



BUSINESS ANALYTICS

Lessons from Retailers about Achieving Operational Excellence

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In *Anna Karenina*, Tolstoy wrote the immortal lines, “Happy families are all alike; every unhappy family is unhappy in its own way.” That sounds good when we’re talking about marriage, but it doesn’t quite work for businesses – companies can achieve success in a variety of different ways, as there’s no single recipe for success.

The way in which clothing chains The Gap and Zara use demand signal repositories (DSRs) offers an excellent example of divergent paths to profitability. As highlighted in a recent [Wall Street Journal article](#), the two companies approach data, and how to use it, very differently.

Both companies rely on DSRs to respond to customer demand. A DSR is a component of a data warehouse designed specifically for processing and leveraging supply chain data to target customers as effectively as possible.

Whereas Zara prizes responsiveness, The Gap focuses on low costs. Zara uses its DSR to rapidly respond to consumer demand. The company dips its toe in the fashion water, sending only a small amount of new clothes to its stores, and then waiting for customers to react before ramping up orders. This allows Zara to stay on the cutting edge, and because they avoid excess inventory, they seldom offer sales or discounts.

The Gap, comparatively, uses its DSR to manage long-term planning, allowing the company to stock up on fabric when it’s cheap to make more cost-effective clothing. Unlike Zara, which buys small amounts of merchandise and can nimbly adjust to changing trends, The Gap’s buy-low approach often leads the company to have a more static inventory that they push through sales and markdowns.



Each approach has its merits, but what's clear from both companies is that the DSR is crucial to the functioning and success of their supply chains. Operational excellence is about reacting quickly to the present and accurately predicting the future. In the modern world of the global supply chain, the DSR allows companies to have a clear view of what's happening now and a point of view about what will happen next. Clearly, regardless of how a business uses it, it pays to make your DSR as robust as possible so it can support your strategy.

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The Many Faces of the DSR

The DSR is an incredibly powerful tool, offering a lot of flexibility. DSR can play several roles in a business:

- **Insight into what works:** It can support marketing and sales, offering a way to manage, measure, and improve the demand creation components of the business.
- **Real-time feedback:** It can provide tactical-level detail to improve short-term planning and execution logistics.
- **Long-term planning:** It can be used as the storage and analysis point for longer-term planning support, bringing in correlation analysis to understand the impacts of outside business factors.

But a demand-based strategy does not have to be an either/or choice. While The Gap and Zara offer two competing examples of how to use the DSR, there's no reason a company could not use it for short- and long-term planning. Figure 1 illustrates just this point, with point of sale data informing promotional content for the immediate term, but also guiding long-term planning predicated around industry-wide trends.

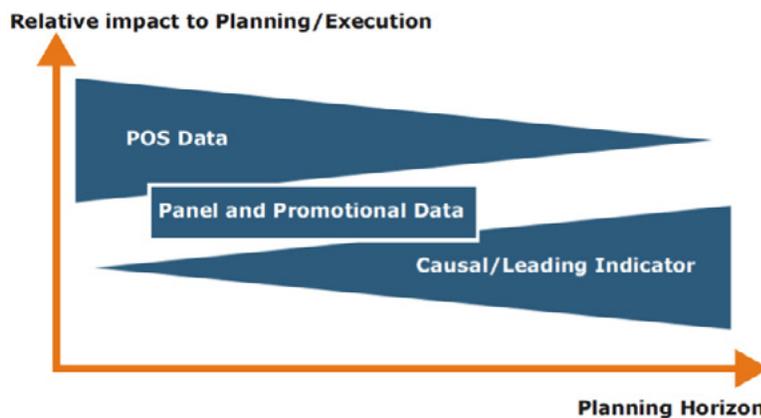


Figure 1



As exemplified by Zara, point of sale data also allows for rapid response to customer behavior: if predictions for a product don't match orders over time, the DSR offers visibility into this disparity in real time, allowing companies to adjust their orders.

This becomes all the more poignant when predicting future market movements. Predictions are always less accurate the earlier they're made, but with the right data, the DSR can lessen this unpredictability to better manage the future.

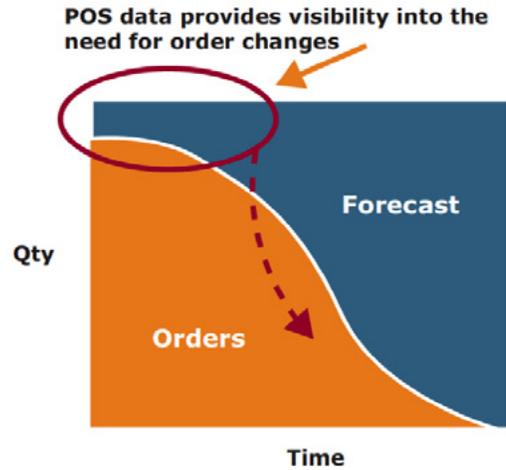


Figure 2

Putting your DSR on Steroids

Thus, what should be clear is that it doesn't matter if you have an approach like Zara, The Gap, or are using a hybrid. What matters is the investment you place in your DSR: ramping it up with extensive data and resources offers a clear ROI. The more robust your DSR, the better you'll be able to respond to consumer demands. With the right construction for your DSR, your entire analytical stack will be optimized, from data ingestion to analytics to forecasting. As a result, you can have real-time understanding of what's selling and what's not, and the information to make accurate long-term predictions.

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Greg Sloyer is a Teradata Industry Consultant bringing over 20 years of Supply Chain experience. His experience ranges from application and system architecture design to developing strategic supply chain processes and leading successful planning, sourcing and master data management groups. Greg holds undergraduate degrees in Mathematics and Computer & Information Sciences, a Masters in Statistics and a Ph.D. in Operations Research from the University of Delaware.

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I do research to understand and explain how technology makes people more effective in achieving their goals. I write about data science, cloud computing, and IT management in articles, books, and on CITO Research, as well as in my column on Forbes.com.