

Gartner for Supply Chain

# Transforming Retail Supply Chain

Three Action Steps



The retail landscape has fundamentally shifted, accelerating the need and desire for supply chains to rethink traditional operating models. This research overviews three key opportunities for retail CSCOs to show strategic leadership and position their organization for success in 2022 and beyond.

# 01

## Rethink existing channel-centric operating models

The retail supply chain operating model was historically designed for the just-in-time delivery of products to consumers through defined and channel-centric distribution networks. However, this operating model, despite continuing to be widely utilized, is increasingly recognized as too inflexible given underlying trends in the industry such as the changing face of consumers, growing labor constraints, globalized supply chain challenges, and elevated environmental, social and corporate governance (ESG) expectations.

The need for operating model change is reflected in findings from the Gartner Future of Supply Chain Survey, with 59% of retail respondents identifying that their supply chains have been designed primarily for cost efficiency rather than resilience or agility.

Nearly all retailers are planning to invest to make their supply chains more agile (96%) and resilient (90%). So the question for CSCOs now becomes not whether change is necessary, but how to effectively increase resilience and agility without lowering margins.

CSCOs should start by looking to overcome key barriers. For example, surveyed retailers identified organizational silos (56%), balancing trade-offs (48%) and a lack of advanced digital technologies (42%) as the top barriers to increased supply chain resilience.

Then, the best CSCOs build organizational agility by focusing on the integration of people, process and technology. For example, aligning planning and execution activities can deliver an enhanced and more predictable shopping experience.

## 02

## Think beyond optimization and drive business growth

The historical view of retail supply chains as a cost center is disappearing: 51% of retail survey respondents showed they believe their CEO views the supply chain as equally important for business success as sales and marketing or product development.

However, with this shift comes expectations for CSCOs to combine traditional areas of business impact such as cost reduction or improved service levels (e.g., product availability, on-time in-full delivery) with initiatives that have clear impact on sales growth and the customer experience (CX).

Explore the potential of supply-chain-as-a-service (SCaaS) offerings in your organization. These are where the retailer provides supply chain capabilities developed in-house to a third party — like how a logistics company sells warehousing services to a customer.

Start by identifying where your internal supply chain capabilities and assets have created a competitive advantage. Then determine how much, where and what types of offerings can be marketed externally by integrating operational efficiency projections with demand forecasts and using cost and service benchmarks.

Also, find ways to directly influence the consumer shopping experience. For example:

- The type and breadth of last-mile pick-up and delivery offerings made available to shoppers
- The speed with which online orders are made available for shoppers to receive their goods
- The experience provided from time of purchase to receipt of goods
- The environmental impact of the shipment
- The communication of shipping and returns policies that can be quickly and easily understood by shoppers and are devoid of legal terms

# 03

## Redesign distribution operations networks

Today's high-volume, high-velocity, high-mix distribution and fulfillment environment is forcing a reexamination of how retailers approach their supply chain networks, emphasizing both network optimization and design.

The optimal network design that balances cost, working capital and service levels in the supply chain is not always intuitive when a significant shift occurs in the channel mix. This is further complicated by many retail supply chains having inventory separated by channel while lacking internal network optimization capabilities and utilizing a relatively ad hoc approach to network design.

However, as online sales volumes grow, leaders have increasingly recognized the value of internal network design capabilities that can test evolving scenarios to optimize existing space within the network to support fulfillment. These capabilities are critical to achieving improvements across service levels, costs and working capital.

Of particular importance is the ability to test new approaches and iterate and leverage the associated lessons into an optimized network, with many focused on how they can more effectively leverage stores to drive online fulfillment.

### **Gartner's top recommendations:**

- Expand your approach to network design by identifying talent gaps while moving toward a unified pool of inventory across channels.
- Use a blend of network design approaches to balance the organization's immediate needs for network optimization against its long-term strategic network objectives.

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