Retailing 2006

Focus on Operations

Retail's mission is to match customers with the products they want. This mission calls for two perspectives – often in conflict. One skill set is "right-brain," the aesthetic, creative, artistic side. The other is "left-brain" or analytical and logical. Often the viewpoints of right- and left-brained people collide. Jim Ayers checks out

A fast response to changing demand

ΩIn the retail industry, right-brained tasks include selecting merchandise, decorating stores, selling, and formulating advertising. The left-brainers run the back office, locate stores, buy merchandise, track money, and move stuff around. These left-brain tasks are associated with my consulting discipline, supply chain management, also called SCM.

In the latest edition of their widely used text, Retailing Management, Levy and Weitz report that preferred career choices are shifting from right-brain to left-brain positions. Perhaps these choices are spurred by the success of left-brain business models like direct sales from Dell, logistics systems from Wal-Mart, rapid product development at retailer Zara, and Internet sales from Amazon.

As retailer competition stiffens, success requires fast response to changing demand, keeping shelves filled with products that sell, and increasing return on assets. These challenges require a blend of right and left-brain qualities. As a consultant, I see the chasms between disciplines in client organizations. In fact, without these gaps, the consulting industry would be half as large as it is. My belief is that companies that navigate the barriers between merchandising and other right-brain tasks and SCM will come out on top.

My solution, described in several books and articles, is based on a tool from retail called segmentation. Applying segmentation, marketers target groups of customers with similar buying habits whose size justifies focused attention. The retailer serves its segments with specialized products and delivery methods while leaving other segments to other retailers. Identifying and choosing segments is the essence of strategy and is surely a mostly right-brained exercise with support by left-brained analysis.

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But segment strategies devoid of effective supply chain design will fail. To bridge the right/left-brain gap, I've recommended that clients use what I call a "sphere" or "business within the business" to implement their segment strategies. The term "sphere" stands for market-product-operations dimensions that define distinct supply chains. My forecast for 2006 is that the tool will find increasing use in the retailing industry.

Table 1 summarizes the dimensions of a sphere. Designing activities and processes to support the sphere converts strategic intent into operational reality. This step requires both right- and left-brained participation – often in the form of teams. The result is avoidance of one-size-fits-all supply chain designs.

Table 2 lists three examples of spheres. The first (A) describes measures recently taken by Wal-Mart in shaking up its distribution system. In response to declining prof-

Sphere Dimensions

Dimension	Definition
Markets	Defined by end user customer groups or segments where end users have common characteristics and buying behavior.
Products	Includes both the physical, or base product and extended product features.
Operations	Suppliers, channels, manufacturing/production, distribution, product design, equipment, and facilities. Includes both internal and external trading partner operations.

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itability, Wal-Mart is pushing its fast-selling products like toothpaste and paper towels through a speedier distribution process anchored by "high velocity" warehouses and more frequent deliveries. The result is higher stock availability; lower operating costs, and increased sales per unit of store space.

Examples B and C use a concept from Marshall Fisher. Fisher noted that there are two types of products, each requiring fundamentally different supply chains. Functional products are the ones we buy every day. They are relatively low-priced and carry low risk of having markdowns. Innovative products are the opposite. They are typified by high margin fashion or technology products which have short life cycles and are susceptible to mark downs.

Wal-Mart is known because it mastered the logistics of selling low cost functional products. Zara, the Spanish retailer mentioned above, seeks to turn its inventory several times a year by rapidly introducing new clothing designs in response to trends.

Only the smallest of retailers or retail suppliers should have just one supply chain. Each company should critically examine its need for multiple spheres, each of which justifies a distinct set of processes to compete effectively. For retailers used to segmenting their markets, this should be an intuitively comfortable extension of current strategizing.

High-margin fashion products with short shelf-life cycles are susceptible to markdowns

Sphere Examples

	Markets	Products	Operations
A	All markets	Hot-selling products	High velocity warehouse & transportation network. New Wal-Mart method.
B	Value buyers	Functional products	Supply chain processes designed for low cost. Example: Wal-Mart.
C	Fashion conscious buyers	Innovative products	Supply chain processes designed for flexibility or responsiveness. Example: Zara.

Every company should examine its need for multiple spheres

The three examples in Table 2 used "product-centric" approaches. Wal-Mart developed a different path to market for its fast-moving products described in our example. That approach served all customers. The operations were tailored for speed. The Marshal Fisher examples developed supply chains with different performance goals – low cost for functional products and flexibility for innovative ones. For the company with both types of products, at least two supply chains – one low cost and the other flexible -- will be needed.

The common denominator in the three examples is that each sought strategic advantage from its supply chain operations. The challenge for 2006 and beyond for retailers will be recognizing the need, organizing teams to identifying the businesses within the business, and implementing the processes needed to compete effectively in each of those businesses. ■

Levy, Michael and Weitz, Barton A., Retailing Management, 5th Edition, New York: Tata McGraw-Hill Publishing Company Limited, 2004.

Hudson, Kris, Wal-Mart's Need for Speed, The Wall Street Journal, September 26, 2005, page B4.

Fisher, Marshall L., What is the right supply chain for your product?" Harvard Business Review, (75/2), March-April, 1997. pp. 105-116.