



The retail sourcing reset

From the backroom to the boardroom—
how sourcing can be a strategic asset for retailers

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Sourcing needs a seat at the table. Now.

The power of sourcing is untapped in most retail organizations. Sourcing is viewed as a cost-center, a vital but behind-the-scenes function that supports the merchandising team. This narrow view of sourcing is a liability for retailers today.

From the pandemic to trade uncertainties, from constraints in supply to commodity volatilities, and even a container ship—in the last 18 months the retail world has seen significant disruption. Coupled with this, consumers are watching closely. Their expectations for sustainability, responsibility and transparency—as well as personalized products and value price points—are influencing purchasing decisions and brand loyalty. It's a perfect storm for retailers.

To navigate and thrive, retailers must give sourcing a seat at the C-suite table, while pivoting to sophisticated digital ways of working. As the function that can influence more than 60% of the P&L, it's time to elevate sourcing into a customer facing capability. **Now.**

Sourcing must be at the forefront of the retail business cycle—more core to the value proposition and brand purpose than ever before.

Sourcing has invaluable inputs that can help retailers maximize profits, innovate products, make savvy investments, and fuel customer competitiveness and value. The earlier in the planning cycle they are acted upon, the better the business outcome.

For example, sourcing can provide meaningful insights that address questions such as: *Which product constructions and materials will allow margin protection despite commodity pressures? How should retailers re-think investment in assets for surety of supply? (For example, deleveraging China for hardgoods?) How can product personalization be profitable and sustainable through the right vendor partnerships?*

To get the most value from these insights, sourcing needs to be a strong influencer when the business direction is set, product category strategy is determined, and pricing or assortment decisions are finalized.



Retail Sourcing

Five plays for success

Retailers who execute these five plays with a relentless focus can transform sourcing into a competitive advantage.

01

Adopt **digitized sourcing** and build collaborative technology-savvy teams to accelerate work that matters

02

Turn sourcing into a branding machine through **profitable sustainability**

03

Reduce supply-side uncertainty with a focus on **surety of supply**

04

Accelerate white space capture through **category champion partnerships**

05

Embrace **shared success** to build agile and efficient supply ecosystems

01 Digitized sourcing

Know exactly what a product should cost and which countries to source from. Predict and de-risk the impact of macro trends. Understand the implications of decisions on business value—all at the touch of a button.

Most sourcing teams today have experiential knowledge gained from an apprentice model of on-the-job learning—but this will not work in the future. Sourcing needs to embrace digital, such as advanced analytics-based sourcing platforms and multi-tier system connectivity.

Automation, for example, can replace 50-70% of the transactional tasks that sourcing teams spend time on today. Consider the time spent tracking purchase orders, determining available factory capacity and building ad-hoc models—all these and more can be delegated to machines.

The “should cost” algorithm is another good example. This allows retailers to predict what a product should cost using bottom-up component pricing. Algorithm-driven cost models, which can account for materials and commodity prices, construction costs, logistics trends and more, can reduce product costs by 8-15%, all without the tension and iterations of traditional negotiations.

To do this, the composition of sourcing teams needs to change. In addition to relationship influencers and product experts, sourcing teams need to include data scientists (preferably with functional knowledge), for whom concepts like AI-powered scenario planning are second nature. This requires a mix of workforce reskilling, recruiting for non-traditional skills, developing centers of excellence, and partnering strategically.

Imagine...

You must decide where to source a dress for your brand’s new spring line. After running scenarios, you select a vendor in India rather than in Vietnam because lower duties balance out higher labor costs. The platform recommends that designers use a cotton blend fabric to improve cost and functionality because the material doesn’t wrinkle. It also alerts you that adding a pocket below the waist would eliminate duties.

Your team is spending time making decisions and innovating instead of pursuing and reconciling data.

02 Profitable sustainability

Understand the environmental and cost implications of sourcing decisions from the start to create fully certified sustainable products at the best cost, winning customers' business and their trust. Turn sourcing into a branding machine.

Sourcing is on the frontlines of one of the most transformational forces in retail—the push for sustainability and responsibility. Consumers want transparency into the provenance of what they buy. Brands are losing if they don't know which farm their cotton comes from and how it is grown.

Retailers don't have to choose between profitability and the planet. Sourcing must take the lead (and should have the autonomy) in infusing sustainable practices into the DNA of product design and development, and merchandising and planning. This can involve measuring assortments against

green and resiliency metrics, developing green credit systems for designers, and incorporating traceable/sustainable materials and holding factories accountable to sustainable practices. Only sourcing has the relationships and insights to change mindsets and practices. With sourcing at the table from the start, the more cost-effective sustainability can be.

Sourcing can also impact the cost of sustainability by optimizing end-to-end flows. Because of the way relationships have been set up along the supply chain, there is often unnecessary zig-zagging in how raw materials and products flow. Sourcing can get involved early on to avoid material flows away from end markets, to reduce retailers' carbon footprints, and lower their costs at the same time. Doing this well takes better visibility, communication and collaboration within the retail organization and across the ecosystem.

Imagine...

A brand that could confidently declare that every step from source to shelf conformed to sustainability standards. A product portfolio that could state its total environmental impact and communicate how it will have even less impact next season. Now why wouldn't consumers flock to such a retailer?

Your teams are collaborating internally and with vendors, 3PLs, farmers, and governments to do what's right for the planet without negatively impacting the P&L.

03 Surety of supply

Create a supply network that can adapt and flex to ensure dependability, cost efficiency, sustainability and responsibility—delivering for customers and protecting the brand.

Surety of supply is everything in retail, and yet disruption is everywhere. In this past year alone, natural disasters, a global pandemic, trade tensions and even a 220,000-ton cargo ship stuck in the Suez Canal made a huge impact on the supply chain. Container rates as high as \$20,000+ (4-6 times normal rates) from China to the US have become common place in recent times.

Contingency planning is at the core of ensuring surety of supply. Sourcing organizations must continually stress-test the network using digital and AI-powered risk and scenario modelling.

This stimulates what-ifs and worst-case scenarios like demand spikes, rising commodity prices or port closures so that when the unexpected happens, the network bends instead of breaking.

True surety of supply requires partner collaboration and mutual dependability across the supply network—coupled with cost efficiency, sustainability and responsibility. All ecosystem partners must come together to understand each other's goals and make mutually beneficial improvements that enhance visibility from the commodity source to the shelf. This includes retailers taking unconventional actions such as investing in performance improvements in vendors' factories, providing small farmers with access to credit or technology, and creating their own commodity marketplaces.

Imagine...

Your CEO asks you to assess supply network risks that could impact earnings targets this quarter. Instead of taking weeks to collect data and gather a team to conduct manual supply network “war gaming,” you simply log in to an intuitive platform that shows you risks from the cotton farm or the petroleum refinery to your DC, along with probabilities and financial implications.

You are confidently planning for something you can't see coming.

04 Category champion partnerships

Capture category and micro-category white space, without adding organizational overhead, by using category champion vendors and data-driven collaboration.

Demand is difficult to predict in today's retail markets. Consumer tastes and the competitive landscape shift fast. Harnessing opportunities to extend product portfolios into new categories takes flexibility, know-how and the ability to scale quickly. This is a challenge for most retailers who find themselves stuck between competing pressures to innovate and cut costs.

By leaning on category champion partners, retailers can accelerate their entry into new markets (without additional overhead) where there is clear opportunity. Partners with deep analytics expertise can help assess market opportunities, develop a clear vision of the right product

assortment, pinpoint white space and create smart positioning and pricing strategies. These partners can also help retailers take advantage of category champion vendor models.

Category champions are world-class vendors with proven know-how in the new categories and product lines that retailers want to pursue. In addition to their advanced design and product development capabilities, they are invested in sustainability and responsibility, and provide a turn-key category solution.

This is a far cry from finding a vendor and stamping a logo on an existing product. It is a highly collaborative relationship across the value chain—from early-stage planning to design and development of quality products—that shares both risks and optimization opportunities, as well as the brand DNA.

Imagine...

You are a women's athletic apparel brand that wants to launch a swimwear line. With traditional approaches, you would need a product team, design team, vendor relationships and more. It would take 18-24 months to move from idea to putting swimsuits on the shelf. With the right category champion partner, you can do it in 4-8 months.

You are accelerating market entry with a model ideal for dynamic retail markets while staying true to your brand purpose.

05 Shared success through the ecosystem

Retailers who win enable shared success through a common purpose and trust across their entire ecosystem. Linear and siloed buyer-seller relationships are not enough to tackle today's dynamics.

Retail sourcing needs to change the way it interacts with all parties within its ecosystem (including vendors, raw material suppliers, commodity co-ops and more). Trust and transparency are foundational to this change. Vendors and retailers need to plan and execute together, instead of depending on complex hand offs and siloed positional negotiation.

A sourcing leader who negotiates cost down by say 20%, should not declare victory. There is far more than just season to season cost negotiation to building a strategic supply ecosystem that is flexible, agile and profitable.

A lack of information sharing and trust between parties leads to significant inefficiencies in the inbound network. For example, every season retailers and vendors struggle with demand-supply matching. This shouldn't be the case given that every retailer has basic evergreen products and every factory is underutilized during some portion of the year. In 2020, retailers cancelled orders when vendors had capacity—now in 2021, retailers need product, but vendors are short of capacity. These situations can be avoided.

Vendor capabilities are grossly underutilized. From trusting the vendors to responsibly transition product between factories, to using the vendors for product innovation, retailers can truly transform their vendor relationships.

Imagine...

Your vendors proactively come to you with suggestions for removing supply side volatility. You do not have to battle with the raw material providers for on-time shipments—the vendors self-manage their performance, and everything works like clockwork. You can trust your vendors to self-audit their factories or proactively suggest that they should hold more inventory.

The entire supply ecosystem is working towards shared goals, knowing that every partner can be trusted and depended upon.

From out-of-sight to top-of-mind

These five plays are a powerful starting point—a place to begin unleashing sourcing as your trump card for the brand.

Retail sourcing organizations that operate as innovators, advocates and collaborators, offer a clear competitive advantage in today's complex retail markets. To achieve this, retailers must reimagine sourcing as part of a cohesive and predictive supply network and marketing platform for their brands.

That's why retail sourcing must come out of the shadows and take its seat at the table. Now.



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