



# ***The State of the Retail Supply Chain***

**Results and Findings of the 2009 Auburn University Study**



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## About the Study

Retailer Industry Leaders Association (RILA) and Auburn University's 2009 study on the State of the Retail Supply Chain, consulted more than 40 major retailers, to identify the strategic impact of retail chain executives, key issues, and challenges in Supply Chain Management (SCM).

The objective of the study was to identify the critical role the SCM plays in the retail industry, SC challenges, and the retailer's opportunity to increase their SC leverage successfully for a competitive advantage in the market.

The study's outcomes convey the sheer necessity of an effective SCM for a thriving retail sector. Not only indicative of the US retail market, critical issues including current challenges, and forecasted trends, set precedent for the state of SCM across the globe.

## Supply Chain Strategies and Key Capabilities

Particularly during the economic decline of the GFC in 2009, the focus on cost, and the drive for greater efficiency, was significantly heightened for retailers.

Many retailers are spending money in targeted areas to enhance current SC capabilities. Cost control is a major point of emphasis for retail supply chains, where 71% of participants in the study listed cost control as the primary critical capability.

Rated the second most critical capability is the anticipation of client demand by ensuring in-stock availability of high volume items to cater accordingly, followed by a swift response to demand changes.

SC Process Improvement is identified as the number one focus by far with 90% of retailers

distinguishing it as their number one priority, further emphasising the retailer's desire to improve SC efficiency, manage costs, and preempt client demand, to ensure a competent strategic focus for an effective SC organisation.

## Supply Chain Operations and Metrics

A proven method for retailers, many SC strategies provide a greater impact on retailer inventory flow and fulfilment initiatives on customer service than cost efficiency. SC executives are working to moderate costs to offset flagging sales. At the same time, they must ensure that customer service does not suffer in the wake of cutbacks.

SCM executives emphasised collaborative planning, forecasting, and replenishment (CPFR), demand driven replenishment, and velocity based SKU management, are particularly beneficial for pulling assets through the pipeline.

The table below underlines performance data shared by SCM executives about six metrics from the study.

Distribution Method	Participants Using Method	Average \$ Volume	Range of \$ Volume
Company DCs	93.8%	71.8%	0% to 100%
Vendor direct to stores	75.0%	9.3%	0% to 70%
3PL DCs & cross-docks	37.5%	8.5%	0% to 99%
Company cross-docks	37.5%	6.8%	0% to 96%
Pool distribution	6.3%	4.0%	0% to 95%

While retailers are succeeding on many fronts, there needs to be a solid concentration on inventory turns, return on assets, and demand-driven fulfilment, to support consistent corporate profitability.

## SC Trends and Challenges

Current SC trends and challenges, particularly deteriorating consumer confidence, incessant media coverage of negative retail performance and their repercussions into the future, were also explored in the study. Other factors including volatile fuel prices, the global credit crisis and the turbulence of the US Dollar, also contributed towards an uncertain outlook for SC executives.

The sluggish state of the 2009 economy, and slow customer spending to match, prompted SCM executives to act fast.

The most significant step in reducing asset investment is the reduction of inventory positions, followed by smaller orders, and asset investments being put on hold. Inventory management, in response to market conditions, is the key to success for SCM executives.

SCM executives tackled the problems of a volatile 2009 tactfully, demonstrating a well-prepared SC allows retailers to cope with economic and retail SC challenges successfully.

## What makes a Best-in-Class Retail Supply Chain?

According to the study, SC executives considered the larger retail establishments as leaders in their field at retail SCM.

Four major themes constituting best practice in retail SCM were identified by SC executives, these include leveraging existing strong distribution networks, creating flexibility capacity, aligning inside and outside the organisation, and developing people.

Best-in-class retailers are beginning to break down the walls between the various operating silos and manage processes more holistically, to

align all components of the organisational structure including merchants, stores and SC processes.

Best-in-class retailers can assess the total cost associated with acquiring, transporting, storing promoting, and selling their products.

They can adhere to the impulsive needs and wants of today's consumer, delivering rewarding financial performance for the entire organisation.

## Summary

SCM has evolved from its perception as an operational solution working as a single entity, to an essential tool, working with all functions within a company, for an organisation's continued progressive SC development.

SCM executives are working towards streamlining inventories and revising investment plans to promote total cost reduction and resource conservation for the organisation.

SC executives are being called upon to maintain excellence in supply chain operation, by streamlining inventories, promoting total cost reduction, and conserving consistent SC agility, to sustain future growth for the retail organisation well into the future.

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## About New World

Changes in supply chain and logistics can have a significant positive (or negative) impact throughout the organisation, at many levels.

New World Business Solutions provides key support for organisations in closing the gaps, identifying and implementing solutions that leverage the business strengths and opportunities.

As an operations focused firm with decades of wide ranging experience, our hands on approach and personalised service enables our clients to count on innovative, practical solutions to improve their supply chain performance and produce value based results.

We combine proven problem solving skills and industry management experience to help our clients, increase profits and revenue, reduce costs and release capital tied up in supply chain assets.

## About the Author

Richard Koch is co-founder, Managing Director and Principal Consultant for New World Business Solutions. Since 1985 he has worked with a wide variety of industries to deliver supply chain and logistics strategy and solutions.

Prior to establishing New World, Richard held senior Operations and General Management positions with Finemore's Transport (now Toll), Linfox Distribution Group, Viking Freight Logistics (USA), a subsidiary of Federal Express Corporation and DTM Business Logistics.

Since 1998 Richard has consulted to companies in Australia and the Asia Pacific region, managing a team of professional logisticians in all aspects of supply chain strategy, outsourcing, distribution centre design and implementation for retailers, distributors and manufacturers. Clients who have benefited from his work include: SuperCheap Auto (retail), Mitsubishi Motors (automotive), Unilever (food & beverage), IBM (ICT), GWA Heating & Cooling (manufacturing), 3M Australia (consumer goods) and Scholastic Australia (media & publishing). For a full list of our clients please visit <http://www.newworld.com.au>.

Richard earned his degree in Business Administration from California State University, Sacramento, California. He is a member of the Supply Chain and Logistics Association of Australia, Chartered Institute of Logistics and Transport and holds a Certification in Integrated Resource Management (CIRM) from APICS. You can reach Richard by calling +61 2 9401 9152 or email him at [rkoch@newworld.com.au](mailto:rkoch@newworld.com.au).