Gartner

Press Release

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Gartner Highlights Three Key Foundational Elements for Demand-Driven Retail Success

Analysts to Discuss the Future of Supply Chain at the Gartner Supply Chain Executive Conference 2013, 21-23 May in Phoenix, Ariz., 12-13 August in Melbourne and 23-24 September in London

STAMFORD, Conn., May 9, 2013 — Defining the role of supply chain, span of control and metrics maturity are the key enablers to demand-driven retail success, according to a recent survey by Gartner, Inc. The 2012 demand-driven survey was conducted from September through November 2012 across six retail segments in North America, Western Europe and Asia/Pacific.

Gartner defines demand-driven retailing as "a system of technologies and processes that captures consumer behaviour at each point of interaction. It merges the business domains of demand, supply and product to fulfil customer expectations, improve operational performance and facilitates a timely, profitable response across a network of suppliers, employees and sales channels."

"Demand-driven retailers balance operations and innovation excellence, while delivering an exceptional and profitable customer experience," said Mike Griswold, research vice president at Gartner. "Retailers progressing along this journey realise a need for three key foundational elements that provide the platform for other demand-driven initiatives."

Mr Griswold explained the importance of these three key enablers.

Enabler 1 — The role of the supply chain
This is a clear definition and alignment around the role of the supply chain to foster alignment with business strategy. Organisations typically find their supply chain fills one of three roles:

- **Cost of doing business** — Least popular role of the supply chain with only one in five respondents indicating this as their supply chain role.
- **One of several sources of competitive differentiation** — While globally 45 per cent of respondents identified this as the role of their supply chain, North American retailers appear more mature, with 58 per cent respondents citing this as their supply chain role.
- **Primary source of competitive differentiation** — Respondents segmented as leaders and citing this as their supply chain role are 64 percent more likely to deliver return on assets (ROA) of greater than 16 per cent.

The role of a supply chain will vary by retailer, potentially evolving over time. Organisations that see the supply chain as a source of differentiation tend to view their supply chain as more mature and playing a more strategic role within the company.

Enabler 2 — Supply chain span of control
Although the role of the supply chain may differ by retailer, leaders share one common trait — they define their supply chains more inclusively than their peers. Many retailers use a narrow span of control (such as distribution centre [DC] operations, transportation and procurement) to define their supply chains. More-mature retail supply chains broaden the span of control to include forecasting, replenishment, new product

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launch and sourcing responsibilities. Ultimately, it is the inclusion of store-level supply chain activities (such as inventory management, determining minimum shelf presentation guidelines and replenishment frequency) into the span of control of the supply chain that identifies leaders.

Enabler 3 — Establishing a robust set of end-to-end supply chain metrics
Many retailers today measure aspects of their supply chains, but see a need for a more-comprehensive measurement programme. Supply chain leaders understand successful performance measurement takes two things: determining the right set of metrics and understanding how to use those metrics to optimise performance across the value network. The key is to focus on the few critical metrics that really matter.

Once the foundations have been established, the survey found that promotional and new item forecasting is the primary challenge for demand-driven retailers. Increasing and changing shopper requirements puts incredible pressure on demand planning capabilities. The typical retail supply chain responds fairly well to predictable demand patterns. With a stable set of data that includes seasonality and trending, base demand levels can be predicted fairly accurately, and replenishment transactions can occur in a predictable and cost-effective manner.

"However, with shopper tastes and preferences constantly in flux, many organisations turn to more complex promotional strategies and launching new items as a way to meet these changing preferences," said Mr Griswold. "With promotional activity and complexity increasing, the demand signal for many retailers is anything but stable."

According to the survey, at least two-thirds of respondents identified base, promotional and new item forecasting as "extremely important" to their organisations. Yet, despite the growth in e-commerce, only 59 per cent of respondents cited multichannel forecasting as "extremely important." This highlights a continuing disconnect that must be addressed for retailers to deliver improved order fill rates and inventory productivity.

With a new item failure rate at around 50 per cent, and promotional strategies expected to expand and become more complex, retailers must quickly address this gap and determine ownership of the forecasting process (ideally the supply chain) before making technology decisions. In this way they will be able to create a technology road map that provides the organisation with a unified forecasting platform responsible for creating the demand signal across all sales channels.

More detailed analysis is available in the report "Key Lessons From Survey of Demand-Driven Retail Leaders." The report is available on Gartner's web site at http://www.gartner.com/resId=2454815**.**

 About the Gartner Supply Chain Executive Conference
Gartner analysts will take a deeper look at the outlook for supply chain trends at the Gartner Supply Chain Executive Conference 2013 taking place 21-23 May in Phoenix, Ariz., 12-13 August in Melbourne and 23-24 September in London. More information on the US event can be found at www.gartner.com/us/supplychain. Details on the Australia event are at http://www.gartner.com/technology/summits/apac/supply-chain/. More information on the UK event is at http://www.gartner.com/technology/summits/emea/supply-chain/.

Members of the media can register for press passes to the Summits by contacting christy.pettey@gartner.com (US), susan.moore@gartner.com (Melbourne) or laurence.goasduff@gartner.com (London).

Information from the Gartner Supply Chain Executive Conference 2013 will be shared on Twitter at http://twitter.com/Gartner_inc using #Gartnerscc.

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