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Customer & Operations Strategy

Externalities of Supply Chains: Unrestricted or Opportunities to be Taken Advantage of?

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The Retail industry is different from the rest. The word that best defines it on the Value Chain is dynamism. Not only is it a highly competitive industry, but consumers also generate a distinct complexity, owing to the constant change in their consumption preferences and habits. Without a doubt, the dynamism of this industry requires that companies further integrate the strategic, tactical and operational levels of the Supply Chain with the remaining processes.

Clearly identified restrictions typically exist, such as high investment in working capital, but even worse, the poor perception of service on the part of the customer - I never find what I need here, I should go to…-

This article makes an attempt to address the best practices that allow us to avoid such as annoyances:

1. Category Management: the eternal mystery of the Supply Chain

The eternal mystery: Why are supply chains unable to respond with the same speed to changes in categories?

For Retailers, the ongoing quest to achieve consumer preference represents an operational sacrifice, as it obliges us to increase the rate at which we release and discontinue products, increase product categories and reconfigure/prioritize store space.

Nevertheless, our customers' supply chains cannot adapt as the same rate to changes in categories, which implies restraints on working capital, an increase in operating costs, infrastructure requirements and greater complexity in product management, with the objective of obtaining the desired service.

The Supply Chain must follow and consider three basic processes at all times: **the increase or decrease in the number of items or categories, speed in adapting to the management of new categories and the roles and importance of the categories.**

REQUIRED PROCESSES	QUESTIONS TO ANSWER	ECONOMIC IMPACT
I. Increase or decrease in the number of items or categories	Is the historical data reliable? What will be the new demand? What is the required stock? What risk level is required to cover the beginning of sales? What will be the exit price strategy?	• Disproportionate increase in working capital in relation to Sales. • Lost sales due to service level reduction. • Margin reduction due to inefficient shifting of discontinued products.
II. Rapid adaptation to new category management	Do I need more suppliers? Do I need to increase human operating or managerial capital? Are the configuration and operational capabilities prepared for management of this product?	• Increase in operating costs. • Temporary reduction in service level caused by the learning curve or untimeliness. • Unnecessary costs related to "temporary solutions" required to provide the service.
III. Rapid adaptation to new category management	If I experience capacity issues, to whom to I give priority? What is the business impact of giving priority to one item over another?	• Margin erosion owing to prioritization of less desirable categories.

FIG. 1

Over the course of our experience in the Retail industry, we have proven that the most appropriate way to improve processes is through implementation of an integral strategy and definition of Supply Chain roles.

In certain cases, the Supply Chain will play the role of validator, in others, of generator of information to be used in decision-making and in others, of decision-maker.

In order to avoid role confusion, it is necessary to work in the definition of communication channels, interaction mechanisms and management indicators. The Supply Chain should not be a restriction, but rather it should support the business in achieving flexibility between roles.

2. Store space: the scarcest and most important resource

Why does store space become the operational bottleneck for growth of the business?

All Supply Chain shutdown errors end up pointing to the store, for example, stores full of products that do not sell, stores that lack space for exhibition of the new season's products, lines of freight waiting to be unloaded, saturated aisles due to a lack of space, etc.

In order to reduce these errors, we must consider two critical processes: **store space planning and integration of store capacities with product flow.**

ELEMENTS OF GREATEST IMPACT	QUESTIONS TO ANSWER	ECONOMIC IMPACT
I. Store space planning	Does the store have adequate space for the stock requirements that serve the demand? When should a certain volume of products be removed in order to introduce new or next season products? Which are the slow products that only generate dead space?	• Lost sales due to gaps in product availability. • High opportunity costs due to dead shelf space.
II. Integration of store capacities with product flow	Can the store stock the product? Can the store receive the product? Can I reconfigure stock policies in order to free up space in the store?	• Lost sales due to gaps in product availability. • Increased operating costs due to peaks in product flow. • Increased transportation costs due to delays and low consumption due to urgency.

FIG. 2

Operational routines, communication mechanisms, preventive-corrective activities and management indicators are defined by means of a **solution with a tactical-operational approach.**

These are everyday topics that require profound detail in the activities that each participant in the process must acknowledge and carry out. Nonetheless, the failure of these processes to function like a well-oiled machine generates a seemingly endless domino effect and the same problem continues to present itself in the store. In this case, the starting point is to guarantee that the store has and continues to have the necessary infrastructure for the desired sales level.

3. Evolution of the supplier as the Strategic Business Partner

Why does the supplier continue to receive the bullwhip effect?

The supplier is commonly treated as the missing link that will bail them out when they commit errors in the Supply Chain, asking them to respond rapidly.

They end up demanding unrealistic delivery times, showing no respect for their capacities, in addition to constant changes in priorities and, on occasion, they back them up in the event of losses or returns, representing a serious mistake in the relationship of strategic partners.

Suppliers have their own problems and we should not make ours theirs, because the sales floor will be the most affected of all. In order to solve this problem, we must perfect the **integration with supplier capacities and maximize visibility and communication of sales requirements.**

ELEMENTS OF GREATEST IMPACT	PREGUNTAS A RESPONDER	IMPACTO ECONÓMICO
I. Integration with supplier capacities	Does it have the required capacity? What are its real restrictions? Will it keep up with me if sales increase?	• Lost sales due to gaps in product availability. Increased costs due to • increased urgency.
II. Visibility and communication	Am I respecting delivery times? Am I preventing 100% consumption by changing purchase orders?	• Lost sales due to gaps in product availability. • Increased costs due to increased urgency.

FIG. 3

The underlying problem is attacked by means of development of a **tactical-operational solution**, defining communication channels in order to give greater visibility, generating information flows, performing audits and integrating planning and programming, as well as through follow-up of management indicators.

We have seen that Supply chains end up blaming suppliers or demanding service they could never provide, due to which it becomes critical to integrate them in the same operation of the business. Failing to do so, we would feel the supplier is a burden, someone who does not want us to reach our goals, and we would also be losing the opportunity to improve daily operation, the potential development of our suppliers for us to gain a competitive advantage over the competition.

4. IT as an enabler of business: Few understand it, less achieve it, but those who do stand out from the rest.

How can I capitalize my customers' information into executable strategies?

We must take IT tools into account. If many are saying – this is not a process- they are right. Nevertheless, the lack of capacity to analyze the numerous transactions a Retailer carries out, or the delay in doing so, will ultimately lead us to proceed blindly. We constantly see that our customers have general or detailed indicators, but lack business sense: do they truly help me indicate the root of the problem or do they simply help

me see I am wrong and avoid being scolded?

We commonly see performance indicators that show us the reality of events and we obtain the results that help us to know if we are or are not achieving objectives and to pay the variable bonus; however, they do not help us prevent problems, measure the effectiveness of our actions and, much less, detect the real opportunities in our market.

The Predictive Analytical Solution enables us to break the information down into minimal levels of detail in order to obtain what we really need and answer questions such as:

- Which customers respond best to this type of promotion?
- How can we optimize transportation resources in order to reduce distribution expenses without impacting the level of service?
- What demand must I cover in the event of limited capacities and/or suppliers?
- Where must I open a new store and/or distribution center?

As we have observed, the biggest problems are derived from the lack of integration of the Supply Chain with Business Processes, Suppliers, or even IT. We have seen Retail supply chains make constant efforts to improve formulas, implement more performance indicators and hire more staff, but they do not turn to look at processes through which they could avoid high impact problems.

Expected benefits

Based on our experience with benefits of strategic projects aimed at Retail operations ranging from publishing houses to supermarkets, fashion and seasonal and commodity products:

- Service level improvement by 8 percentage points.
- Stock reduction by 15 to 21%.
- Reduction of costs from 12% in transportation, 18% in CD operations and 6% in store operations.
- Improved response times rom 60 days to 52 days for imported good, and from 25 days to 18 days for domestic goods.
- Decrease in warehouse infrastructure requirements by 8% to 17%.

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