# Customer-Driven Supply Chain in Retail

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Customers are mobile, connected, informed, and opinionated. If you fail to meet their demand where and when it occurs, customers will go elsewhere and tweet about it. Serving this new generation of customers requires a supply chain that is driven by customer needs and desires.

Customers are closely connected to each other, highly informed, and acutely conscious of price and value. They’re faced with more choices – what, where, and when to buy – than ever before. Additionally, social media and enterprise mobility enable new trends to come in vogue within days and often become old news just a few weeks later.

Anytime, anywhere availability is now the new normal. Brand loyalty is decreasing as product options proliferate. Customers will make other choices if what they want to buy is not available when they want it and where they want it, making demand for entire product categories highly variable.

Customers are also highly attuned to health, safety, and quality issues. Failure to anticipate their perceptions of quality, ingredients, materials, and safety could result in lost sales or costly recalls – not to mention a strike against brand equity.

Keeping pace with these customer demands in a dynamic – even volatile – marketplace is exceptionally challenging.
Creating a Customer-Driven Supply Chain

A customer-driven supply chain orchestrates every element of supply to satisfy demand wherever it occurs. Best-run companies anticipate customer demand and are ready to fulfill – wherever and whenever it may be.

To satisfy highly variable and dynamic customer demand, you need to gain insights into buying behavior while mitigating risks of global demand and supply volatility. On the other hand, the imperative for reducing costs points to the need for optimizing inventory levels and controlling the complexity of a global network of vendors, warehouses, and stores.

In addition to fulfilling demand, customer-driven supply chains must ensure service and product quality along the way. For example, returns and recalls need to be completed in an effective manner to protect both customers and the brand.

With improved visibility into multichannel customer demand, a customer-driven supply chain can synchronize supply with your extended business network. Simultaneously, a customer-driven supply chain integrates and automates logistics and fulfillment across stores, warehouses, and transportation – meeting demand where it actually occurs.
The stakes are high. Your distinction is no longer merely processing efficiently and providing cost savings. Competitive differentiation – and advantage – requires demonstrated availability, fulfillment excellence, and outstanding service to demanding customers.

Exceeding Expectations Profitably

Meeting customer demand with exceptional service calls for accurate prediction of future demand across all channels and product categories while responding effectively to current demand. Driven by insight into customer demand, retailers can automate and optimize replenishment, allocation, and inventory decisions. This helps ensure an optimal balance between inventory, service levels, and brand strategy – at a lower cost.

Shared inventory across channels, paired with the capability to fulfill from the most suitable location, maximizes inventory utilization and upholds promised deliveries. Product availability, traceability, and quality can all contribute to customer satisfaction when fulfillment, warehousing, and transportation processes are optimized.

97%

Lower revenue loss due to stock-outs for top 25% retailers, as compared to average retailers

Source: SAP Performance Benchmarking
A customer-driven supply chain is the next-generation supply chain. When run by innovations that deliver fast response to market dynamics and real-time insight into customer demand, it offers always-on, anywhere access and lowers cost.

**Database and technology** solutions, including the SAP HANA platform, enable supply chain managers to monitor and analyze large volumes of customer and market data across channels. Combined with rich, real-time supply chain information, SAP HANA delivers a powerful business advantage.

**Predictive analytics** enable advanced modeling, forecasting, and optimization throughout every aspect of the customer-driven supply chain – from assessing and monitoring current status and accurately predicting and simulating future situations to measuring overall supply chain performance.

**Mobile** solutions give supply chain professionals anytime, anywhere access to status reporting and exceptions and alerts. This helps ensure quick response, better decision making, and fewer risks to customer service and product availability at the shelf.

**Cloud**-based software, such as the SAP Sales and Operations Planning analytic application, accelerates low-risk deployment and minimizes the IT footprint, while helping to ensure long-term scalability, flexibility, and integration of technology and processes.
Predict, Optimize, and Execute

Customer-driven supply chains predict future demand, meet forecasted demand, maximize customer satisfaction, and ensure product availability.

Predict Demand
Understand and forecast demand wherever and whenever it occurs.

Optimize Inventory
Strike the ideal balance between inventory, service levels, and brand strategy while meeting vendor restrictions.

Execute Efficiently
Secure your position in this competitive environment where brand loyalty is fading. Deliver on time and on promise – how, when, and where customers want it.
Predict Demand

Understand customers’ buying patterns. Then, accurately predict future demand across the entire range of merchandise to realize the full benefits of customer-centric retailing.

Within the overall supply chain, retailers have the opportunity to influence customers’ buying behavior and get to know their preferences. There are millions of data records available that contain valuable information about what, when, and how their customers make buying decisions. And best-run retailers know how to use this wealth of information effectively to provide differentiating service.

Accurate forecasting of customer demand includes understanding seasonal trends, the impact of holidays and other significant events, and the effect of price changes and promotional events. Even external factors, such as weather or competitor store openings, need to be considered.

Forecasting demand at the lowest level – SKU and location – enables the ability to pinpoint patterns specific to a location and to increase overall forecast accuracy.

Self-learning functionalities help ensure the forecast is fully automated and produces complete, reliable results across the entire assortment.
Optimize Inventory

Inventory is the biggest cost factor in retail. Naturally, reducing inventory levels is of great interest to every retailer. On the other hand, having out-of-stocks can reduce sales and damage customer loyalty.

Best-run companies know how to strike the ideal balance between inventory, service levels, and brand strategy while meeting vendor restrictions.

Accomplishing this for thousands of product and location combinations requires an automated replenishment and allocation process driven by forecasted or planned customer demand.

Every time a product is moved or touched, margins reduce. Knowing which channel or location create demand and where it should be fulfilled helps ensure that inventory is available where needed.

In a multiechelon supply chain, replenishment planning should start at the lowest level — typically at the store — and roll up to the next level.

To do this effectively, order quantities for each location are calculated for the next order and for a defined future period. This order forecast is used from the customer demand level up to the vendor level. As a result, this helps ensure that customer demand drives the entire supply chain and helps to prepare for more reliable and timely execution.

34%

Lower transportation spend, where forecasting is performed for all combinations of SKUs and inventory locations

Source: SAP Performance Benchmarking
Execute Reliably and Efficiently

With margins decreasing, customer expectations rising, and mounting supply chain complexity, efficient and reliable execution has become mandatory for best-run retail companies.

Efficient retail supply chains help ensure that products get to the customer at the lowest possible cost without compromising compliance and quality.

Best-run retailers forecast demand to plan warehouse and transportation capacity – avoiding the need for short-term tendering.

The quicker a product moves from vendor to customer, the lower the handling, operating, and warehousing cost, as well as the risk of overage inventory. Customer-driven supply chains optimize the logistical flow of products by applying concepts such as cross-docking or flow-through approaches in their warehouses.

Shared inventory across channels, inventory visibility across all warehouses, and flexible fulfillment strategies enable retailers to improve fill rates, lead times, and inventory turns.

With integrated and automated logistics and fulfillment processes, efficiency and reliability are enhanced. Real-time visibility and supply chain monitoring can help support management by exception and help mitigate supply chain risks.

13%
Of retailers have advanced inventory management systems that provide visibility into inventory across all channels

Source: SAP Performance Benchmarking
Customer-Driven Supply Chain Value Map

SAP solutions address key requirements of customer-driven supply chains.

- **Real-Time Customer and Supply Chain Analytics**
- **Customer Insight and Analytics**
- **Demand and Supply Analytics**
- **Inventory Analytics**
- **Fulfillment Analytics**

- **Integrated Demand and Replenishment Planning**
- **Forecasting and Multilevel Replenishment**
- **Allocation**

- **Optimized Logistics and Fulfillment Execution**
- **Inventory Management**
- **Multichannel Order Fulfillment**
- **Warehouse Management**
- **Transportation Management**
- **Track and Trace**
Customer and Supply Chain Analytics

Provide actionable insights for better business decisions.

Customer-driven supply chains analyze buying patterns and predict future demand with full visibility into real-time customer data. Comprehensive customer data combined with detailed supply chain information provides invaluable insights for decision makers.

Collect customer data across channels and analyze it to recognize buying patterns and predict future demand. Analyze forecast accuracy across your assortment and monitor forecast exceptions.

Analyze and monitor performance of forecasting and multilevel replenishment. Recognize patterns of recurring problems, understand level of automation, and control service levels.

Monitor inventory levels by analyzing out-of-stocks and overstocks. Detect stock that is dead or aged, analyze minimum and maximum stock levels, and monitor on-shelf availability in your stores based on real-time point-of-sale (POS) data.

Set targets for your supply chain and consistently monitor performance against those targets.

71%

Of retailers are unable to create accurate forecasts, explain variances, analyze root causes, and provide recommendations

Source: SAP Performance Benchmarking
Demand and Replenishment Planning

Determine demand and supply in a multitier supply network.
A customer-driven supply network uses customer demand to drive supply within the extended supply network. Accurate, causal-based forecasting and fully automated replenishment enable retailers to focus on exceptions and meet demand profitably.

Forecast demand where it’s needed and automate replenishment. At the same time, optimize the balance between inventory, service levels, and brand strategy at the lowest possible cost.

Allocate constrained product supply to your stores based on customer demand while lowering cost through prepacking, efficient merchandise distribution methods, and a reduced need for costly stock transfers or markdowns.

36% Reduction in overall supply chain planning costs, when supply is aligned with demand
Source: SAP Performance Benchmarking
Optimize Logistics and Fulfillment

Provide timely customer service that fulfills expectations.

Maximize fill rates and satisfy customer demand by optimizing logistics and fulfillment processes to help ensure that products are where they are needed and wanted.

- **Inventory Management**: Manage and valuate inventory across channels and provide company-wide inventory visibility.
- **Multichannel Order Fulfillment**: Fulfill orders from the best-suited location with visibility into company-wide inventory. Use order allocation strategies to prioritize orders in case of constrained supply.
- **Warehouse Management**: Achieve operational excellence and responsiveness through enhanced warehouse productivity and efficiency, accurate inventory visibility, better space utilization, integrated warehousing and logistics, and improved customer service.
- **Transportation Management**: Plan and manage internal as well as outsourced inbound and outbound transportations while collaborating effectively with business partners.
- **Track and Trace**: Monitor and track the entire supply chain – from the vendor's dock to the store shelf.

38%

Reduced transportation spend, where processes and systems are integrated with key carriers, freight forwarders, and third-party logistical partners

Source: SAP Performance Benchmarking
There is unprecedented opportunity in new breakthrough technologies paired with the large volumes of customer and market data. Best-run companies of tomorrow leverage this technology to put real-time insight into the hands of employees and customers.

**SAP HANA**
Handle large volumes of highly granular data, and perform analysis in-memory at zero latency to drive better decisions.

**Mobile**
Move closer to the customer with more agile, informed decision. Unwire employees and equip them with full access to business processes.

**Analytics**
Focus on the essential success factors of your business with targeted and relevant insights that matter most to your business.

**Cloud**
Transform and optimize global supply networks with the fast and flexible deployment of business processes.

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**Increased operating margin, where organizations use IT to enable strategic and competitive advantages**

Source: SAP Performance Benchmarking
SAP HANA

Unprecedented availability of customer demand data offers significant opportunity for conducting business like never before. Best-run retail companies of tomorrow leverage “Big Data” to drive landslide competitive advantage.

Customer Insight and Analytics

POS Data Management
Gain real-time store inventory visibility. Collect, store, audit, manage, and analyze large volumes of POS transaction data without latency.

Forecasting and Multilevel Replenishment
Automate the supply chain by creating accurate forecasts based on actual customer demand at the store and SKU level across the entire merchandise portfolio. Help ensure high availability and lower inventory cost by rolling up predicted demand across the supply chain and up to the vendor level.

Sales and Operations Planning
Balance global demand and supply and create a profitable growth plan. Integrate high volumes of demand and supply data to run an effective, detailed plan for global sales and operations.

53%

Of organizations report a big gap between the availability of Big Data and their ability to analyze it

Source: SAP Performance Benchmarking
Mobile

Connect your employees with your back-end system to improve customer service and improve the overall shopping experience.

- **Mobile In-Store Merchandise and Inventory Management**
  Provide store associates on the floor real-time insight into product information and inventory functionality.

- **Mobile On-Shelf Availability Analysis**
  Monitor on-shelf availability in your stores based on real-time POS data. Alert store employees to prevent out-of-shelf situations before they happen.

- **Mobile Order Status Tracking**
  Track orders and fulfillment status online anytime, anywhere. Comply with service-level targets, spot potential exceptions, and respond quickly to demand dynamics.

61%

Of retailers recognize enterprise mobility as highly important, whereas 74% have yet to implement these enablers extensively.

Source: SAP Performance Benchmarking
Analytics

Up-to-the-minute visibility into key performance indicators across every facet of business operations enables real-time monitoring, root cause analysis, risk mitigation, predictive modeling, and optimization.

Forecasting and Replenishment
Analyze forecast accuracy across your assortment, and monitor forecast exceptions.

On-Shelf Availability Analysis
Analyze sales patterns to detect and report on-shelf availability issues across stores and assortments to prevent out-of-stocks from happening in the future.

Supply Chain Performance Management
Identify and measure the key drivers of supply chain efficiency and effectiveness across planning, collaboration, and fulfillment.

90%

Of retailers recognize business intelligence and analytics as highly important, whereas 60% have yet to implement them extensively

Source: SAP Performance Benchmarking
Cloud

Fast and flexible deployment of both critical and complementary solutions is an essential aspect of on-demand systems. Best-run retailers deploy cloud solutions to create flexible global sales and supply networks and to move closer to the customer.

85%}

Of organizations believe cloud technology will have a major impact on efficiencies, innovation, and competitive differentiation

Source: SAP Performance Benchmarking

Sentiment Analysis
Extract demand signals and detect supply chain issues by monitoring, aggregating, and assessing information and consumer preferences in postings and interactions on social media and Internet sites.

Collaborative Commerce Network
Share and align demand plans and multilevel order forecasts with your vendors to increase product availability and reduce safety stock.

Sales and Operations Planning
Drive global alignment with the most profitable plans by deploying cloud-based sales and operations planning for the fast and flexible inclusion of your entire supply network.
Best-Run Customers

SAP touches US$12 trillion in consumer purchases around the world.

SAP customers represent 85% of the top 100 most-valued brands in the world.

SAP customers distribute more than 71% of the world’s food.

SAP customers produce more than 50% of the world’s brand-name jeans.

SAP customers produce more than 86% of the world’s athletic footwear.

60%

Increase in operating margin for companies that improve idea capture by extending the innovation process to the enterprise, partners, and customers

Source: SAP Performance Benchmarking
Chico’s FAS Inc. consists of four women’s specialty brands offering sophisticated casual-to-dressy apparel, intimate apparel, accessories, and gift items. The company operates 1,225 boutiques and outlets throughout the United States and has direct-to-consumer channels for each brand. Chico’s implemented SAP for Retail solutions to enable a high-growth strategy, improve merchandising decisions, and gain greater efficiency throughout its operations.

**Key Benefits**

- Improved manager efficiency with timely information for decision making based on facts, not on assumptions
- Aligned procurement planning with sales strategy, giving greater control over what is purchased and sold
- Increased visibility and control over operating margin

“SAP for Retail solutions help us track products not only to the store but also to online and catalog channels. The visibility is critical to supporting decisions that we make throughout the business to serve our customers.”

Gary King, Executive Vice President and CIO, Chico’s FAS
Best-Run Customers

Chico's

Grupo Famsa

Grupo Ramos

Why SAP

Grupo Famsa

Operating in Mexico and the Southwestern United States, Grupo Famsa S.A.B. de C.V. is a large retailer of household goods and financial services. The company improved visibility into and control over its inventory, ensured timely merchandise delivery, and cut costs for logistics and warehouse administration.

Key Benefits

- Reduced logistics expenses by centralizing merchandising operations and creating new products
- Increased inventory automation for some lines of clothing
- Improved visibility into inventories
- Enhanced economies of scale

“We see the centralizing and automation of merchandising as a continuous process that will give us added value for our SAP investment. We can adopt business strategies based on reliable, real-time data.”

Sergio Salinas, Director of Clothing Business Unit, Grupo Famsa S.A.B. de C.V.

99%

Reduction in manual effort

10%

Increase in sales with forecasting, raising conversion rates by 1%

200

Manual forms eliminated
Based in the Dominican Republic, super- and mega-market operator Grupo Ramos S.A. integrated supply chain processes, optimized inventories, and freed up warehouse space with the SAP Forecasting and Replenishment for Retail and Wholesale Distribution package.

Given the wide variety of goods the company sells, transparent management of sales, distribution, storage, and replenishment is crucial.

**Key Benefits**

- Optimization of supply chain
- Generation of inventory with product differentiation for more accurate reporting
- Reduction of stored stock and increased warehouse space

“Partnering with SAP has allowed Grupo Ramos to take a huge step forward to supply chain optimization. It feels like we have progressed from the stone age to the space age.”

María Teresa Rayó, Technology and Services VP, Grupo Ramos S.A.
Why SAP?

Leveraging the latest technology innovation, SAP software for retail enables fast response to market dynamics, real-time visibility to customer demand, always-on access from anywhere, and highly scalable and flexible deployment options.

**Tightly Integrated, Comprehensive Solutions**
SAP offers the most comprehensive portfolio of software solutions for supply chain management. Integrated and collaborative by design, the software facilitates a customer-driven supply chain – from supply chain planning to execution and fulfillment.

**Leveraging Key Breakthrough Innovations**
The SAP software solution portfolio is based on the industry’s most innovative technology foundation – combining database and technology, mobile solutions, analytics, and cloud-based deployment options. As a result, supply chain optimization and efficiency can be achieved at the lowest possible cost.

**Proven Time to Value**
Around the globe, retailers of all sizes and across all major segments of the industry continue to rely on SAP software and services to build a customer-driven supply chain.
Find Out More About How Your Organization Can Become Best-Run

Benchmark Your Performance
Position your organization for dominance in this new economy with the business performance benchmarking program from SAP – available free to SAP customers and select prospects. The SAP benchmarking program has helped more than 3,000 organizations assess their strengths, uncover areas for improvement, and identify best practices and IT strategies that generate clear, tangible value – not someday, but today.

Go Live in Weeks
Here’s the fastest way to run your business better: our rapid-deployment solutions. In one package, you get everything you need to be up and running quickly – including preconfigured software and implementation services – in just weeks. With a defined scope and predictable costs, there are no surprises.

Join Your Community of Practices
Every day, SAP Community Network (SCN) changes the way that thousands of SAP users work. It lets members help one another solve problems, learn, and invent new ways to get things done – faster. Find out how to connect with people, content, and resources.

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