Retail Supply Chain Visibility 2009: The Drive for Strategic Transparency

Benchmark Report 2009

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EXECUTIVE SUMMARY

In almost all of the research that RSR has conducted on supply chain topics, "supply chain visibility" has been the top challenge - and the top opportunity - for our retail respondents and their trading partners. This report delves into the topic of supply chain visibility, to understand the business challenges that retailers face in driving the need for greater visibility, along with the obstacles that prevent them from taking advantage of the opportunities that greater visibility can provide.

Business Challenges

Between fluctuating consumer demand, fluctuating commodity prices, and the inflexibility that comes with the lengthening of the global supply chain, retailers and their trading partners face a lot of challenges in trying to achieve and maintain visibility over the supply chain. However, Retail Winners see these challenges as an opportunity for them to create differentiation and distance from the competition, while laggards see themselves more as a victim of circumstance.

Opportunities

This view of the world shapes the opportunities that retailers see. Winners see an opportunity to use greater visibility to be more proactive and to assert more control over their supply chain. Laggards look to rely on tools like supplier performance monitoring to keep up with events in their supply chains - but skip over means to focus on ends. Supplier performance monitoring is a bigger opportunity than data standards, for example, but performance monitoring is impossible unless both parties are using the same methods and measures to monitor performance trends.

Organizational Inhibitors

Retail Winners are most challenged by the technology infrastructure, while their peers are more focused on organizational issues and defining ROI. In particular, ownership of supply chain visibility tends to live at too low of a level within the retail enterprise - the purview of transportation/logistics or distribution centers/warehousing. Without executive involvement to drive partner relationships, retailers' visibility efforts will be limited.

Technology Enablers

According to survey respondents, the future of supply chain involves investment in sensor technologies. Some of these investments are driven by security concerns, like container security sensors, but others are more strategic, like GPS locators and item-level RFID. Respondents feel they already have a handle on the transactional applications that support supply chain visibility, and now look to increase the frequency and the granularity of the data they receive.

Bootstrap Recommendations

This research highlighted several areas where retailers have identified gaps that prevent them from making the most of supply chain visibility. Most importantly, retailers need to be active in their relationships with suppliers, put more direct responsibility for supply chain visibility at the executive level, and create the right metrics - most especially tracking supply chain costs and risks. Retailers and their trading partners will also benefit from addressing stovepiped organizations - metrics can help - and ensure that the right technology is in place, most especially that transactional systems are able to manage the more granular and frequent updates that real-time supply chain sensors can provide.

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SECTION I: OVERVIEW

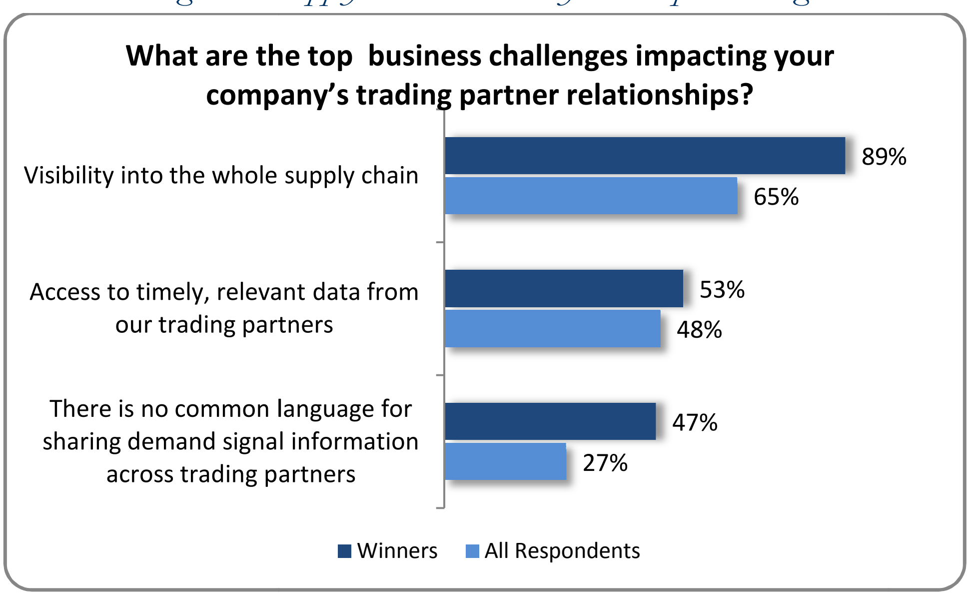
WHY THE STUDY WAS CONDUCTED

Retailers and their partners today participate in a global supply chain to deliver relevant products to value-conscious consumers. But despite the physical length and complexity of global supply chains, the speed of the design-to-consumption cycle has increased remarkably as retailers seek to enable a more agile response to demand, and reduce the amount of paid-for inventory in the pipeline. Because of the multi-national interdependency that exists between manufacturers, logistics providers, aggregators, and retailers, participating companies today are under great pressure to eliminate disruptions that can affect the total supply chain.

At the same time, retailers' inventory assortments have grown far more complex as retailers seek a differentiated offering to more discerning and careful consumers. Larger and more complex assortments delivered via a far-flung supply chain require that retailers and manufacturers both operate with a greater degree of precision and with greater responsiveness to real time conditions. Our recent studies have shown that winning companies are turning their ability to manage greater complexity more effectively into a strategic differentiator.

In RSR's January 2009 benchmark report entitled ***Retail Supply Chain Collaboration: Moving Beyond Coercion***, we asked survey respondents to identify the top business challenges that impact their trading partner relationships. *Supply chain visibility* topped the list for both retailers and suppliers (Figure 1).

Figure 1: Supply Chain Visibility is a Top Challenge



Source: RSR Research, January 2009

Winners amplified their desire for greater visibility into the total supply chain by also citing two factors that enable visibility as top challenges: "timely & relevant data" and "a common language for sharing demand signal information." These companies' willingness to manage many vendor relationships underlies their concerns about supply chain visibility and the need for timely and relevant data sharing between partners.

RSR's research findings have shown that transparent processes across the entire supply chain can be a strategic weapon for winning companies in the global ecosystem. Since delays, shortages, quality, and transportation issues can have a devastating effect on a retailer's bottom line, we wanted to test the extent to which decision makers seek *better visibility into their supply chains*. We wanted to understand if and how retailers track products from the point of manufacture to the store shelf, and whether they are able to respond more quickly both to supply chain "shocks" and to rapid changes in consumer demand.

METHODOLOGY

RSR uses its own model, called the "BOOT," to analyze retail industry issues. We build this model with our survey instruments. Appendix A contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

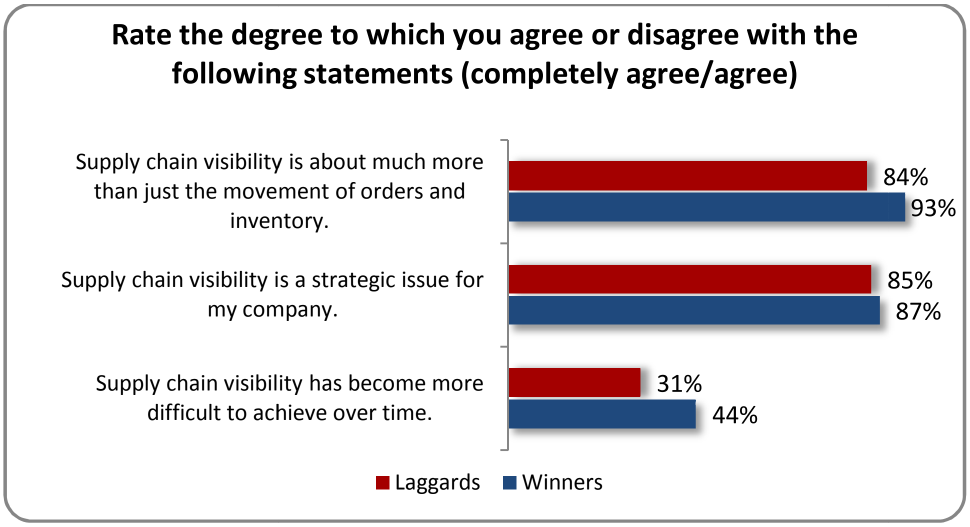
DEFINING RETAIL WINNERS: WHY THEY WIN, AND WHY LAGGARDS FAIL

Our definition of Retail Winners is straightforward. We choose to follow Wall Street. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming industry average comparable store sales growth of three percent, we define retailers with sales above this hurdle as "Winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans."

It is consistent throughout much of RSR's research findings that **Winners don't merely do the same things better, they tend to do different things**. They think differently. They plan differently. They respond differently. **Laggards** may also have spectacular vision, but often fail on execution. They may forget the power and breadth of choices today's consumer has. They fail to re-invent themselves when it becomes obvious their existing business model is no longer working. They don't change their business processes in an effective manner, and so they either eschew technology enablers, or don't gain expected Return on Investment on those they DO buy. In good times, they skate by; in tough times these weaknesses come back to haunt them.

For example, in this study, 22% of Retail Winners told us that they import 75% or more of their inventory, compared to 19% of the overall response group and only 8% of laggards. Because Retail Winners tend to establish direct relationships with trading partners in the global supply chain, these companies show a heightened recognition of the difficulty in managing an extended global supply chain (Figure 2).

Figure 2: Winners' Heightened Awareness



Source: RSR Research, October 2009

Survey Respondent Characteristics

RSR conducted an online survey from July – October 2009 and received answers from 78 retailers. Respondent demographics are as follows:

- **Job Title**:

Senior Business Management (e.g., CEO, CFO, COO)	16%
Vice President	12%
Director/Manager	67%
Other	4%

- **2008 Revenue ($ Equivalent)**:

Less than $50 million	3%
$51 million - $249 million	5%
250 million - $499 million	10%
500 million - $999 million	8%
$1Billion to $5 Billion	24%
Over $5 Billion	50%

- **Verticals:**

Fast-Moving Consumer Goods	8%
General Merchandise & Apparel	26%
Specialty Retailer/Other	57%
Manufacturer/Distributor	10%

- **Year-Over-Year Comparable Store Sales Growth Rates (assume average growth of 3% over the last 3 years)**:

Worse than Average	21%
Average	29%
Better than Average	51%

- **Geographic Reach:**

	HQ	Retail Presence
USA	79%	89%
Europe	11%	38%
UK	2%	35%
Canada	5%	52%
Latin America	0%	32%
Asia Pacific	3%	40%
Middle East	0%	11%
Africa	0%	6%

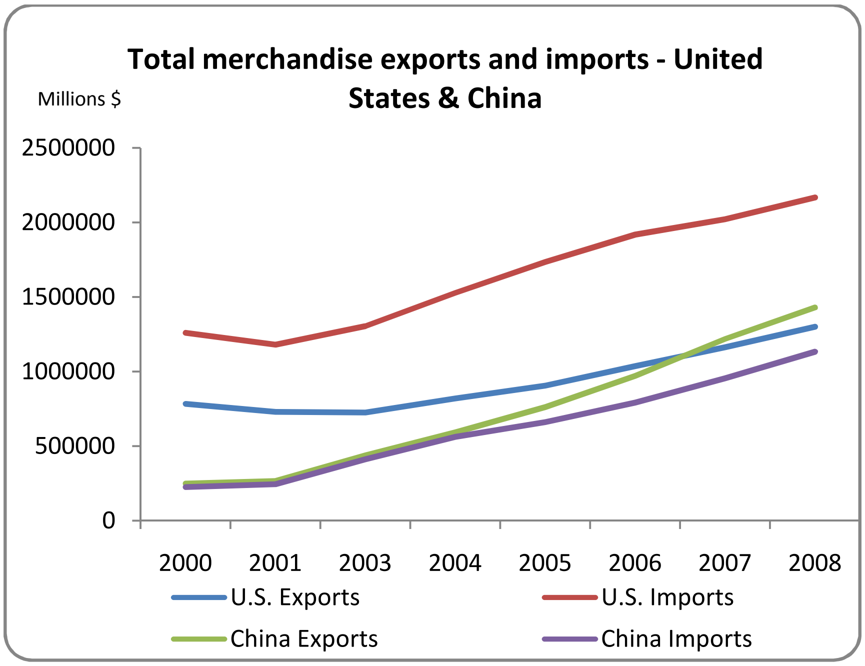
SECTION II: BUSINESS CHALLENGES

Pressure From Beyond The "Four Walls"

Relentless pressure to grow top line revenue and deliver strong bottom line results has caused retailers in virtually every segment to search for new markets to sell to and buy from - in every corner of the planet.

The global effect of this pressure in this decade has been profound. For example, World Trade Organization data shows explosive growth in both imports and exports for two giant trading partners, China and the United States (Figure 3). Following 2001, growth in both merchandise imports and exports for the two countries continued its upward trend until 2009, when the WTO reported that global trade had dropped 9%, a result of the current recession.

Figure 3: Global Trade's Explosive Growth



Source: wto.org

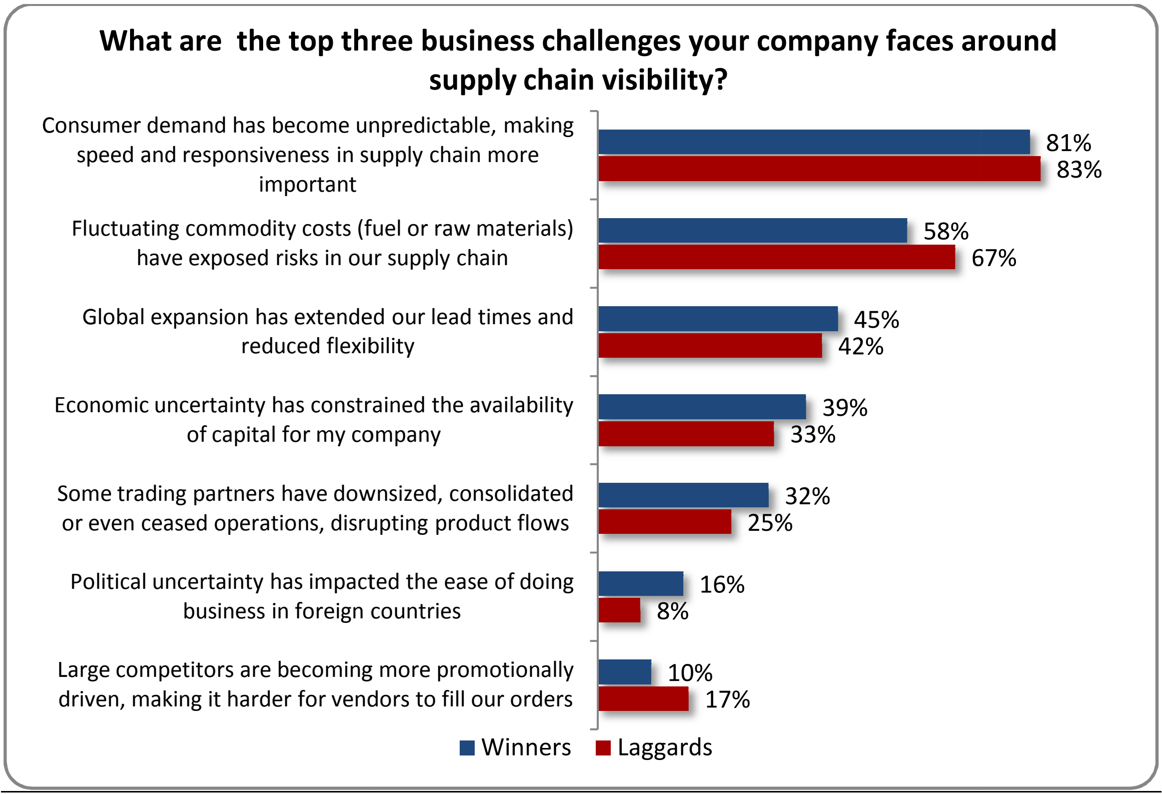
Retailers and their partners have been driving the growth trend, as they try to respond to demands of consumers for more value. Consumer demands for immediacy, relevance, a good price and good quality drive the entire chain. In today's reality, the retail supply chain must be agile enough to adjust quickly to sudden changes in *demand*. RSR's recent studies bear this out. In our August 2009 benchmark report entitled ***Precision Inventory Management in the Age of Localization***, we noted:

> *"Respondents to our survey show that the challenged – and challenging – consumer is top-of-mind for retailers. Four of the top five business challenges are related to consumer behavior, according to our survey respondents. While Laggards fret most about the unpredictability of consumer, Winners translate that concern into a challenge to create more localized assortments."* [1]

[1] ***Precision Inventory Management in the Age of Localization: Benchmark 2009***, August 2009, © 2009 RSR Research LLC

Consistent with that finding, this study's respondents agree that retailers must be able to respond quickly to sudden changes in consumer demand signals (Figure 4). But Winners worry more about the potential for sudden changes on the *supply* side than laggards do. While most retailers fret over fluctuating fuel costs, Retail Winners express a greater awareness of challenges resulting from global expansion: inflexibility and the effects of economic uncertainty.

Figure 4: Beyond Consumer Demand, A Different Focus



Source: RSR Research, October 2009

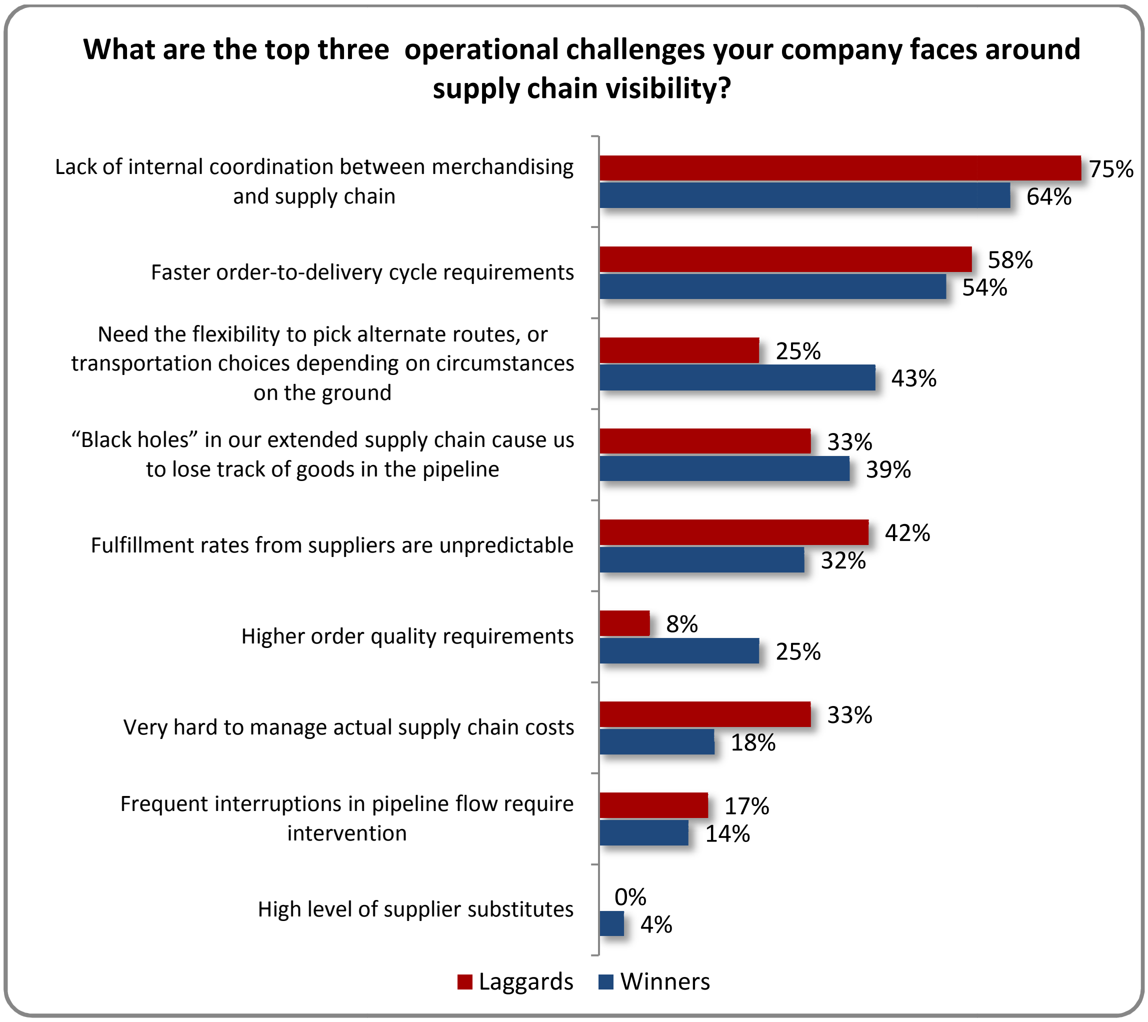
Internal Processes Struggle To Respond

The business challenge to grow top line revenue and bottom line results may be driving retailers towards participation in a global supply chain, but that has exposed internal problems – some new, and some very familiar. Top of mind is the disconnect between the "art" of merchandising and the "science" of supply chain management (Figure 5). "Lack of coordination between merchandising and supply chain" is identified as a top operational challenge by 75% of laggards and 64% of our Retail Winners. This result echoes findings in RSR's October 2009 benchmark report, ***Retail Merchandising: Buckling Down in a Tough Economy***, where "fractured planning processes" was identified as the top business challenge to more effective merchandizing strategies.[2] A similar message comes through in the August 2009 ***Precision Inventory Management*** report, where respondents identified "disconnected forecasting and planning processes" as the #1 operational challenge.

[2] ***Retail Merchandising: Buckling Down in a Tough Economy, Benchmark Report 2009,*** October 2009, © 2009 RSR Research LLC

But beyond agreement that "faster order to deliver cycles" is a difficult challenge that exposes the lack of coordination between merchandising and the supply chain, Retail Winners show a much greater desire to extend their span of control beyond the inbound dock of their DC. While laggards fret that "fulfillment rates from suppliers are unpredictable", Winners want more "flexibility… depending on circumstances on the ground", and that in turn drives a greater sensitivity to "black holes" in the supply chain that cause them to lose track of the flow of goods. And whereas one-third of laggards complain that "it's very hard to manage actual supply chain costs", far fewer Winners hold that view.

Figure 5: Operations Are Challenged To Manage A Fast Moving Supply Chain



Source: RSR Research, October 2009

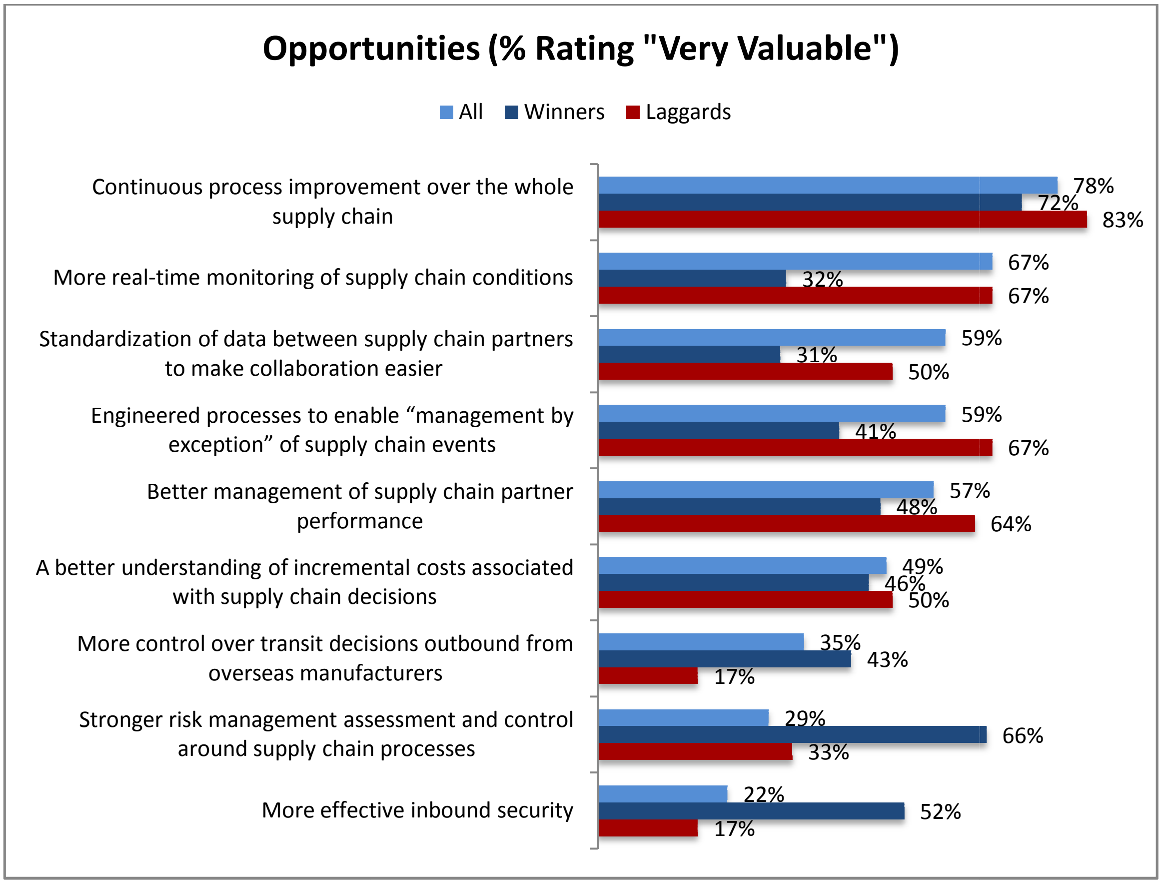
As we have found in many of our studies, ***Retail Winners take an activist role in framing their future prospects, while laggards tend to position themselves as victims of circumstance*.**

SECTION III: OPPORTUNITIES

A Tale of Two Cities

Survey respondents identified four top opportunities: continuous process improvement over the whole supply chain, more real-time monitoring of supply chain conditions, and a two-way tie for third place - standardized data, and more engineered processes to allow for management by exception (Figure 6).

Figure 6: Opportunities to Get Better All the Time



Source: RSR Research, October 2009

In a way, all four of these topics are highly related. Companies need standardized data in order to engineer business processes, and once they are engineered, they are then better able to monitor supply chain conditions in real time. This in turn leads to the top opportunity of continuous supply chain improvement.

However, not all respondents gave these top four opportunities equal weighting. Laggards overall see more opportunities than peers in items further down the list, preferring better monitoring of supply chain partner performance over data standardization, for example. Unfortunately, trading partner performance is hard to monitor and even more difficult to improve if all parties aren't using the same vocabulary - something that standardized data would improve significantly.

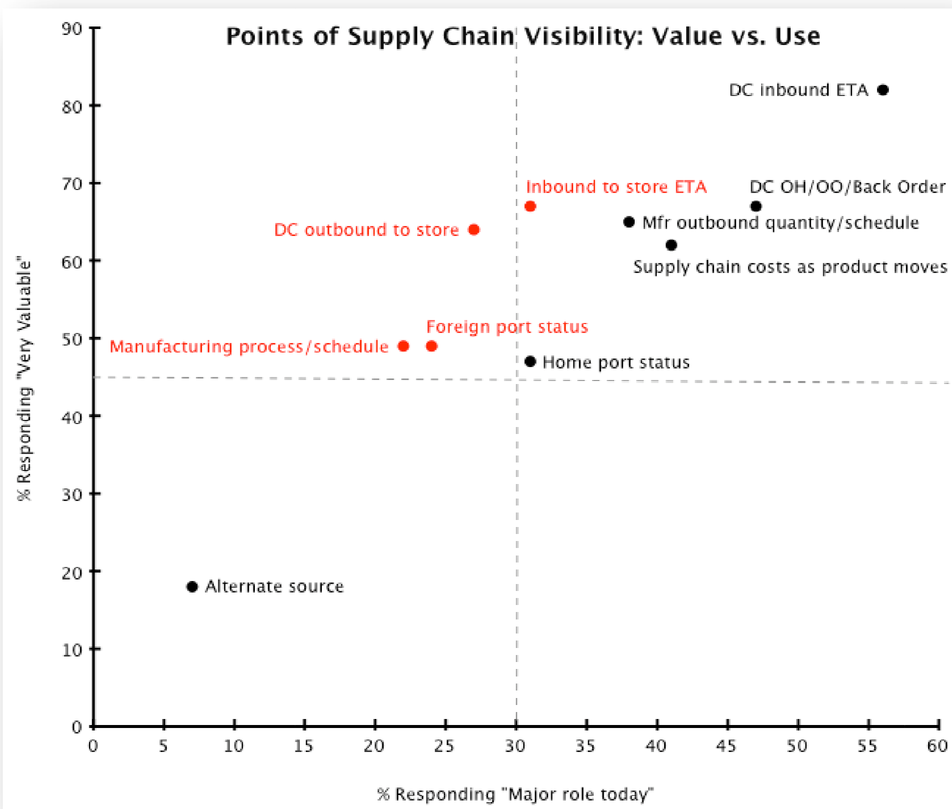
Winners rate enablers of continuous improvement, such as real-time monitoring, data standardization, and partner performance management, lower as opportunities – because so many of these retailers already have those capabilities in place. Instead, Winners focus on nearly completely different priorities, such as stronger risk management and control around supply chain processes along with more effective inbound security.

The difference reflects the completely different worlds that Winners and laggards operate in. Winners understand the exposures created by longer supply chains, and so see more opportunities to tighten up around the risks inherent in global supply chains. Laggards, because they haven't been as exposed to those risks, see more opportunity around creating the enablers to general supply chain performance. Winners are already reaping the cost benefits of operating a more global supply chain. While laggards may not have not gained the cost benefits - one of the reasons why their performance doesn't match that of Winners - they also have not been exposed to the same degree of risk as Winners.

Internal and External Opportunities

The top three most valued points of supply chain visibility, according to our survey respondents, are DC inbound ETA, DC on hand/on order/back ordered, and supply chain costs as product moves (Figure 7).

Figure 7: Outlying Value

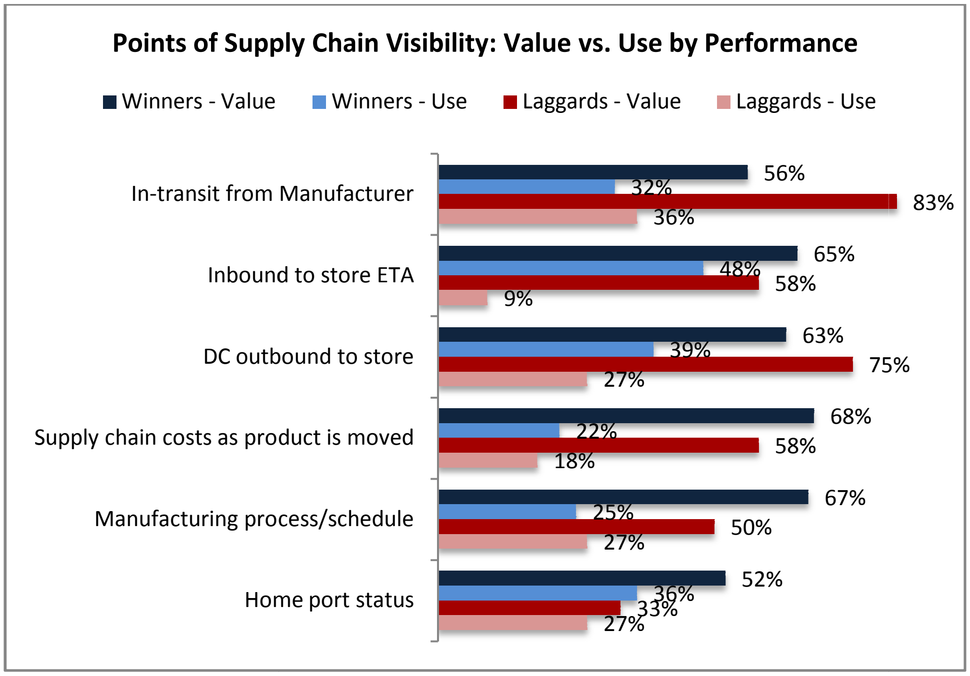


Source: RSR Research, October 2009

Those points of visibility in the upper right quadrant of Figure 7 are the ones most well developed within retailers' operations to deliver value. In the bottom left quadrant above, "alternate sources" languishes as a low-value opportunity. The points of visibility highlighted in red represent high value, but relatively low adoption, and reflect the greatest opportunities for improving supply chain visibility. These include inbound to store ETA, paired almost neck and neck in value with DC outbound to store, as well as foreign port status and visibility into the manufacturer's process or schedule.

Winners and laggards express different priorities for where they seek greater visibility. Winners put more emphasis on supply chain cost, visibility into the manufacturer's schedule, and home port status than laggards, who look instead to see more in-transit visibility from manufacturers and DC outbound to store (Figure 8).

Figure 8: What You See Isn't Always What You Need



Source: RSR Research, October 2009

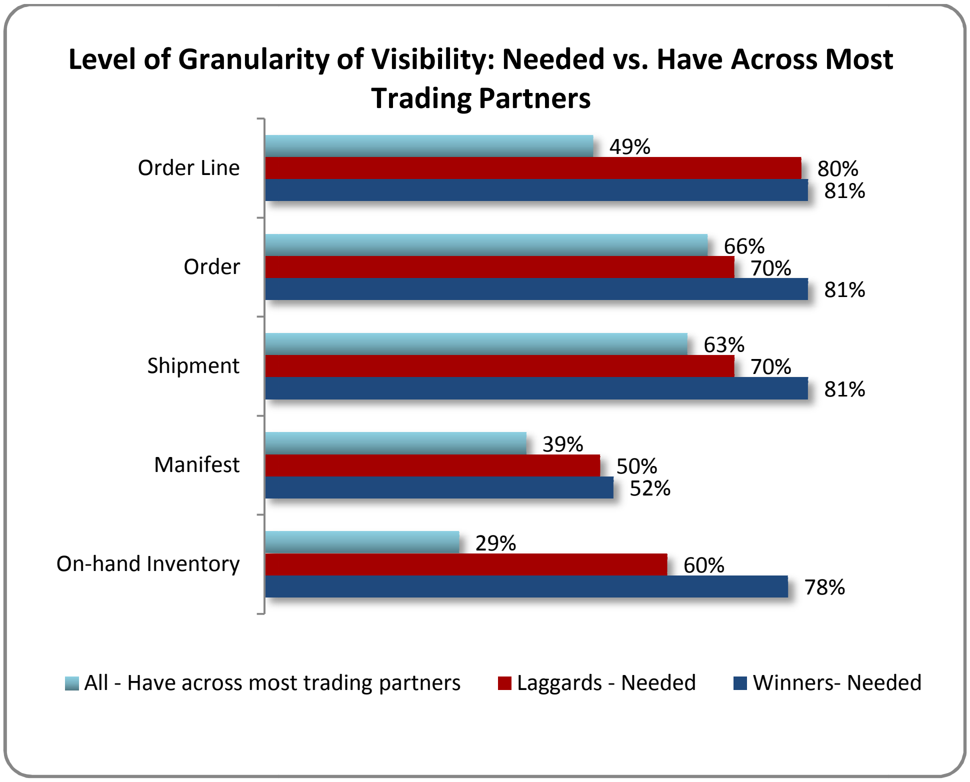
However, while on the surface these differences in priorities appear to be driven by the differences in global vs. local supply chain management, they also underline how retailers view span of control. For example, as much as laggards say they want to better be able to monitor supply chain performance as an opportunity, they put less emphasis on supply chain costs as a point of visibility than peers. And while Winners' high value points of visibility are more globally focused, they are also looking at opportunities that are more proactive - the manufacturer's schedule, rather than the in-transit notification, for example.

The most unfortunate gap on the figure above is the inbound to store ETA. Retailers can't promise anything to customers if they don't know when it's going to get to the point of fulfillment, but a paltry 9% of laggards report that they have this visibility today, vs. 48% of Winners.

A Question of Focus

The biggest gap between “desired” vs. “current” granularity of visibility is around on-hand inventory, followed by order line and shipment (Figure 9).

Figure 9: Where's the Inventory?



Source: RSR Research, October 2009

Our respondents reveal a huge disconnect in their thinking. If improving visibility into DC on hand/on order/back ordered has so much value (as respondents reported in Figure 7), why would there be such a large gap in terms of granularity?

The answer is in the level of focus. While most retailers see the need for – and have – visibility to order and shipment documents, less than half can see order-line information, and only 29% can see on-hand inventory within their suppliers' systems. But Winners perceive a much greater need to see on-hand inventory with trading partners than laggards do. More laggards would be satisfied with only having more order-line visibility. This finding relates back to what we saw in Figure 8, where Winners showed much more interest in manufacturing process and schedule than laggards did.

Winners are also more interested in building that visibility in a more focused way, by engaging with key partners first before trying to tackle all partners: 37% of Winners say they have visibility into on hand inventory with select trading partners vs. 30% of laggards. Laggards have tried to build visibility across the general pool of trading partners all at once, to some degree ignoring the "80/20 rule" that focus on key trading partners could supply.

The Global vs. Local Paradox: A Question of "And" over "Or"

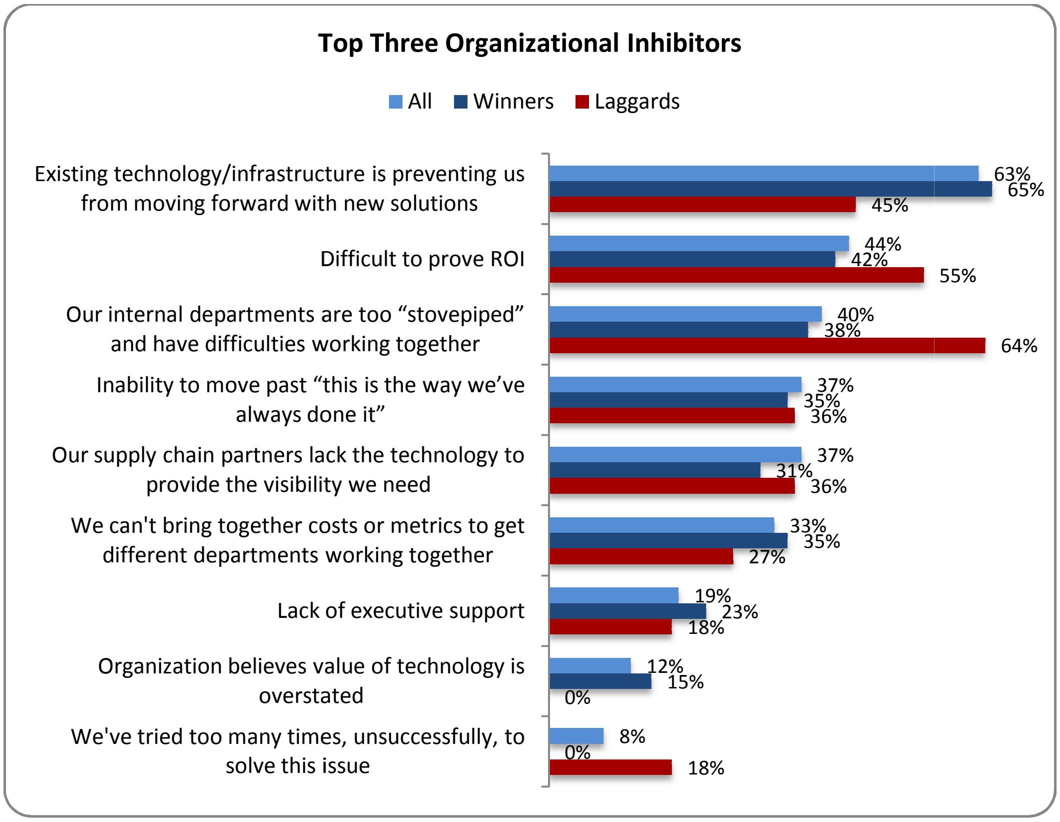
While opportunities may be global vs. local, with Winners clearly concentrating more on global and laggards on local, the truth is there are benefits to both approaches. The supply chain lessons of this decade have been that veering to either extreme is undesirable - if retailers are too "local", they miss out on the cost benefits of a global supply chain. Too global, and they expose their companies to unmanageable risks. There is no cost associated with risk unless something goes wrong - and a lot of things went wrong in this decade, exposing a lot of risks. While Winners do need to do more to protect themselves from those risks, they are also making sure that they are doing it right - staying focused, and looking for the visibility that gives them more control, rather than just a broad view.

SECTION IV: ORGANIZATIONAL INHIBITORS

TECHNOLOGY VS. CULTURE

The top three organizational inhibitors, according to survey respondents, are crippling technology infrastructure, difficult to prove ROI, and stovepiped internal departments (Figure 10).

Figure 10: Impending Boon?



Source: RSR Research, October 2009

While the differences between Winners and laggards are always fascinating, the degree of difference over the top three internal obstacles in particular is enormous. The existing technology infrastructure is very much a Winner's issue, while ROI and stovepiped internal organizations are laggards' issues.

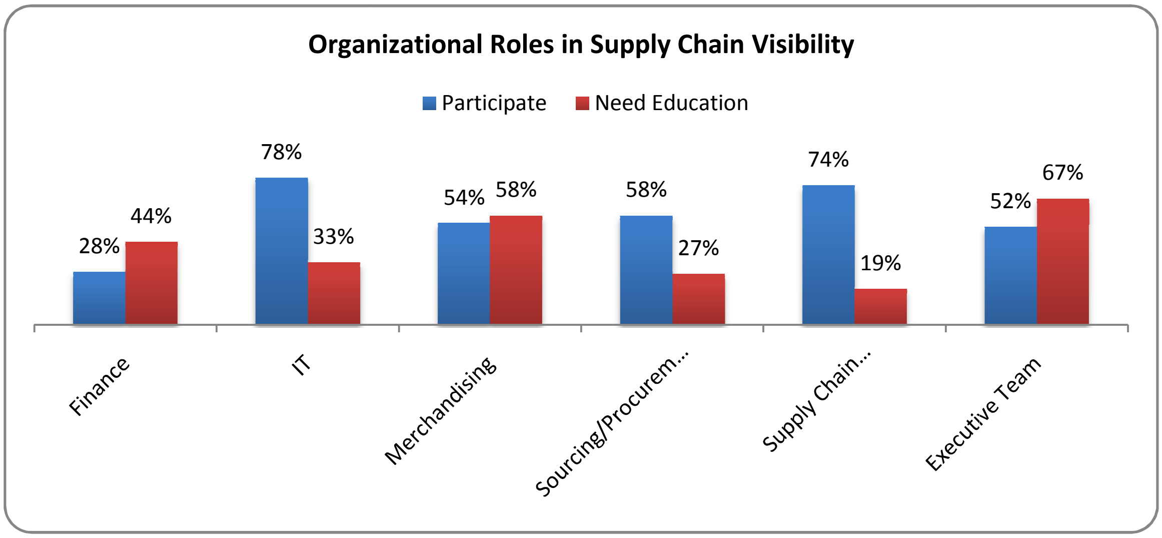
There are also interesting differences at the bottom of the list. No Winners are challenged by past attempts to "solve" the visibility challenge vs. 18% of laggards, and apparently no laggard has met a technology they didn't like, when it comes to supply chain. With that kind of perception, it's no wonder laggards have issues with ROI.

LET THE BOX KICKERS FIGURE IT OUT

Lack of executive support as a barrier is near the bottom of the list of organizational inhibitors, which runs counter to the results of many of RSR's recent studies. However, supply chain visibility seems to be an idea everyone can get their arms around.

Digging deeper, we find that while the executive team plays a more important role in supply chain visibility than they do in say, supply chain execution, there is still a lot more involvement and education needed on the topic for them (Figure 11).

Figure 11: The Need For Involvement …And an Education



Source: RSR Research, October 2009

Part of the problem for the executive team is that supply chain executives are not as engaged as they should be, and they technically own the processes. While only 19% of respondents reported that supply chain executives need more education, only 74% said that they were involved in setting strategy around visibility. In contrast, 92% of respondents said that Traffic/Logistics is involved, and 80% said DC or warehouse management is involved. These two groups, who typically report to the Supply Chain executive, are at too low of a level internally to influence a company's relationships with peers.

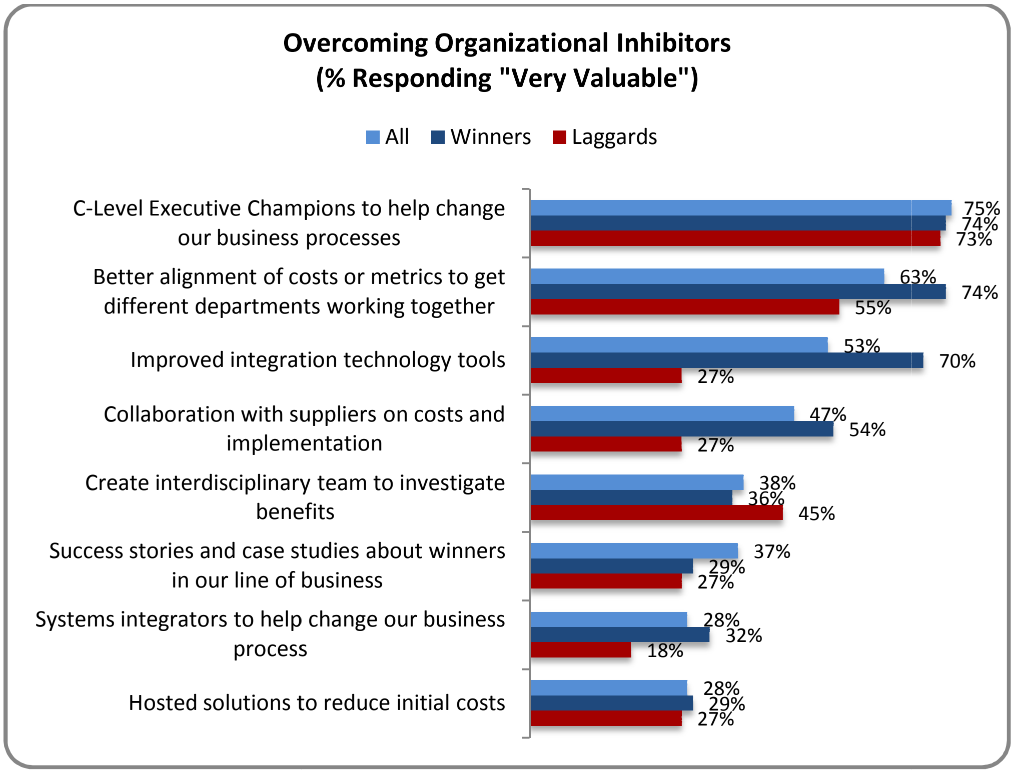
IT is a key enabler for greater supply chain visibility, yet 33% of respondents say more education is needed. With technology infrastructure making the top of the list as an organizational barrier, this may be as much about IT educating the business as to what is possible as it is IT digging in and untangling a complex infrastructure.

Heavyweights Always Help

The top three opportunities to overcome organizational inhibitors, as reported by our survey respondents, are executive championship, better alignment of costs, and improved integration tools (Figure 12).

However, there are big differences by performance, mostly driven by how narrow or wide respondents' view of the supply chain is. For Winners, who have a wide view of global supply chains, technology integration tools and collaboration with suppliers are more important. For laggards who have a narrower view, the focus is on interdisciplinary teams to break down internal barriers.

Figure 12: Executives Make it Easier



Source: RSR Research, October 2009

The Secret Lives of Supply Chains

Winners see supply chain visibility as more about gaining control over their supply chain, rather than merely having earlier or more accurate information about what's happening in the supply chain. But logistics and warehouse people should not be setting the strategy for overall supply chain visibility. In an increasingly global world, retailers need to involve more parties – including suppliers - in order to gain greater visibility.

Winners especially note that better alignment of metrics will get everyone working together. But hand in hand with the ROI challenge, if companies don't understand where the costs are, an ROI is hard to establish. More laggards need to align costs and metrics, in order to understand the true value of greater supply chain visibility.

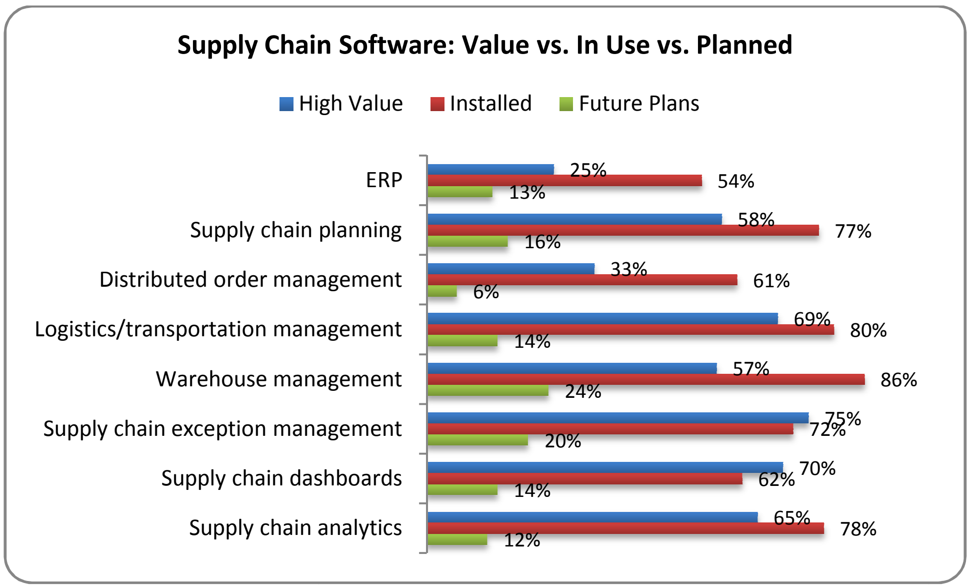
People have relied too long on dictums such as "too much inventory is bad" to drive supply chain decisions, only to find that pursuing those dictums as blind strategies have left them exposed on other fronts. Between commodity prices, oil prices and their impact on shipping costs, global slowdown, and global quality concerns, many retailers have found themselves far more exposed to supply chain variables than they ever dreamed. But the answer is to expose as much as possible - both internally within operations, and externally with the trading partners, to be successful.

SECTION V: TECHNOLOGY ENABLERS

NO HELP FROM SOFTWARE

Which technologies will help retailers the most in achieving greater control and reducing risk? Apparently, transactional applications are not the answer. Of the top three most valuable software solutions reported by survey respondents, only one is actually a transactional system - logistics/transportation management. And it came in third behind supply chain exception management (SCEM) and supply chain dashboards (Figure 13).

Figure 13: More than We Need



Source: RSR Research, October 2009

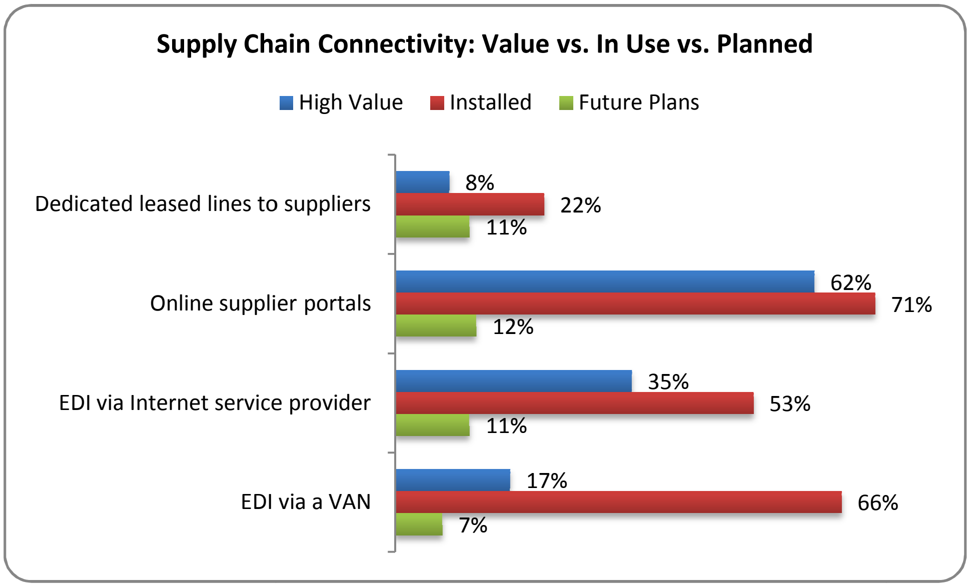
The use of transactional systems rarely exceeds their value, no matter what topic RSR is researching. However, it is also rare to have so many "negative" gaps in one survey - where so many solutions' use far exceeds their perceived value. Of the list above, only SCEM and supply chain dashboards manage it. These results are consistent for both Winners and laggards.

However, rather proving that supply chain transactional systems lack value, all these results prove is that it's not the individual systems that create value in supply chain, but the intersections between them - thus the emphasis on exception management and dashboards as ways to bring information together across multiple transactional systems. The emphasis is on proactive information - something actionable - rather than performance management, as even supply chain analytics suffers from greater implementation than value.

THE NETWORK EFFECT

Retail respondents report a reliance on online supplier portals, EDI via VAN and EDI via an ISP as their primary methods for communicating with suppliers, with a few also leveraging dedicated lease lines (Figure 14).

Figure 14: Connecting the Dots



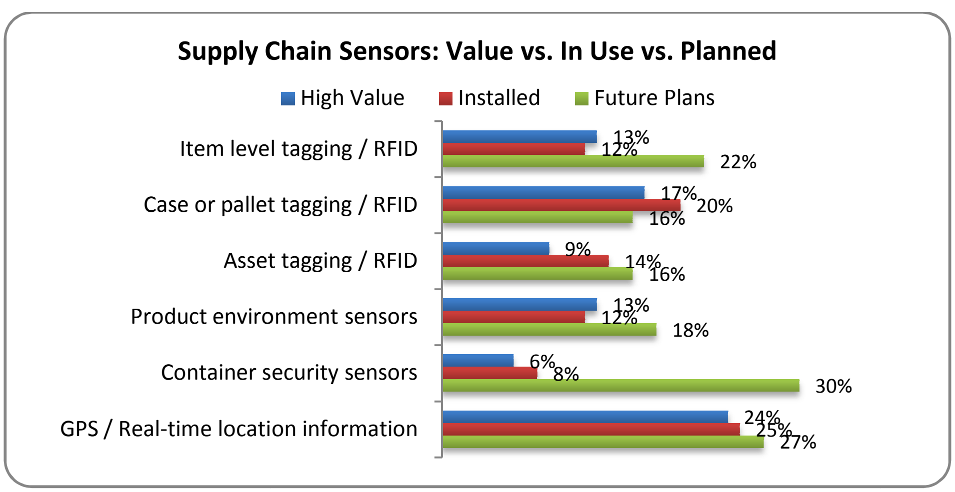
Source: RSR Research, October 2009

However, it's clear that future interest is heading towards supplier portals, when it's possible. When EDI has to play a role, survey respondents are more interested in EDI over the internet than relying on a VAN. Despite the low perceived value of EDI via VAN and dedicated leased lines to suppliers, these methods of communicating with suppliers are still on the radar for the future, showing just how much more work needs to be done to connect to trading partners - whatever method is required to make it happen

Sensing the Future

The area that shows the most potential for future adoption is in sensors related to supply chain activities. Some of the top technologies by adoption reflect mandates and tightening requirements around supply chain security, but others have a more strategic bent. The top three by value are GPS, case or pallet tagging via RFID, and product environment sensors (Figure 15).

Figure 15: Sensing the Granularity



Source: RSR Research, October 2009

By planned adoption, the future is clearly in container security sensors, followed by GPS and item-level tagging - a technology that has languished in other RSR surveys on the topic. However, given that an overwhelming majority of respondents (98%) feel that it is important to receive supply chain data updates daily or more frequently, with an additional 39% reporting that *real-time* updates are needed, a more granular method of supply chain tracking is going to be required. It's no longer enough to track shipments or items along milestones and checkpoints, and outside of retooling warehouse management systems, the area of sensors is poised to receive the greater portion of investment in the future.

Smarter Supply Chains

What will be the net impact of the supply chain investments planned by survey respondents? It can only be smarter supply chains. The industry has long dreamed of such a thing, but two pieces have been lacking: the transactional systems to capture that level of granularity, and the pervasive networks to carry transaction details to the right trading partners in real-time. We're not there yet, but we're getting closer: rather than focusing on the software applications that are the catcher's mitts, or on the networks that are the delivery vehicles, retailers are beginning to turn their attention to capturing the granularity they need to truly achieve supply chain visibility, along with the exception management and dashboard tools they need to make sense of it. Truly "smart" supply chains aren't going to happen this decade - easy to say as this decade nears its close - but could very well be attainable in the next.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

BE ACTIVE

A consistent finding in RSR's studies is that ***Retail Winners take an activist role in framing their future prospects, while laggards tend to position themselves as victims of circumstances beyond their control***. Even though virtually all of our survey respondents – Winners and laggards alike – agree that supply chain visibility is about much more than the movement of orders and inventory through the supply chain, Retail Winners are much more clear in their view that "visibility across the whole supply chain" has an impact on partner relationships. While under-performers may be content to see no farther beyond "the four walls" than inbound to their DC's, Winners want to establish relationships with trading partners that enable them to see on hand inventory and manufacturing schedules. The need to "see" is compounded by uncertainty – rough economic conditions, sudden disruptions, even political strife. "Visibility", the way Winners envision it, cannot not exist in a coercive relationship, rather it must be built on a foundation of mutually beneficial objectives, metrics and accountability, and standardized data.

TOP DOWN

How effectively a company manages the network of suppliers to get the best cost of goods, and how efficiently the movement of goods from source to destination is managed, should be of vital interest to the executive team. While no one expects the C-level team to roll up its collective sleeves, 67% of our study participants feel that ***the executive team needs an education*** about the challenges and opportunities associated with global supply chain management– so that they will establish the framework for addressing the need for visibility. Although the top supply chain executive fared much better (only 19% indicated that this particular executive needs to hit the books), a surprising 26% of respondents feel that the supply chain executive isn't an active participant in managing the "buy" side (leaving it to Traffic/Logistics and DC/warehouse management).

ESTABLISH THE RIGHT METRICS

While laggards complain that "it's very hard to manage actual supply chain costs", far fewer Winners hold that view. ***Measure the costs*** associated with supply chain events, in order to gain an understanding of the priority issues that need to be managed. Measuring costs is not just about tracking expenses as they are incurred. It's as much about measuring the hidden costs of risks and understanding the trade-offs that must be managed. As retailers have learned, a global supply chain works well when transportation and commodity costs are cheap. But the volatility of costs in today's far-flung supply chains dictate more proactive management, to ensure that the true landed cost of merchandise doesn't erode profitability.

ADDRESS THE ORGANIZATIONAL ISSUES

The top of mind business challenge for retailers related to better supply chain visibility is the disconnect between the "art" of merchandising and the "science" of supply chain management. "Lack of coordination between merchandising and supply chain" is identified as a top operational challenge by 75% of laggards and 64% of our Retail Winners. Winners especially note that ***better alignment of metrics will get everyone working together***. While almost two-thirds of underperforming retailers claim that their internal departments are too stovepiped and therefore have difficulty working together, less than 40% of Winners make that a reason for lack of progress.

SHARE

Retailers want insight into the flow of goods, the events that can impact that flow, and the costs that those events create. Those activities can create a lot of raw data. And while retailers almost universally understand that the supply chain must be ***managed by exception***, Winners understand that they cannot do it alone; almost three quarters of Winners favor ***data sharing with vendors via a portal*** vs. less than 40% of laggards.

FIX THE TECHNOLOGY

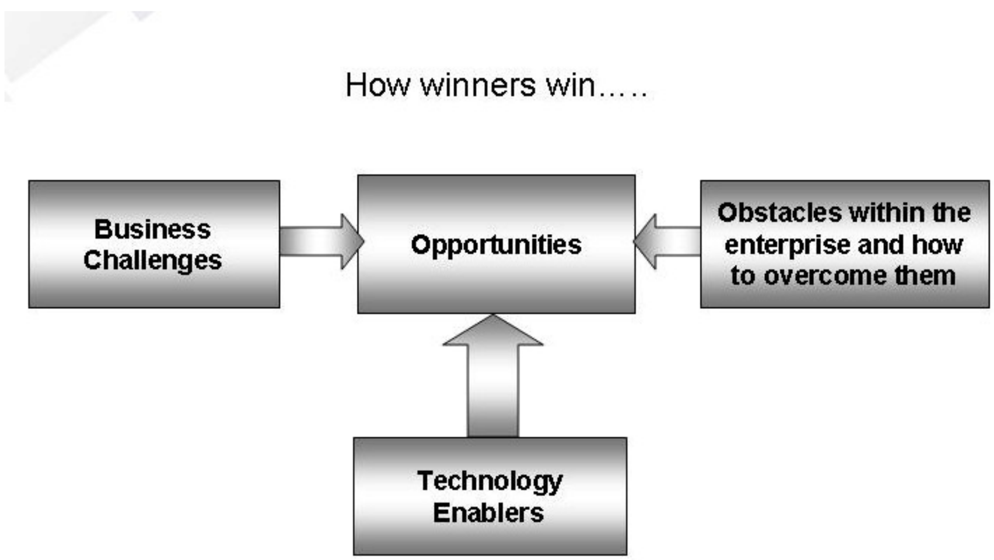
Winners are very aware of the role of technology in enabling better supply chain visibility, and are concerned that the existing technology /infrastructure is preventing them from moving forward. Laggards are more sanguine about the issue. But according to our survey respondents, it's not the individual systems that create value in the supply chain, but the intersections between them - thus the emphasis on exception management and dashboards as ways to bring information together across multiple transactional systems. The emphasis is on ***proactive information*** - something actionable - rather than performance management.

APPENDIX A: THE BOOT METHODOLOGY

The "BOOT" methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: About Our Sponsor

Oracle Retail is the number one provider of innovative and comprehensive industry software solutions for retailers - enabling organizations to serve their customers better by applying insight into daily business decisions for more profitable results. With software that provides supply chain, operations, merchandising, store systems, optimization as well as enterprise applications and infrastructure software, Oracle partners with the world's leading retail companies, including 20 of the 20 top retailers worldwide, to transform the economics of their businesses.

Oracle (NASDAQ: ORCL) is the world's largest enterprise software company. For more information about Oracle, please visit our Web site at http://www.oracle.com.

APPENDIX C: ABOUT RSR

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.