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Crystal Ball

Supply Chain

The time is ripe for retailers to bring in fresh talent who can trim expenses through better supply chain management, rather than try to generate the equivalent in sales, says John Davitt, a Partner in the New York office. With consumer spending at a standstill, even previously unchallenged vendors such as law firms and ad agencies will not escape scrutiny.

As sourcing activity continues to increase in Asia, we'll see more Chief Procurement Officers for U.S.- and European-based retailers relocating to cities like Shanghai and Mumbai. The most experienced CPOs will be able to cut out the wholesaler by working directly with the manufacturers onto whom they'll also be shifting the burden of inventory management.

Strategic Sourcing

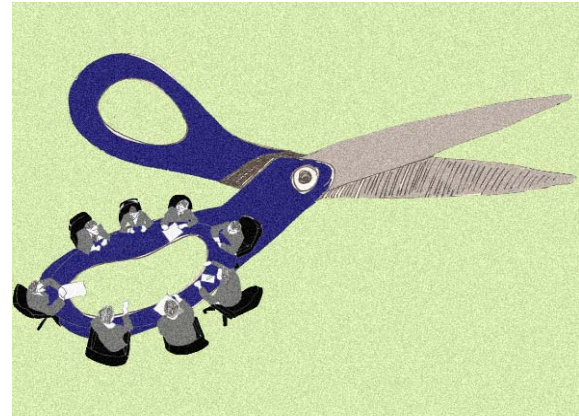
Retailers Can Dramatically Cut Expenses During an Economic Downturn

As consumer spending continues to slow, retailers must shift their focus from increasing market share to cutting expenses and improving margins. But is there any fat left to trim? Yes, says Dorothy Waldt, a Partner in the Retail Practice at CTPartners, and it's through strategic sourcing.

In a nutshell, strategic sourcing is a centralized procurement process that puts all non-product related expense—Marketing, IT, Store Design & Construction—into one department dedicated to purchasing. In doing so, companies are better able to leverage buying power and reduce costs. Results are closely monitored and revised often to keep pace with the ever-changing global economy. But ***strategic sourcing is more than procurement, Waldt says, "it's a function that works in support of the brand and the overall strategic plan, while simultaneously cutting significant expense from the bottom line."***

When one department is responsible for the big picture, redundancies and inefficiencies stand out. Waldt cites the example of a \$1 billion vertical retailer that saved \$2 million in overnight shipping costs alone after only one month of implementing strategic sourcing. "When each department was paying for its own shipping, the total expense across departments wasn't on anyone's radar screen."

Another telling example is how store design and construction teams from different parts of the country will purchase materials from regional vendors. Terms and conditions vary greatly. Such inefficiencies increase exponentially when viewed in a global context. Centralizing the procurement process, however, creates continuity and, because of economies of scale, increases leverage with vendors on price, availability, delivery and quality.



Looking at travel, health care and information technology purchases through the prism of strategic sourcing can dramatically streamline expenses. Often one-third of all expenses will eventually run through strategic sourcing, Waldt says, but to do so effectively isn't just a function of crunching the numbers. The person in this leadership position must have the same respect for the brand identity as his or her counterpart in merchandising or marketing to insure that the quality of the product, service
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and store experience will not be compromised in any way.

Strategic sourcing also means streamlining communication. Not every department head can report to the CFO; financial information is most efficiently channeled through one senior executive with expertise in the area of strategic sourcing.

Who has this expertise?

Strategic sourcing is still an emerging area and few retailers currently have executives overseeing this function on a corporate-wide basis. The rising stars have consumer products backgrounds along with global experience working with retailers expanding their operations into overseas markets.

Many top retailers are turning to consulting firms to identify short-term strategic sourcing solutions within their companies. A more long-term and less expensive approach is for companies to build and develop their own strategic sourcing teams. And with no resurgence in consumer spending yet on the horizon, there's no time to waste.

Sound Bites From The Industry

IT: It's all about consolidation

Chief Information Officers who can consolidate disparate platforms and streamline IT functions are a hot commodity in the cold economic climate of today's retail sector, says Paul Groce, a Partner in the New York office who leads the firm's CIO Functional Practice. "The role is growing in both scope and stature," Groce says, as more and more CIOs are reporting directly to the CEO.

Talented CIOs are needed to consolidate the Byzantine systems put in place when IT decisions were made on a department-by-department basis. Once control of IT is centralized across all of a company's brands and retailers, Groce says, even the existing technologies can be ramped up to increase revenue sources and productivity.

Jim DiFilippo, Managing Partner of the Retail Practice based in New York, says IT is starting to attract top talent from other industries, including A-level people from the financial sector, which is something new.

But DiFilippo cautions that no matter what the economic climate, talented leaders with the right stuff are never easy to come by. The best choice to head IT for a particular company may still need to be recruited away from a current CIO position. "With the retail industry poised as never before to really modernize its IT function, it's a very exciting time to take the reins as a CIO."

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