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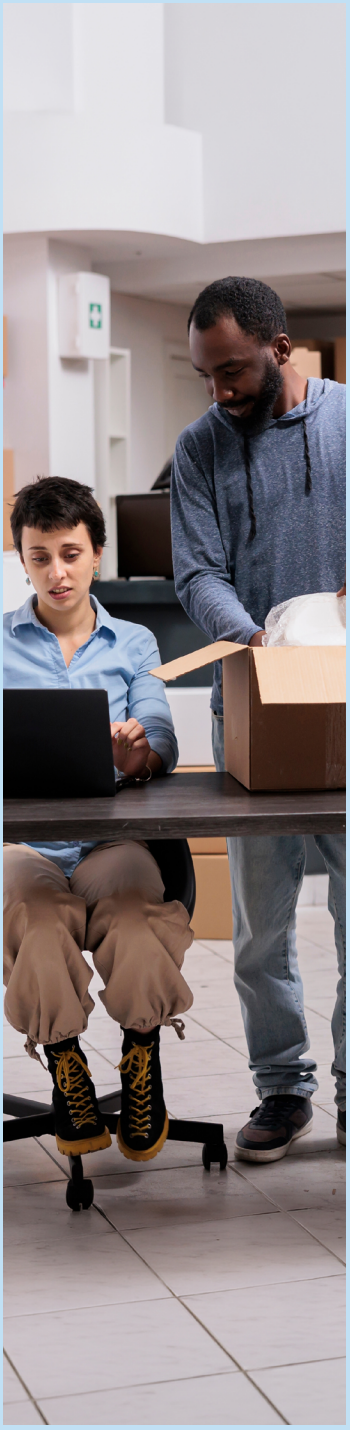

THE EUROPEAN RETAIL SUPPLY CHAIN AT AN INFLECTION POINT: A PRACTITIONER'S PERSPECTIVE ON THE FUTURE OF MANAGED SERVICES IN RETAIL SUPPLY CHAINS

Abstract

European retail supply chains face converging geopolitical, regulatory, consumer, and operational pressures that demand more than isolated technology upgrades. This paper examines how retailers can align merchandising and supply chain planning, reduce execution friction, and choose between captive, managed service, and hybrid operating models. It argues that resilient operations depend on standardised processes, clear accountability, and people equipped to oversee artificial intelligence-enabled execution. For retail leaders, the priority is to accelerate demand-led decisions while building the governance and capabilities needed to protect availability, margins and the customer promise.

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European retail supply chains face converging structural pressures that a single transformation programme cannot address in isolation. Geopolitical disruption is reshaping trade flows, regulatory divergence is fragmenting compliance across markets, cost-of-living pressures are changing consumers' willingness to pay, and digital-native competitors are redefining delivery expectations. For European retail leaders, the question is no longer whether to transform, but whether the operating model can protect product availability, margin, and deliver on the customer promise while responding faster to disruption. The scale of digital commerce reinforces the importance of reliable fulfilment: the European E-commerce Report 2026 forecasts European business-to-consumer (B2C) e-commerce turnover of €961 billion in 2026. The report notes that the extent to which services are included varies across countries. For retailers selling physical goods online, reliable fulfilment is central to meeting the delivery expectations discussed above.

Why this moment is structurally different

Geopolitical disruption has reshaped energy markets and food trade routes. Shipping diversions onto longer routes can extend Asia-to-Europe transit times and increase freight costs, while maritime security risks add uncertainty to insurance and fuel costs. For a European grocer importing fresh produce or a general merchandise retailer sourcing from Asia, these pressures mean higher landed costs, longer lead times, and tougher choices between availability, excess stock, and margin.

These pressures are compounded by changing trade policies, the phased implementation of the European Union's Carbon Border Adjustment Mechanism, and post-Brexit friction affecting cross-Channel shipments of chilled and fresh products. According to the European Commission, new EU rules on packaging and packaging waste took effect on August 12, 2026. The rules require all packaging to be recyclable by 2030 and set recycled-content targets for plastic packaging for 2030 and 2040. These phased requirements affect procurement, packaging design, and reverse logistics. Changing consumer behaviour adds further operational complexity. The Infosys Knowledge Institute's Retail Industry Outlook 2026 reports that 44% of shoppers choose private-label or lower-cost brands instead of well-known brands. Discounters put pressure on margins, making cost-to-serve an important profitability lever. Quick commerce raises expectations for rapid grocery delivery, while e-commerce returns make reverse logistics a core operational flow rather than an afterthought. Retailers are managing multiple fulfilment modes through infrastructure originally designed for a narrower range of channels.

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Where operational friction occurs

Operational friction can arise across European retail supply chains. Forecast errors for fashion and seasonal products increase when monthly planning cycles struggle to capture real-time demand shifts. Replenishment parameters may remain fixed between reviews despite increasing demand volatility, while purchase orders requiring manual intervention add processing effort. Transportation costs escalate through reactive spot-market purchases and underutilised trucks; stores may lack real-time visibility into inbound orders. Returned goods can sit idle after receipt, delaying their return to saleable stock. Misallocated inventory ties up working capital, on-shelf availability gaps cause lost sales, and poor replenishment accuracy contributes to waste. These inefficiencies often appear as excess stock in one location and an empty shelf or unavailable online item in another.

Sales and operations planning (S&OP) originated in manufacturing, where planning typically centres on product families moving through a distribution network. Retail planning requires additional merchandising inputs: assortment selection, pricing structure, markdown timing, promotional calendars, space allocation, and new product launches. Merchandise and operations planning (M&OP) brings the merchant's purchasing plan and the supply chain's fulfilment plan into a single framework. Open-to-buy commitments, category-level inventory targets, and markdown plans become inputs alongside demand forecasts, rather than separate discussions conducted by different teams on different planning cycles. Replenishment signals shift from aggregate product-family pushes to store- and stock-keeping unit (SKU)-level pulls driven by sales rates and weeks of inventory on hand. Promotional inventory is positioned in advance using the merchant's expected sales uplift alongside the planner's statistical estimate. Markdown decisions trigger supply chain actions such as consolidation, reallocation across stores, and diversion to e-commerce or outlet channels within the same planning cycle, rather than weeks later.

The intended outcomes are lower residual stock at the end of the season, fewer in-season stockouts of promoted products, and closer alignment between gross margin targets and inventory investment. These outcomes depend on a shared plan, a common planning cadence, and joint accountability for financial results between those deciding what to sell and those determining how to supply it. Without this shift, savings in one supply chain activity can be offset by stockouts, excess inventory, or lost margin caused by late merchandising decisions.



Rethinking the operating model

This friction is not primarily a technology issue. It is a people and operating model challenge that technology can address only when the organisational foundations are in place. European supply chains face talent and capability pressures: replacing experienced planners takes time, graduates need practical preparation, and skill requirements are changing fundamentally. Demand planners must interpret machine learning outputs; logistics coordinators must act on AI-generated alerts; and returns processors must make disposition decisions informed by recommerce economics. For many European retailers, hiring alone cannot deliver the operating model they need.

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Global capability centre (GCC), managed service, or hybrid?

European retailers can consider three operating model options: a global capability centre (GCC), a managed service, or a hybrid model. Each has strengths and limitations, as outlined below.

Dimension	GCC (captive)	Managed service	Hybrid
Control	Full ownership of process and intellectual property (IP)	Governance through service-level agreements (SLAs)	Strategy retained; execution delegated
Talent	Dependent on the GCC location's talent pool; exposed to attrition risk	Provider's global talent pool and training programmes	Captive for judgement; provider for scale
Scalability	Fixed-cost base; slow to flex	Execution capacity scales with demand	Scalable execution; stable governance
Innovation	Internal benchmarks only	Cross-industry benchmarks and AI-enabled process improvement	Industrialised innovation pipeline
Cost trajectory	Large retailers with management capacity	Contractual continuous improvement	Nonlinear cost reduction through automation
Best for	Initial savings may plateau without continued improvement	Retailers needing rapid execution scale-up with clearly allocated execution risk	Most European retailers at this inflection point

A GCC, or captive model, can suit large retailers with the management capacity to retain full ownership of processes and intellectual property. The retailer builds and manages its own delivery capability, retaining accountability for talent development, governance and continuous improvement. This control comes with a fixed-cost base, exposure to attrition in the chosen location and greater responsibility for adjusting capacity as demand changes. Sustaining the model's value requires continued investment in skills and process improvement so that initial savings do not plateau.

In practice, a hybrid model can combine retailer control with scalable execution. Strategic work requiring judgement—including category strategy, vendor negotiation, and M&OP trade-offs—remains with the retailer. High-volume, rule-based execution—including purchase order processing, replenishment, freight booking, returns triage, and invoice matching—can be delivered by a managed service partner within defined policy guardrails. The retailer and provider share responsibility for data quality, process standards, and AI model oversight, matching each type of work to the appropriate operating model.

Outsourcing readiness is a spectrum

Fully rule-based, high-volume processes such as purchase order (PO) creation based on replenishment parameters, freight reconciliation, returns classification, and invoice matching are candidates for managed service delivery once controls and data quality are established. Processes requiring some judgement, such as demand planning, allocation, and promotional uplift estimation, need structured knowledge transfer and clear rules defining when to execute autonomously and when to escalate. Strategic processes such as vendor negotiation, network design, and M&OP decisions are typically retained by the retailer, while a managed service partner can support them through data, analysis, and scenario modelling. Delegating judgement without clear accountability and escalation rules can undermine a managed service relationship.

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People readiness for autonomous operations

The shift toward autonomous supply chain operations changes both the work people perform and the skills they need. Rather than eliminating planners, it shifts their role from running material requirements planning (MRP) to overseeing AI-enabled MRP and intervening when model confidence falls below a defined threshold. Preparing people for this transition requires investment across four dimensions.

Role redesign: supply chain roles need to be reassessed around a central question: what does the person contribute when AI handles routine execution? A demand planner who previously ran the forecast model now interprets outputs, challenges assumptions, and contributes domain knowledge to model training. Hiring criteria need to reflect these responsibilities.

AI literacy at the operational level: the requirement is not data science expertise, but an understanding of what an AI agent can and cannot do, when to trust its recommendation, when to override it, and how to document an override to inform future improvements. This calls for investment in training, not hiring alone.

Governance capability: this encompasses setting policy guardrails, defining escalation thresholds, auditing agent decisions and retraining models when accuracy drifts. These roles sit at the intersection of domain expertise, process design, and data science and require capabilities that retailers must deliberately develop.

Capacity to manage change: retailers need to pace deployment so employees have time to learn new oversight responsibilities and applicable works council consultation requirements can be met. Deploying AI agents faster than people can learn to govern them risks creating automation that executes quickly but incorrectly.

The question is not whether AI can run a replenishment cycle — it can. The question is whether your planners are equipped to govern that cycle, and whether your organisation trusts them to do so.

The maturity journey can be viewed through four stages: traditional (human-centric execution), agentic (humans in the loop), orchestrated (humans overseeing the loop), and autonomous (humans governing policy, with agents executing within approved parameters). Progress should be assessed against measurable operational outcomes rather than automation alone.

The European context introduces specific considerations: applicable works council consultation requirements must be addressed, the General Data Protection Regulation (GDPR) governs the processing of personal data, and AI agents supporting cross-border operations must operate within market-specific policy and compliance guardrails.

What European retail chief supply chain officers (CSCOs) should do now

Reduce the signal-to-decision lag. A high-value intervention is to reduce the delay between point-of-sale (POS) signals and planning decisions. Build a signal layer that ingests demand indicators in near real time alongside the existing planning cadence. Set delivery milestones based on data readiness and integration complexity, measure the resulting improvement in forecast accuracy, and use this signal layer as the data foundation for subsequent transformation.

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Standardise before you automate. An AI agent trained on an unstandardised process automates inconsistency rather than eliminating it. Define processes at Level 3/Level 4 (L3/L4) detail, with clear decision rules, exception criteria, and escalation paths. Before deploying technology, address country-level process variations and establish rules for overriding AI recommendations and retraining models when accuracy drifts.

Make a deliberate operating model decision. A hybrid model that retains strategic judgement, delegates execution, and shares governance can suit European retailers. It requires explicit decisions about where work sits, who performs it, how it is governed, and how it evolves. Retailers that delay risk losing talent, locking costs into inflexible structures, and falling behind competitors advancing toward governed autonomous operations.

Build governance capability before you need it. Develop AI governance capability by upskilling experienced planners in data literacy and AI oversight, complemented by targeted external expertise. The timeline depends on existing skills, process maturity, and the scope of deployment. Starting early gives retailers time to establish policy guardrails, test escalation paths, and prepare people before expanding autonomous execution.

Conclusion

European retail supply chains need to respond to converging structural pressures. The supply chain is not simply a cost to optimise, but a source of competitive advantage: it determines whether retailers can deliver the right product to the right place at the right time while preserving margin. The priorities are timely demand sensing, standardised processes with effective governance, an operating model that matches each type of work to the right delivery model, people equipped to oversee autonomous execution, and commercial models that reward outcomes rather than effort.

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