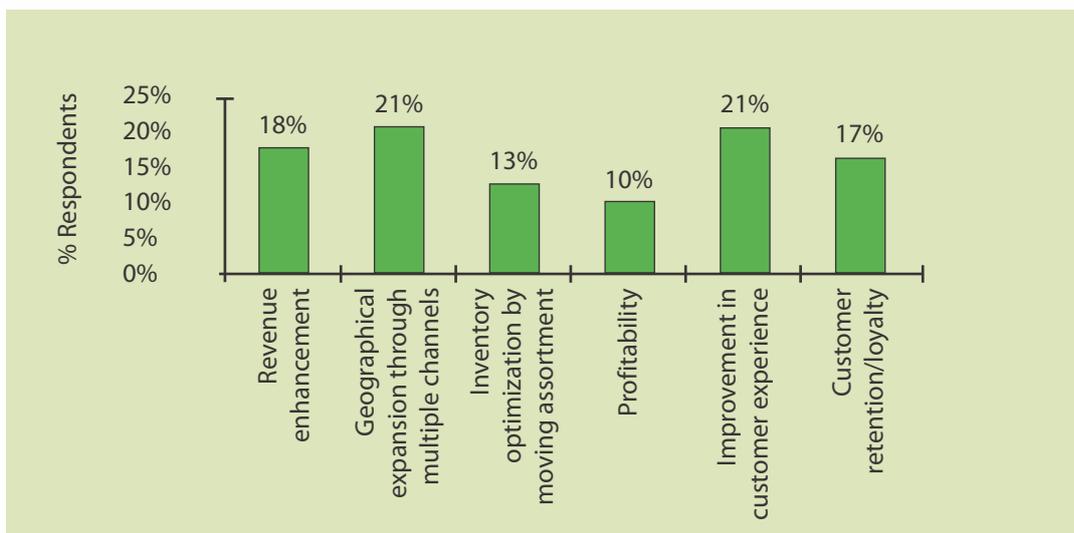


Figure 1: Primary objectives of multi-channel strategy in FY 2014-15 (Source: TCS ROBES 2014)

The supply chain comprises a number of organizations, which provide products, services, finance, and information. The complex requirements of the omnichannel environment affect supply chain dynamics. As a result, effectively maintaining supply chain transactions, managing supplier relations, and controlling business processes is a huge challenge today.

In this paper, we discuss some pressing requirements and challenges presented by the omnichannel environment.

Inventory, warehouse, and demand management

Technologically savvy and demanding consumers want quick access to their favorite brands and designs through the channel of their choice. Whether it is shopping, returning, or exchanging products, consumers look for greater ease and cost efficiency. As real-time comparative shopping gains traction, consumers also look for more personalization and smart deals. In order to meet consumer demands and enhance customer service, retailers need to ensure a fast and nimble supply chain.

Many retailers contend with poor cross-channel visibility and ineffective use of inventory due to lack of sophisticated supply chain systems. Effective safety stock analysis and inventory reporting is essential to optimize inventory at each stage of the supply chain, ensure quick replenishment, and avoid inventory shortage. What retailers need is a comprehensive warehouse management system that provides visibility into inventory across networks and locations, as well as in transit.

Accurate demand forecasting that factors in the dynamics of various sources of demand and their impact is critical to ensure on-shelf availability and meet customer expectations in today's world of instant gratification.

Order fulfillment

Efficient order fulfillment is another focus area for retailers in order to ensure a seamless omnichannel experience. Retailers need to:

- Gain a real time-view of orders across channels, and information on product availability in the supply chain. This requires integrating orders from all channels with the inventory database, and with data collection and order processing systems.
- Decentralize order management and treat inventory as a shared resource to efficiently cater to the demands of omnichannel shoppers. Planning and allocation teams need to be created across operations and functions to enable inventory sharing.
- Establish an e-commerce order management system for managing picking and packing of products, and a smart point-of-sale (POS) system for handling payments.
- Eliminate the use of spreadsheets, manual processes, and inefficient systems.
- Efficiently deliver goods across channels, which is difficult as even though online fulfillment and distribution centers are situated in different Locations.

Logistics management

Logistics management forms part of a holistic omnichannel strategy, and entails import and export compliance management, transportation management, and tracking and reporting of shipments. Other key aspects within its ambit are warranty and claims management, and financial and operations management. The main focus is on network and transport optimization to ensure smooth flow of materials and information through the supply chain.

Retailers also currently face increased pressure to optimize strategic sourcing, distribution networks, and service levels, as well as reduce their carbon footprint. Apart from managing the forward supply chain, reverse logistics (which involves handling goods returned by customers and recovering maximum value from them) gains increasing importance in a competitive environment.

Vendor management

Vendors play an integral role in ensuring that the omnichannel retail world runs like a well-oiled machine. Retailers therefore need to implement a structured and integrated approach for end-to-end vendor management that encompasses vendor selection, risk minimization, cost optimization, process improvements, and geo-fencing strategies. This helps retailers streamline and consolidate the management of multiple vendors and focus on strategic sourcing. Building decision scenarios for dynamic vendor analysis and development, and managing cost arbitrage are also imperative for better planning of supply chain and vendor management. Retailers also need an up-to-date, comprehensive, and interactive database of products, parts, vendors, and pricing to facilitate quick and accurate decision-making.

Keeping pace with the digital world: best practices for revamping and optimizing the supply chain

For retailers, trying to hold on to conventional strategies and refusing to revamp their business models can be a recipe for failure. Here are some key ways to transform supply chain operations, so that retailers can stay relevant to omnichannel customers, incorporate the latest trends, and realize sustainable growth.

Establish collaboration

A collaborative supply chain strategy is the foremost requirement for improving supply chain management. Collaboration is necessary for not just planning, scheduling and decision-making but also end-to-end execution – from the design phase to the product return phase in the supply value chain.

A key consideration here is to factor in the complexities of omnichannel fulfillment. While direct-to-customer orders require dedicated warehouses to enable efficient picking and quick replenishment of stock, wholesale and retail orders are impossible to pick at the same time. Add to these the multiple channels that require servicing in an omnichannel set-up, and the distribution model quickly becomes complex. Effective collaboration enables retailers to deal with these complexities efficiently and establish better control over processes and outcomes.

This can be done by proactively engaging with every channel partner, including suppliers, customers, intermediaries, and third-party service providers. Sophisticated supply chain systems, digital collaboration tools, and virtual platforms can be leveraged to integrate all organizations in the value chain – not just wholesalers and retailers — and build closer relationships.

Build a customer-focused supply chain

To achieve agility, cost efficiency, reduced risk, and enhanced performance, retailers need to build supply chains that establish greater connect with customers. This can be achieved through greater transparency and sustainable supply chain practices. The focus must be on more efficient and holistic omnichannel order fulfillment through dynamic routing of shipments, relevant product customization and innovation, and quick replenishment of fast-moving products. Advanced and integrated tools for distributed order management, omnichannel inventory management, pickup and packing, invoicing, exception management, and reporting can deliver the expected benefits.

Ensure supply chain segmentation

Segmentation is an effective tool for determining the best strategies to serve customers across relevant channels, meeting individual product stocking and delivery needs, and optimizing costs. Since customers' purchase patterns differ across demographics and geographies, a single supply chain network structure or a single stocking strategy for all products will inevitably fail to meet customers' needs. The result could be frequent stock-outs of high-demand products and too much stock of slow-moving products, leading to financial losses for the retailer.

In order to counter this issue, retailers can study the need for supply chain differentiation by examining individual products and categories based on key factors such as margin, velocity, and variability. This helps arrive at different groups or categories of products that require varying supply chain strategies. Retailers can then implement unique strategies and approaches to cater to each category or segment, and achieve maximum performance at the lowest costs. Relevant decision support tools must be utilized to analyze cost and demand, and gain visibility and insights into each segment so that retailers can assess their segmentation strategy consistently.

Embrace digitization

Modernizing the supply chain entails moving away from manual, paper-based tasks that are cumbersome, error-prone, and inefficient. Digitization helps realize greater value from supply chain processes, including demand forecasting, production planning, order fulfillment, warehousing, and logistics.

A few examples of digitization in the supply chain:

- By drawing upon technologies such as electronic data interchange (EDI), paperless processing, electronic invoice presentment and payment, and mobile applications, retailers can streamline their supply chain processes and achieve greater efficiencies.

- RFID chips can be used to effectively track and manage inventory, and achieve direct-to-customer fulfillment.
- Retailers can tap into cloud-based solutions for improving sourcing and supplier management, and utilize social networking platforms and bar coding technologies for streamlining retail operations.

Instead of leveraging standalone tools and technologies, retail organizations need to create a comprehensive, integrated, and well-researched digital strategy that integrates retail data with their supply chain. Holistic solutions for network optimization, information and data management, and order management will enable more effective digital transformation of the supply chain.

Leverage Big Data and analytics

Real-time visibility into inventory helps fulfill customers' need for instant gratification. Retailers need an integrated system that provides real-time data and insights into every element in the supply chain, including suppliers, procurement, transportation, warehouses, distribution centers, ecommerce systems, and stores.

By tapping into Big Data and analytics, retailers can gain a holistic view of inventory levels, sales forecasts, shipment locations, and trace issues to their root causes. This facilitates proactive responses to changes and demands. In addition, data collaboration across the value chain in areas such as pricing, regional trends, and in-stock rations, enables retailers to align supply with demand, and achieve superior customer satisfaction.

Greater attention must be paid towards effective use of master data management (MDM) that comprises demand class, customer class, customer master, price master and fleet or capacity masters. Effective MDM involves data matching, consolidation, maintenance, publication and synchronization, assessment and acquisition, and cleansing. It also includes product information management across all channels, product workflows, and updates. As part of MDM, standardized terminology can be established across the value chain to achieve closer collaboration with supply chain partners.

Plug the competency gap

As retailers leverage advanced information management systems, they face an increased need for skilled and competent resources who can handle supply chain tools and techniques and gain value from them. It is therefore imperative to find the right people and train them in warehouse operations, logistics information systems, sales and marketing, client servicing, and supply chain management.

Retailers need to source professionals who bring in critical skills and expertise in forecasting, cost and trend analysis, global business, and compliance and law, and knowledge of multiple languages. E-learning tools and platforms including webcasts and simulations can be used to impart best-in-class training on advanced topics.

Achieving Enhanced Business Value through Effective Sales Order Management: A Case Study

A leading industrial distribution organization realized greater business value and enhanced efficiencies by automating sales order management.

The distributor received around 1,300 orders every day from customers and the sales force via fax and email. Customers demanded same or next-day delivery, and the company needed to cater to multiple regions. Other concerns included managing order picking from a wide range of products and handling erratic supply.

The distributor adopted a robust, end-to-end sales order management solution that offered a 12-hour window to effectively manage each order. Simultaneously, they created a competent talent pool to handle multiple types of services that led to the optimization of workflow management. The solution enabled the team to automate repetitive steps by providing short keys and macros. Training was also imparted to the associates to improve their skills in typing and image reading, as well as understanding and managing catalogs and products.

The organization was able to realize the following key business benefits:

- Improved productivity, leading to savings of USD 8,000 per year
- Increased revenues, as the distributors were able to manage higher volumes with greater speed and accuracy
- Consistent 100 percent adherence to same or next day delivery timelines
- Increase in sales revenues due to fewer cancellations in sales orders

Gearing up for the Future

Retailers are increasingly optimizing inventory so that they can establish truly omnichannel supply chains and eliminate the need for separate online retail distribution centers. To survive in the competitive omnichannel market, the focus of retailers must be on enhancing order fulfillment, establishing inventory visibility, creating web-ready product information, and ensuring accurate demand planning and scheduling. They also need to implement well thought out supply chain governance policies to steer processes and decisions, and establish clear metrics for measuring success.

Retail success also hinges on ethical sourcing with an uncompromising emphasis on environmental, safety, and quality standards, and socially responsible supply chain practices. Integrating technology that assists in regulatory compliance into global logistics operations is another aspect that cannot be overlooked.

Above all, a strategic approach to designing and planning supply chains through a careful examination of retailers' go-to-market and finance plans, capabilities, and budgets will help propel growth. Retailers that are best equipped to meet the demands of today's digitally savvy consumers through supply chain transformation are likely to leave their competition behind.

About TCS Business Process Services Unit

Enterprises seek to drive business growth and agility through innovation in an increasingly regulated, competitive, and global market. TCS helps clients achieve these goals by managing and executing their business operations effectively and efficiently.

TCS Business Process Services (BPS) include core industry-specific processes, analytics and insights, and enterprise services such as finance and accounting, HR, and supply chain management. TCS creates value through its FORE™ simplification and transformation methodology, backed by its deep domain expertise, extensive technology experience, and TRAPEZE™ governance enablers and solutions. TCS complements its experience and expertise with innovative delivery models such as using robotic automation and providing Business Processes as a Service (BPaaS).

TCS' BPS unit has been positioned in the leaders' quadrant for various service lines by many leading analyst firms. With over four decades of global experience and a delivery footprint spanning six continents, TCS is one of the largest BPS providers today.

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