



# Changing scenario

In tune with customer demands, retail logistics and supply chains are undergoing major changes, explains **Leigh Sparks**

**F**or many businesses including retailing, the activity of distribution is something that goes on in the background. It only tends to be considered when things do not work or go right. When questions of lack of in-store availability arise, then distribution often gets remembered and is seen to be at fault. When product demand outstrips supply, then distribution has to somehow find products and deliver them immediately. For retailers, disruptions or perturbations in the distribution of products have become a common feature. 'Distribution' gets blamed for not sorting it out properly and for not getting the right product to the right place at the right time.

But, not all retailers are like this and not all supply chains are so under-managed or disorganised. Some retailers have woken up to the fact that on-shelf availability at all times is a better proposition for consumers than being regularly out-of-stock. However, this availability must not come at a price that makes the business unprofitable. The answer to this price and service conundrum lies in effective management and organisation of distribution. This requires the close management of logistics activities (such as transport, warehousing, inventory, packaging and data communications) and development of effective retail supply-chain management. Supply chain management in retailing has become a key competitive requirement for modern retailing.

## Change in supply chains

There are a number of changes in modern retail supply chains that are direct responses to the changing demands of consumers:

◆ **Pace:** If nothing else, the modern consumer is more demanding and less patient than before. As a consequence, retailers, particularly in fashion goods, cannot afford to take a long time to develop,

manufacture and then deliver the product. Speed or pace is vital. The concept of 'fast fashion' as developed by Zara and Hennes & Mauritz amongst others, shortens the product life cycle in clothing from months and years, to weeks and months. Development and manufacture time is slashed and demand response time is also shortened dramatically. The pace of the supply chain has also increased. This is not to say that speed in supply chains is the key priority: supply chains need to be fast on occasions, but more importantly, they have to accurately and reliably deliver the right products at the right time.

◆ **Span:** Retailers are also now far more global in their outlook. As a consequence, they have to manage supply chains that span the globe. They are searching for low-cost production, but link this to an ability to distribute the product effectively from far-spread points of production to multiple locations for purchase and then consumption. There is little point in moving production points to far-away but low-cost sites if the cost and time of distribution and supply outweigh these production benefits. Retailers now talk about global supply rather than global production and are increasingly aware of the need to manage this business globally.

◆ **Availability:** To meet the needs of these ever more demanding consumers, retailers are increasingly more concerned about availability of products in store. Whereas increasing pace in supply chains and broadening spans of production would seem to be contradictory pressures on availability, both in fact can assist in enhancing broad supply-chain availability. In part, this arises from the need to control supply chains more directly. But, general availability is not what consumers require; consumers need specific on-shelf availability in front of them as they shop. Much attention has therefore been paid by retailers to ensure that the products are moved onto shelves more

efficiently, rather than 'resting' in-stock rooms. Any development that speeds up and simplifies this process (the so-called last 50 m) is thus of importance. Concepts such as shelf-ready merchandise, retail ready packaging or one-touch systems have found ready markets. Products have to be designed not only with their customer profile in mind, but with their supply and handling requirements identified as well. Badly designed products and packaging from a supply chain viewpoint add cost and time to handling and reduce availability.

◆ **Information:** Perhaps the critical element in retail supply chain change has been the ability to collect, disseminate and use data throughout the supply chain and the supply chain partners. Data collection on product levels and movements has allowed visibility in the supply chain (both vertically and horizontally) and has enabled stronger control of logistics and supply-chain operations. By focusing on data and information, supply chain managers can increase the pace and accuracy of supply chains, allow a broader scope or span and focus on ensuring availability improvements. Data has become the lifeblood of retail supply chains. There can be difficulties in managing data on occasions and there is potential data overload if appropriate systems are not put in place. Similarly, technology systems' introduction does not always go smoothly and can be highly disruptive to existing business practices. Nevertheless, the ability to collect, store and use greater amounts of data at more detailed levels and to transform this data into management information have undoubtedly enhanced retail supply systems, reducing stock levels and aiding appropriate and rapid response to consumer demand.

## Implications of retail supply chain changes

These changes to retail supply chains raise a number of

implications for the management of retail supply chains. To a considerable extent they have had a transformative effect on how retailers (and their supply chain partners) view the management of retail supply chains. Here, we identify three implications of these changes.

◆ **Supply chains compete:** In the traditional model of retailing, it was often believed that competition was amongst retailers alone, that is, at the horizontal level only. It is now increasingly realised that retailers are at the fulcrum of supply chains, between production and consumption. As such, the retail store is the recipient of both changing demand and supply. To the consumer, if a product is not on the shelf, then it is the retailer's fault, irrespective of where the true problem lies. As such retailers compete not only horizontally amongst themselves, but vertically as well in terms of the efficiency and effectiveness of their supply systems. For a retailer, the implication of this is that they need to extend their reach into the supply chain so as to make it as efficient and effective as possible.

◆ **Relationships matter:** Given this need to extend reach into the supply chains, retailers are confronted with a major problem. The pace and scope of modern supply chains means that, in most cases it is not possible for retailers to actively undertake all the supply chain tasks themselves. Rather than vertical integration, vertical co-ordination may be the aim, but based perhaps on the integration of aspects of information systems. By properly managing supply chains, effectiveness and efficiency may be enhanced. However, this management task can be very large. To combat this, retailers have utilised logistics services providers (LSPs) to carry out many logistics activities, including a considerable degree of supply-chain management activities such as co-ordination, management and control. Additionally, in recognition of the pressures to make supply chains effective and efficient, there has been a tendency to simplify their structures. Thus, the number of direct partners and activities in many cases has been reduced considerably, such that the co-ordination activities are between a more limited number of supply chain partners, with a consequent potential for the deepening of relationships and activities.

◆ **Information, not product movement:** The management task in supply chains has been aided by these processes of simplification and co-ordination. It has also been assisted by the considerable developments in data capture, storage and dissemination. Supply chains have become increasingly data-rich with these data often shared amongst the components of the supply-chain partners. Data visibility means that to a large extent, data movement has replaced product movement in supply chains. As supply chains have become co-ordinated and focused on



getting closer to 'just-in-time' rather than operating as 'just-in-case', so the need for accurate management information increases. There remains much to be done in this regard, but the ability of retailers to 'see' the products at various stages in the supply chain has assisted their drives towards the development of effective and efficient supply chains. It does not matter if the supply-chain orientation is towards 'lean' or 'agile' approaches, as all retailers and suppliers should be interested in having supply chains that simplify base flows and can respond rapidly to changing consumer demands when necessary.

## Conclusions and developments

Over recent years, retailers have begun to realise that their supply chains are vitally important components of their retail offer. Giant internationalising retailers such as Wal-Mart and Tesco place the proper management of the supply chain at the heart of their retail businesses. Tesco has exported its supply chain model to Eastern Europe and Asia as it has expanded its retail store operations. This is because consumers and retailers are ever more exercised by the ideas of good availability and supply. Supply chain management is not a 'nice-to-have' concept but has become a driving force in retail positioning and reputation. If the supply chain is not working properly, then customers will see the impact in the stores and make their choices amongst products and retailers accordingly. Retailers ignore their supply chains at their peril. As retailing and retail businesses change, it is vital to reconsider the appropriate components, alignments, organisation, tactics and strategy of the supply systems that 'feed' retail stores and thus consumers.

While we have witnessed a supply chain re-configuration in recent years, it would be wrong to think that this is now over. As supply chain requirements continue to evolve and change, new supply-chain considerations and practices will be needed. Two potential aspects of this perhaps merit discussion here, given their current increasing profile.

First, the industry and trade press is full of the potential of radio frequency identification (RFID) technology. Experiments and rollouts abound and stories of which retailer is doing what are rife. But, this is actually an old technology. What has changed is the ability to miniaturise the components, developments in reducing the price of 'tags', making them affordable and thus applicable in new situations and retailers' continuing need for detailed data to manage aspects of retail supply. RFID is no panacea for supply chains and if used inappropriately, will cause more headaches than it solves. But, in the right places and the right ways, it does offer the potential for more accurate and reliable supply chains, possibly down to the item level. If this does occur, then businesses (retailer, LSP, supplier)



need to be capable of taking advantage of the control and accuracy that RFID offers.

The second area is no less challenging, but has received less attention thus far, probably because it has less use for technology and consultants. The development of supply chain management initially focused on downward linkages in the flow of goods/products/packages towards final consumption. In integrating supply chains, concepts such as packaging logistics and returnable or re-usable handling systems have been developed. In turn, this has opened up ideas about reverse logistics.

These, in turn, chime with current environmental and other concerns. Both in terms of increasing legal frameworks for re-use and consumer and retailer desires to be more efficient in environmental terms, reverse logistics seems likely to grow in importance in the future. Retail supply chain management must therefore consider all flows of product, information and packaging/handling systems in the channel and both in downward and upward directions or they will become clogged with unwanted and expensive processes and approaches.

These two examples suggest that the retail supply chain tasks will not get easier in the future. Retail management attention on supply-chain management possibilities is going to continue to become increasingly important to retail practices across the world. Nor is this only a retail issue. Any business that supplies retailers or interacts with the retail supply chain will have to confront these modern realities, changes, orientations and behaviours. Good retail supply chain practice will not be an option, but a necessity. 🇬🇧

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