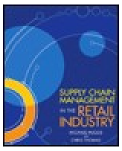

Supply Chain Management in the Retail Industry

by Michael Hugos and Chris Thomas

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Preface

It's always a challenge for an author to take a subject like supply chain management (SCM) and make it meaningful to students who may (understandably) be saying something like, "Give me a break—I just want a good job at the mall! Why in the world do I need to know all this?"

The interesting thing about SCM is how pervasive it is. It's one of those topics like health or taxes that impacts our lives in ways we often don't even notice. Like the colonies of ants discussed in Steven Johnson's book *Emergence: The Connected Lives of Ants, Brains, Cities, and Software* (Scribner, 2002), which we discuss in Chapter 10, supply chains are hard at work every minute of every day, largely behind the scenes. They make and move and store and price and sell every item we purchase as consumers. And, like ants, when someone carelessly steps in the middle of the anthill or the pest control company shows up, things change rather quickly when supply chains are disrupted.

Here are a couple of examples that have made news headlines in a single month (April 2005):

- In Savar, Bangladesh, a boiler exploded in a clothing factory and brought the whole building down with it. The collapse killed 21 people, injured 92, and at the time of the initial news report, an estimated 200 workers were still buried in the rubble.
- The following week, General Motors announced a recall of 2.1 million vehicles, the majority of them sport utility vehicles and pickup trucks, for a variety of problems that range from seat belt malfunctions to overheating of fuel pump wires.
- Also in the news in spring 2005 is a Securities and Exchange Commission case that bears watching because its outcome and aftermath could change the entire supply chain profit picture for retailers. The SEC has scrutinized the accounting practices of one particular national department store chain, and the way it bills its suppliers for unsold merchandise, a practice known as collecting "chargebacks" or "markdown money."

A little background on the last bullet point: The big retailers have become even bigger in recent years, with buyouts and mergers. They've consolidated partly to compete with Wal-Mart, but partly to exercise more overall clout in their negotiations with suppliers. Since the 1980s, it's become the norm in negotiations for retailers to ask for, and receive, some money from manufacturers if goods didn't arrive on time, or if they just didn't sell well and have to be marked down in price to clear them out of inventory.

But now some of the manufacturers are rethinking these standard arrangements. They say they're being taken advantage of; that stores have demanded money for reasons the manufacturers did not agree to; and that retailers are, in fact, forcing them to guarantee a profit with the payment of markdown money.

How do you feel about that? Your view may change as you read this book. Chapters 1 and 2 introduce supply chains and distribution channels, highly collaborative groups of businesses that are required for today's retailers—large and small—to get their products into the stores for sale. Chapters 3, 4, and 5 take readers through the major operational and logistical decisions that are made in the five-step process of getting goods to market. These are based on the Supply-Chain Operations Reference (SCOR) model of the Supply-Chain Council, a nonprofit organization made up of almost 1,000 member companies worldwide (www.supply-chain.org):

- Planning (forecasting and determining what and how much to sell)
- Sourcing (finding the suppliers of these goods, negotiating with them, exchanging money for the goods)
- Making (designing a good product and scheduling its production)
- Delivering (importing, warehousing, and physically moving the goods through the supply chain)
- Returns (handling customer service and complaints, and determining what to do with returned merchandise)

Chapter 6 introduces the theory and practice of collaboration between supply chain members, as well as the types of information they must learn to share in order to work together efficiently and profitably. This "sharing," as you will note, is difficult when companies naturally feel competitive, or when some are better funded or better organized than others. Chapter 7 continues the discussion with an in-depth look at metrics, measurements of market conditions that supply chain members must constantly monitor to determine whether their plans are on track and mutually beneficial, or whether changes are in order.

Chapters 8 and 9 cover a topic that may frustrate retail management students who don't see how it applies to them: the step-by-step creation of a large- scale systems improvement project. These major undertakings cost companies a great deal of time and money, but they are often necessary in order to synchronize data with supply chain partners, to streamline ordering processes, to get an eCommerce Web site up and running, and so forth. This information is included in the book because it is a huge part of supply chain cooperation, and because any good retail manager will want to have as much input as possible into the purchase, or design and implementation, of systems that his or her department will have to use.

Finally, Chapter 10 looks at several important technological developments in the business world and how they have opened the doors to new partnerships as well as vast new opportunities for multichannel distribution and sales. Two facts are of interest to would-be retailers here—first, that each opportunity brings with it formidable new challenges; and second, that no matter how technologically advanced we become, retailing is still about people. The inter- action of human beings in supply chains is just as critical to their success as the interaction of software systems. Perhaps more so.

Your customers are people, not companies and not computers. A recent newspaper article about the chargeback controversy reinforced this point with an interesting sidelight from America’s Research Group, a consumer research firm in Charleston, South Carolina: Less than 12 percent of American shoppers say they are “willing to pay full price” for clothing. That’s down from 24 percent just five years ago.

You might say bargain-conscious consumers are stepping on the anthill— which should make the study of supply chain management even more important for the next generation of retail managers.