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1. DEFINING THE RETAIL SUPPLY CHAIN

1.1. Introduction

This chapter describes a reference model for the retail supply chain and the terminology that goes with it, is model, as shown in Figure 1.1, and plays a role when there is a need for a common definition of a subject like retail supply chains. The simplified model in Figure 1.1 includes, starting from right to left:

- ✓ Customers or end-users
- ✓ Retailers
- ✓ Distributors
- ✓ Original equipment manufacturers (OEMs)
- ✓ First-tier suppliers
- ✓ Second-tier suppliers
- ✓ Service providers

Not shown for the sake of simplicity is a wide range of supply chain service providers. Examples include warehouse operators, transportation companies trading companies, and customs brokers. These act to connect the other players listed. Some service providers, such as contract manufacturers, may play roles of second-tier suppliers.

In this course pack, the term retail describes final sales to mostly non-business customers or end-users, often called consumers. However, it is important to remember that most businesses also make purchases at retail stores. Transactions in the retail domain also can be termed business-to-consumer (B2C) or business-to-business (B2B). Because supply chains for consumers can be quite long, they consist of both B2B links, such as those between first- and second-tier suppliers, and B2C links, for example, those between retailers and customers or end-users.

Because of their many variations, the terms supply chain and supply chain management (SCM for short) also need defining. According to Levy and Weitz, authors of a popular text on retailing, retailers carryon four major activities because they can do them more easily than the OEMs producing the products. First, and most important, retailers provide an assortment of goods from which one can choose. Imagine getting a headache and having to order Tylenol directly from the manufacturer. Instead, we take our headache to the local convenience store and select from various headache remedies. Second, retailers buy in larger quantities and break these down into more consumable sizes. For example, gift shops often buy merchandise in case quantities of a dozen or more. They then break the case lots into smaller quantities and sell items individually. Third, retailers hold inventory close by and provide convenience to the customer. Finally, retailers provide services to enhance the value of the product to the customer. Gift wrapping, credit, warranties, alterations, and repair services are a few of the services that may be provided.

Successful retailers do three things well. First, a retailer must identify a niche for their offerings among all available market segments and determine a target market with an opportunity for growth. Second, retailers must design and develop an appropriate and effective retail format. Who would have thought retailer Tommy Bahama would sell Hawaiian shirts to men, women, and children at high prices in stores decorated in a tropical theme? Finally, the retailer must figure out

how to establish a sustainable competitive advantage. Rarely is price a successful determinant-something else must also be offered. Castco and Wal-Mart emphasize low prices, but they have to augment this with the other aspects of the retail mix. In the case of these retailers, Wal-Mart uses its size to bargain hard for low prices and Costco buys in bulk, opportunistically.

1.2. More Than Stores

Retail supply chains include more than stores in their make-up. The nature of the supply chain will vary from product type to product type according to the characteristics of the product itself, as well as the preferences of customers and end-users. Figure 1.1 shows that customers or end-users can buy from retail stores, directly from OEMs, and from dealers or resellers who also deal directly with the OEM. Retailers and distributors refer to OEMs as the manufacturer, the vendor, or the resource.

Some retail supply chains include more than one intermediary distributor. This is especially true of the food industry, where freshness is, a concern. For example, milk may be produced on a farm, then sold to a cooperative, which, sells it to a processor, who in turn sells it to a distribution brand; it is then sold to a retailer, who sells it to the consumer. Such a distribution network or supply chain) has been likened to the fire brigade, where it is faster to pass the .bucket, along a chain of people than to have one person carry it the entire distance.
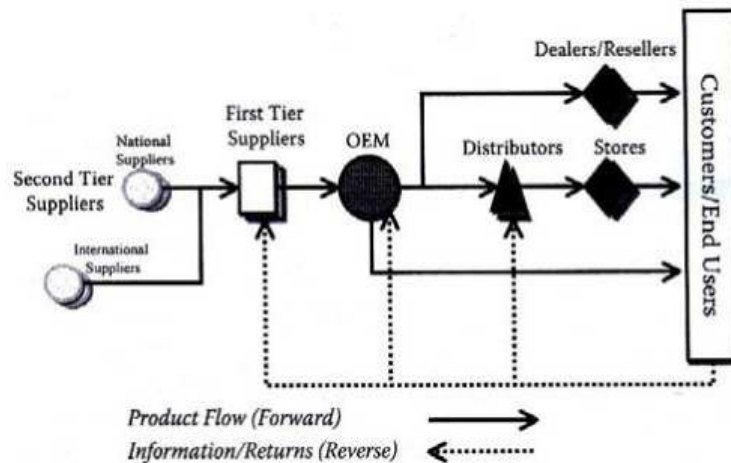

Figure 1.1 Retail Supply Chain

An analogy to the supply chain is the iceberg. As consumers, we see only the part of the iceberg that sticks out of the water; most of it is hidden. Supply chains are similar. As customers or end-users, we participate in the last transaction in the chain. For complex products in particular, there would have been multiple unseen transactions among the trading partners who delivered the product, as detailed in the previous milk example and pictured in Figure 1.1.

Regarding Figure 1.1, there may also be a difference between customers and end-users shown at the end of the supply chain on the right. In this book, the "customer" makes buying decisions while the "end-user" actually consumes or uses the product. A wife and mother would be the customer for her household because she does the shopping;' family members are end-users. Both customers and end-users influence purchase decisions. For example, the father may have health concerns for his children and insist that the mother purchase low-fat milk for them even, though he is neither a consumer of the product nor the shopper making the purchase.

Most of us buy much of what we use or consume at stores. But alternatives are many and increasing. We may also order out of catalogs, go online to order, or purchase from dealers, who guide us in our selections. These alternative distribution options are called retail channels. The store, direct, and dealer / reseller paths in Figure 1.1 are each channels of distribution.

Each level in a supply chain (e.g. distributor, OEM, or supplier) is called an echelon. Bypassing an echelon is a process called disintermediation. Disintermediation, in some cases, can lower cost, inventory and lead times. Many supply chain participants, particularly distributors, are wary of disintermediation efforts that cut them out of the flow of goods. Firms trying to use a disintermediation strategy must be judicious in setting up a direct path to customers so as not to alienate existing channels.

Recently, a number of well-known apparel brands have opened up their own brand-centered specialty stores just up the street from other retailers who carry their lines. Notable examples include the previously cited Tommy Bahama and Eileen Fisher, a seller of women's apparel. These firms are said to be **vertically integrated**, controlling most of the supply chain from beginning to end. A manufacturer that engages in retail activities would be **forwardly integrated**, whereas a retailer engaged in production would be considered **backwardly integrated.**

The OEM often provides the brand identity for the products sold by the retailer. However, brand identity might be associated with the retail enterprise through private label brands designed and sold exclusively by that particular retailer. The Gap is an example of a company that carries almost all private label merchandise and uses it to develop its retail image and long-term sustainable competitive advantage. In some cases, major components of a product are branded for inclusion in other products sold at retail, such as Intel chips or Microsoft operating systems in computers sold by Lenovo, Toshiba, Dell, or Hewlett-Packard.

Another foundation for brand identity may be extended product features. These, not the base or physical products, are increasingly important in achieving retailing success. Supply chain design needs to support extended product strategies. Examples include value-added resellers of computer systems and after-market maintenance provided by automobile dealers. Starbucks, with Internet access and comfortable places to drink coffee, offers an extended product to support sales of base products such as coffee, other beverages, merchandise, and food. Their growth is partly based on consumers' perceptions of the coffee shops as a third place to go, the others being the workplace and home. A retailer who has a reputation for after sales services provides an extended product in the form of risk reduction for its customers. The customer is certain that he or she can use the product with confidence, return unsatisfactory merchandise, or have problems .fixed promptly.

Globalization is not hot supply chain topic. Figure 1.1 shows second-tier sources of product components as either "national" or "international." These categories symbolize the impact of global sourcing on the cost of the goods we buy and the economies of all countries engaged in trade. Globalization also opens international markets for base and .extended products that fuel sales growth. Wal-Mart not only imports many of its products, but it also has opened stores in foreign countries, including China.

A possible, source of confusion is the use of the terms upstream and downstream with regard to supply chains. In this course pack, upstream relates to operations that precede a point of

reference. For example, in Figure 1.1, distributors are upstream of retailers. For the customer or end-user, all operations are upstream. Downstream operations, On the other hand, follow points of reference. So distributors are downstream of OEMs .in Figure: 1.1. Some companies refer to upstream trading partners as their supply chain and downstream trading partners as their demand chain.

1.3. Defining The Terms: Supply Chain And Supply Chain Management

This section defines supply chain and supply chain management. There are many working definitions of supply chain, depending on the viewpoint of the definer. Common viewpoints define the supply chain as procurement only, distribution, or as a collection of information system applications. These viewpoints mostly reflect the need for operating efficiency, not strategic advantage, from supply chain design. To understand the variation and commonality in definitions, the staff of DC Velocity (DC stands for Distribution Center) questioned a panel of 11 supply chain practitioners, whom they referred to as logistics profession "rainmakers." Table 1.1 summarizes the responses to the question, "How do you define supply chain management as it relates to logistics operations?"

One can surmise from Table 1.1 that perspectives on SCM vary. They range from broad, planning-oriented definitions (such as # 1, 3, 4, 5, and 7) to more operational ones (e.g., # 2, 8, and 9). The rainmakers' responses reflect their varying roles, with those of academics and executives being broader in nature and operating executives' responses more focused on physical flows of concern to logistics professionals.

This course pack also takes a broad view that includes the potential for strategic contribution from SCM, so a broader definition, first of the term supply chain, is presented here.

Supply Chain: Product life-cycle processes comprising physical, information, financial, and knowledge flows whose purpose is to satisfy end-user requirements with physical products and services from multiple, and linked suppliers.

The definition says that the supply chain is made up of processes, as emphasized in Table 1.1, definition #5. Figure 1.1 is a high-level picture of these processes. They include sourcing material, designing products, manufacturing, transporting, fixing, and. selling physical products or services at supply chain enterprises. Product life cycle has at least two meanings, the selling life cycle and the usage life cycle. For long-life, or "durable," products .as well as many services, these aren't the same. The selling time window may be far shorter than the product' useful life. Examples are automobiles, computers, a life insurance policy, or a 30-year mortgage. All must be supported long after newer products take the place of older ones. For this reason, product support after the sale can be an important - if not the most important and profitable-supply chain component. In these cases, the prospects for seller longevity, an extended product feature, is a factor in the purchasing decision.

Physical information and financial flows are frequently cited .supp\y chain dimensions. However, the viewpoint, a very common one, of the supply chain as a purchasing or physical distribution network is limiting. Information and financial components are as important as physical flow in

many supply chains and are examples of reverse flows that go in the opposite direction shown in Figure 1.1.

Practitioner Definitions of the Term Supply Chain Management

	Thought Leader	Definition Summary
1	Theodore Stank, professor of logistics, University of Tennessee (Knoxville)	An orientation for conducting business across multiple firms with improvement in end customer value as the unifying goal
2	Tim Krishner, president, SeayCo Integrators, Inc., custom computer systems	How best to use the tools and reports to enhance productivity
3	James Stock, senior professor in marketing and logistics, University of South Florida	The management of a network of relationships between independent organizations and business units
4	John Sidell, founder of ESYNC, supply chain execution systems and consulting	As the end-to-end management of inventory and information from sourcing through manufacturing! assembly to distribution to customer delivery and, depending on the business model, through to the end consumer
5	Jeffrey Karrenbauer, founding director of Insight, Inc., optimization and simulation applications	The integration of key business processes from end-user through original suppliers, which provides products, services, and information that add value for customers and other stakeholders
6	Philippe Lambotte, vice president, international customer service and, logistic, Kraft foods-	Optimal management of goods and information flows from 1he retail shelf to our suppliers
7	Chad Autry, assistant professor of 'supply chain management, TCU	Reflects business process integration across and through the boundaries of multiple firms acting together to create value
8	Michael Fostyk, senior vice president; American Eagle Outfitters	Getting the right goods to the customer, at the right time, consistently, accurately, at the right value to the organization.
9	John Gentle, retired Owens Corning leader for transportation affairs	It begins with material planning and is Translated back into transportation requirements of inbound materials, warehousing of both raw and finished materials, and the transportation of the finished goods to the customer
10	Jeffrey Camm, professor of quantitative analysis,	The old standard definition ... getting the right quantities to the right

	Thought Leader	Definition Summary
	University of Cincinnati	locations at the right time in a cost-effective manner
11	Jeffrey Camm, professor of quantitative analysis, University of Cincinnati	Deals with the sourcing and synchronous flow, and flow is the keyword here, of all goods and materials from the very beginning of that chain to the very end, being the final consumer, and even beyond, when you consider returns

Also omitted from many supply chain definitions is the role of knowledge inputs into supply chain processes. Knowledge is the driver behind new products and new processes, the source of growth through innovation. Supply chain processes for new products require coordination of intellectual input (the design) with physical inputs (components, prototypes, factories, distribution channels, and the like). In the retail industry, such knowledge can produce better designed, more user friendly, and more stylish products. Increasingly, products sold to consumers rely on software to distinguish them. The knowledge component of our definition also includes software.

The supply chain should support the satisfaction of end-user requirements. These requirements give rise to the fundamental mission of supply chains -, matching supply and demand. As noted later in this unit and there may be a range of customer or end-user groups who constitute market segments. An integral part of SCM is .designing and implementing supply chain operations to satisfy these segments.

A supply chain also has multiple, linked suppliers. From the customer or end-user viewpoint, a supply chain exists when there are multiple enterprises backing the last link enterprise that delivers the product or service. So, under this definition, the neighborhood barber would not constitute a supply chain while a chain of barbershops would.

As mentioned previously, the supply chain has a two-way flow. Many consider supply chains only in terms of forward flow from suppliers to end-users, so SCM definitions take on a limited sourcing-logistics flavor. For the physical processes, this is largely true. Only one definition in Table 1.1 (# 11) mentions reverse flows in the form of returns. But supply chain design must include backward flows for product returns, payments and rebates, replenishment orders, repair, and other reasons. The European Union has passed regulations that require companies to be responsible for the ultimate disposal of the products they sell after their useful life is exhausted. For example, computer manufacturers have to take back and recycle parts and materials from the products that they have sold.

Services also have supply chains. Production planning for the research and development department, which produces designs not products, can benefit from the same techniques used by product manufacturers. Federal Express and UPS operate service businesses, but they employ complex supply chains to move customer shipments. A software company like Microsoft is challenged to constantly improve its product through upgrades, so it too has a supply chain for its knowledge-based product.

With the term supply chain defined, **supply chain management, or SCM**, is simply the following.

Supply Chain Management: Design, maintenance, and operation of supply chain processes, including those for base and extended products, for satisfaction of end-user needs.

Although easy to define, SCM is a challenge to practice. Applying this definition, effective SCM requires skills to perform the following five tasks:

Designing Supply Chains for Strategic Advantage:

This task creates new "business models" that shift the basis of competition. Definition #1 in Table 1.1 comes closest to recognizing this need. The presence of needed skills to perform this task is rare.

Implementing Collaborative Relationships inside the Organization:

Specialization in focused departments of a retainer or one of its manufacturers produces local optimums with substandard service and profits for the retail supply chain overall. .

Forging Supply Chain Partnerships with Trading Partners up and down the Supply Chain:

This is an "unnatural act" but often a necessary "one to gain competitive advantage. Many of the definitions in Table 1.1 recognize this need.

Managing Supply chain information:

The claims for new software applications may confound potential users. The confusion is the consequence of having many providers and the difficulties of evaluating their claims or adapting their "solutions" to one's business.

Making Money from the Supply Chain:

Well-managed process improvement retains its importance, but processes that cross department and company boundaries have to be defined and addressed. Collaboration is the key to generating more cash from operations. Note that the tasks range from strategy-making to collaborating effectively and then to running efficient operations.

The tools and techniques in this course pack will help the students improve their skills in performing these tasks.

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- Certified Hadoop and Mapreduce Professional
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Contact us at:
V-Skills
011-473 44 723 or info@vskills.in
Intelligent Communication Systems India Limited
DSIIDC Administrative Building,
Okhla Industrial Estate-III, New Delhi-110020
www.vskills.in