
The Shelf: The Final Supply Chain Frontier

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A report underscores the need for retailer-supplier collaboration at the shelf level.

When I was first introduced to the world of retail IT and business process as an editor with another publication in 1998, I was shocked to discover that retailers and their suppliers had historically shared little to no supply chain information.

For example, I had always assumed—naively, as it turned out—that when a retailer was running a promotion on a certain item, they would notify the supplier of that item to get extra product on hand.

I soon learned of the various reasons for this common industry disconnect: incompatible systems, lack of cohesive communications standards and, of course, a historic mistrust between retailers and their suppliers. During the past decade, the extended retail industry has taken impressive steps to correct the lack of supply-chain collaboration.

Taking full advantage of data exchange protocols such as XML and AS2 (Applicability Statement 2), data standards such as GTIN (Global Trade Item Number), and the capabilities of Internet portals and hubs, retailers and their suppliers have made significant collaborative gains. Full-scale, supply-chain collaboration is still rare, but a significant amount of product data, often specific down to the SKU level, is now routinely shared among supply chain partners.

However, in the midst of all this supply-chain collaboration and cooperation, one point on the retail supply chain remains woefully short of attention: the shelf. The fact that many retail supply chain participants think and act as if the supply chain ends at the retailer's warehouse, or perhaps the back room of the store, illustrates the problem.

Perhaps because in theory getting products on the shelf is such a simple task compared to sourcing them and delivering them across countries and continents, this crucial last step of the supply chain is all too frequently ignored in collaborative efforts.

A recent report from the In-Store Implementation Sharegroup, titled "In-Store Implementation: Current Status and Future Solutions," highlights the problems and opportunities that exist in shelf-level supply chain collaboration. Most alarmingly, the report estimates that suboptimal performance of in-store category management, shelf management, promotion and shopper marketing annually costs the retail industry 1 percent of gross product sales, or about \$10 billion to \$15 billion.

How is this money lost? Out-of-stocks and overstocks, insufficient speed-to-shelf, and insufficient in-store support for meeting reset, merchandising and shopper-marketing commitments are all major culprits as listed in the report. None of these are new problems, but there may be a new solution for them.

The In-Store Implementation Sharegroup recommends a collaborative, industry-wide initiative aimed at closing the "implementation gap" of systems and processes that will bring supply chain cooperation all the way to the shelf. The extended retail industry has undergone numerous collaborative initiatives during the past decade, many of which are still ongoing, and many participants may not be overly enthusiastic about devoting time and money to yet another one.

But consider both the looming challenges and opportunities that would make launching such an initiative worthwhile. Today's consumers are increasingly divided into a variety of demographic niches based on factors such as age, ethnicity and personal interests, and are increasingly demanding access to highly targeted product mixes. Add in the impact online shopping has had on customer expectations for immediate and precise service anywhere they shop, and you have a situation where failure at the shelf level is becoming less tolerable than ever before.

On the opportunity side, even at the low end of estimated annual losses at the shelf, the possibility of reclaiming even a fraction of \$10 billion in lost profits should be incentive enough for retailers and their supply-chain partners to start putting their heads together. In addition, continuing developments in RFID technology may boost the effectiveness of shelf-level supply chain collaboration efforts the way developments in Web technology boosted the effectiveness of supply chain collaboration efforts that took place further upstream in the 1990s and early 2000s.

The shelf: the final supply chain frontier. These are the voyages goods take on their way to the consumer. Retailers and suppliers have a mission to explore strange new supply chain concepts, seek out new efficiencies and new profit margins and boldly go where no consumer-oriented company has gone before.

Dan Berthiaume covers the retail space for eWEEK. For more industry news, check out eWEEK.com's Retail Site.