

Orchestration, Collaboration & Independence

**An outsourcing model for optimising Supply Chain
Services in turbulent markets**



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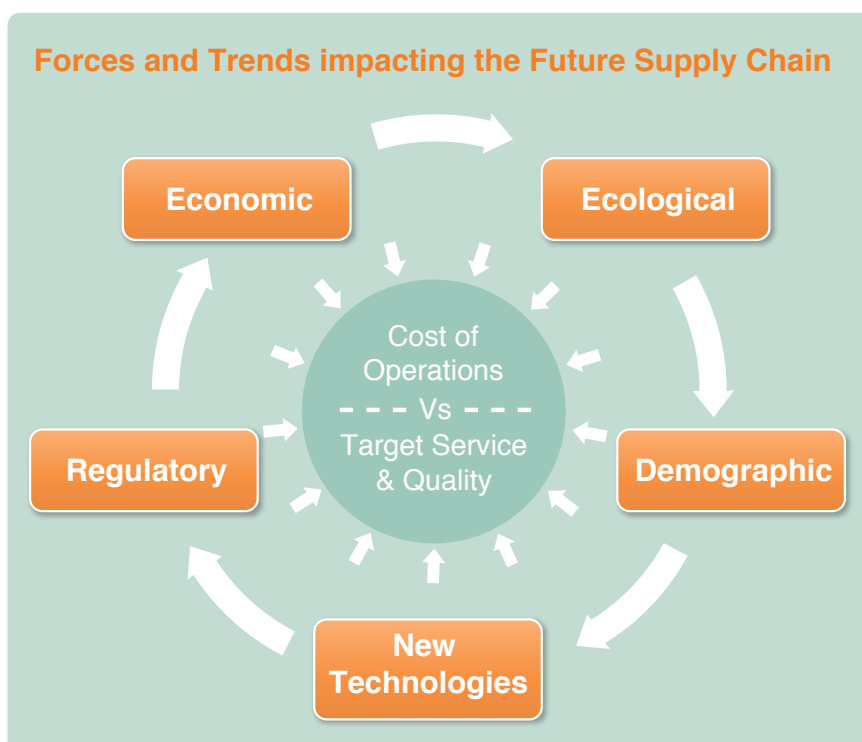
Orchestration, Collaboration & Independence

An outsourcing model for optimising Supply Chain Services to meet the challenges of the most turbulent markets in 50 years

Supply chain management in every industry is faced with unprecedented pressure to react and improve. Whether a business is in manufacturing consumer goods, automotive, industrial products, engineering, OEM or services there are demands to respond to what is perhaps the most complex and challenging circumstances of economic, social, political and technological turmoil in over 50 years. Businesses are wrestling with supply chains that must address complex operations impacted by some of the most disruptive market pressures in living memory. Pressures such as:

- A global economic crisis, credit freezes, sovereign debt issues, investment funding shortages, employment pressures and rating agency jitters.

- The rise in economic strength and political power of the **emerging BRIC nations** creates both market turbulence and opportunity, alongside the difficulties of the Middle East.
- A global acceptance of **sustainability** as a corporate objective. Climate change and the scarcity of resources have swung from being an activist led debate to being a topic in the Boardroom with increasing pressure from governments. **Smart cities** are increasingly managing urban congestion and charging for access. Fuel cost for petrol, diesel, oil and energy soar and impact every aspect of business and in particular the movement of goods.
- Accelerating technological advances in supply chain solutions through cloud computing creates opportunity for SaaS offerings that are lighter and more agile but at the same time this puts stress on the investments made in legacy enterprise systems.
- Shifts in social behaviour associated with online purchasing and the impact of **social media** and **networks** are bringing unprecedented scrutiny to supply chains with the related impact on brands.
- Business to Consumer (B2C) supply chains are being impacted by the **aging population** (and workforce). **Regulatory** forces increase with global trading complexity and require compliance or the risk of fines, delays and lost sales.



All of these pressures are impacting and eroding the ability of the Supply Chain to pull off that most delicate of enterprise juggling acts, achieving optimal balance in:

“The lowest cost of operations”

consistent with

“the target quality and customer service”

The massive shifts in operating environments are forcing supply chain owners to change the way they address the market, their suppliers and their distributors. This, in turn, is forcing them to change the way they organise and operate and how they manage the interactions with their customers.

This is a “perfect storm” of market pressures. There is enormous pressure on the supply chain to fine tune operational performance, efficiency and effectiveness across a broad front. The challenge to balance the conflicting demands of operational costs and the maintenance of service has never been more intense. Just polishing up the old operating paradigms and pushing for a one or two per cent local improvement here and there is unlikely to cut it in these unprecedented times. To achieve the fine-tuning of the end-to-end processes in the supply chain, it is necessary to bring specialisation to all the components of the chain.

By way of analogy, a Formula 1 team wins because every single aspect of their ‘package’ is optimised as a

total solution and not as individual components. The ‘package’ includes the design, engineering, chassis, engine, gearbox, driver, pit crew, suppliers and financing and marketing of the team. All must fit together perfectly. Not a single facet is left to allow for a weakness in the overall package. Similarly, the winning supply chain team is the one that is the best optimised combination of people, processes and technology. It is the one equipped with business accelerators combined through best practice at each step of supply chain operations. This ensures every aspect of the ‘supply chain machine’ is optimised to make it the most competitive.

A fresh look at a Managed Supply Chain Services model

A new approach is needed to make a step-change in performance and to bring about transformative changes in these turbulent times. The most competitive of supply chain executives are restless and constantly looking for new ways to improve. Under the pressures of the current economic climate they are increasingly looking at each part of the supply chain and asking:

- Is our business model still the right business model for us?
- What are the best possible solutions to address each part of my supply chain?
- Are there delivery models not explored, that work in other environments, where the supply chain could benefit and it would help address the conflicting demands?
- How do I do much more with much less?

Those questions can be directed at several facets of the supply chain equation. Challenges range from the processing and the handling of transactions in the back office such as Quote to Deliver, Order Management, Fulfilment and Procurement through to logistics operations dealing with the more tangible aspects of the supply chain engaged in the physical movement, storage and handling of goods and assets.

Achieving the desired transformation and significant improvement in operations requires, like the F1 team, scrutinising, re-engineering and optimising each aspect of the chain. This means looking at the basic underlying processes, including the people component, the delivery model for performing those processes and the technologies used to enable them. This re-assessment must be comprehensive and also include the point solutions that address specific performance requirements and go as far as the management of third party services and the logistics elements. It has to be comprehensive because “the way its always been done” probably isn’t the best way forward.

At the core of the supply chain are business processes that must be optimised, as they are the very foundation of efficiency. A key factor in the improvement of the supply chain equation is the ability to co-ordinate the many and complex components needed to deliver and enable the most effective underlying business processes. Building the optimal solution for the market

may also benefit from a degree of independence from the constraints of asset ownership and associated utilisation pressures common in the Third Party Logistics (3PL) industry.

The ability to combine, integrate and orchestrate people, process and technology across the complexity of the supply chain brings a further associated benefit that is much sought after: Visibility. Visibility is gained through the command and control capabilities that come from an optimised and integrated supply chain.

All options must be considered in this fresh look at supply chain services. Some companies in the market are already active in this area but, for most, it’s new territory. As new Key Performance Indicators (KPIs) are implemented to manage the new market conditions, it may no longer be appropriate to consider only single client solutions. For example, if fuel costs and sustainability are driving the lowest cost per kilometre combined with the minimum carbon footprint then perhaps collaboration with a competitor for freight movements is the optimal solution.

In this type of collaborative scenario, a service provider supporting multiple companies consolidating loads must be independent from the client and the logistics community. Independence is key since collaboration in loads, shipments, warehousing and geographic breadth would attract the scrutiny of competition legislators. Clearly, such collaboration must be



conducted in a way that ensures the fair and proper operation of market forces.

There may be further benefits of independence, as the asset based logistics community is driven by utilisation, which is a model that may not always produce the best outcome for the client.

Success Factors in the Future Supply Chain

There are three key characteristics that stand out in this discussion for re-examining the supply chain:

- **Orchestration**

The challenge of combining complex components of people, process, technology and business accelerators to achieve optimal solutions for end-to-end processes in the supply chain that will

deliver “the lowest sustainable cost of operations consistent with the target quality and customer services”. In this context the outsourcing of supply chain processes is one of very few areas left in the supply chain for a step change in operating performance.

- **Collaboration**

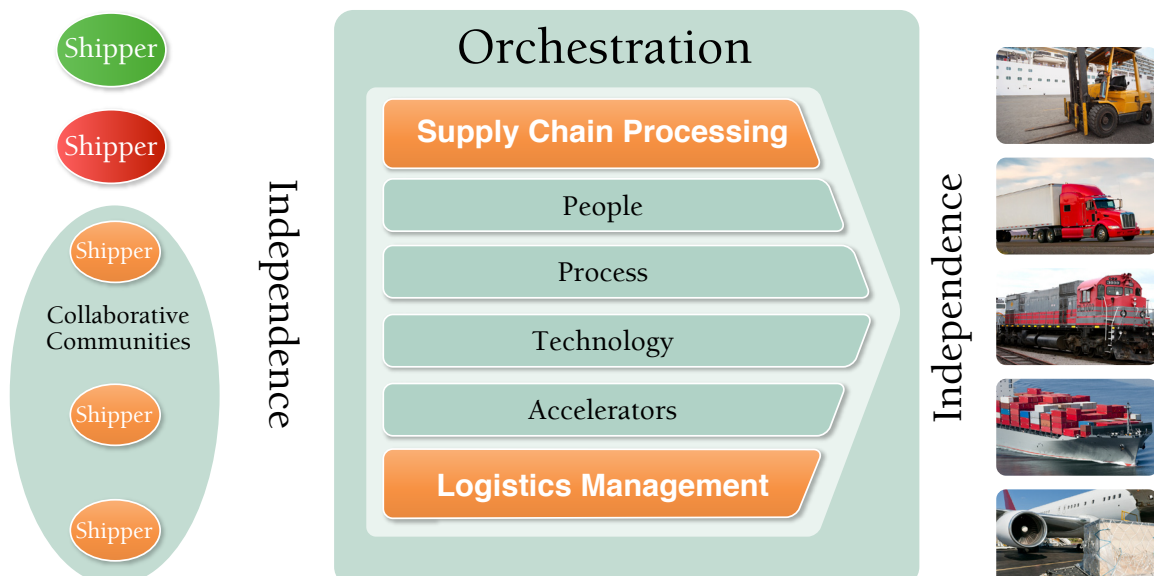
A second opportunity for a step change in operating performance is the adoption of collaborative supply chain delivery models. There is increasing evidence of global brands prepared to include a collaborative element in their supply chains. Realising the benefits of working in collaboration with like minded companies, shippers in common freight corridors, common warehousing, sharing with competitors, service providers

and logistics and transport service operators. Competence, capability and the appropriate delivery models to support this will be a key facet in the Future Supply Chain.

- **Independence**

In some cases, independence is a legal necessity, such as in the delivery of collaborative services by a third party, to satisfy competition law. But there are also significant benefits to be gained through independence relative to the Logistics Service Providers. This provides a lack of constraint from asset ownership and asset location and the freedom to deliver the optimal combination of third parties in the solution for the client.

BPO Supply Chain Services Hub



BPO Supply Chain Services

The Business Process Outsourcing (BPO) services delivery model is very relevant to the issues and pressures facing the supply chain. It embodies the right characteristics and capabilities consistent with orchestration, collaboration and independence.

BPO has matured over the last ten years and is thriving under the same business and market pressures that are affecting the supply chain today. Major global brands such as Coca Cola, Unilever and Nokia Siemens Networks trust thousands of back office business processing 'seats' to BPO providers such as Capgemini. The BPO market is still growing aggressively and has, in the last 10 years, transformed into a \$250bn global market delivering process excellence, cost reduction, technology platforms and innovation in Finance and Accounting, Procurement Services, Financial Services and Customer Operations.

Supply chain executives are recognising that the BPO model can simultaneously address many of the complex and multiple pressure points described in the first part of this paper and deliver the outcomes they need to meet their Board's objectives and market demands. Orchestration of complex capability is key and the BPO Supply Chain Services Orchestrator is already skilled in bringing together the critical components of people, process, technology and business accelerators into an independent services hub under a commercial contract to deliver a desired outcome.

The BPO model can provide for both the client and service provider to focus on what they are best at - their core business. In addition to the skills and capabilities of 'orchestration', a core competence of the leading BPO service providers is change management and transformational capability. Combine that with the consulting expertise and the capability to integrate with legacy technology and future-proof the supply chain, and you have a new means of lubricating the supply chain machine and providing scale and agility for the future.

The BPO model brings excellence to the components of the supply chain which are not the clients core business to improve throughput and visibility while simultaneously benefiting from more than 30 per cent reductions in operating costs and

potentially significant improvements in customer services. As mentioned in the Formula 1 analogy earlier, this approach to optimising the 'whole package' will deliver not just efficient processing, but increases in agility, flexibility, visibility and sustainability in the supply chain which collectively will contribute to the sought after transformation.



Orchestration

Orchestration of Process Excellence

The best global delivery model, and proven source of excellence, in back office transaction processing does not reside in the 'shipper side' of the equation, and also not with the 'logistics service providers', but in the BPO industry. This industry is investing millions in process models, technical solutions and the best staff, with a primary focus on delivery of the best business process services in the world. Not only can the best BPO providers deliver optimal processing and best practice, but they can also usually bring at least a 30 percent reduction in costs in supply chain transaction processing. At the same time, truly optimised BPO can deliver significant improvements in fulfilment and customer services through more accurate, efficient, standardised and stable processes. As experts in shared services, the BPO provider also ensures that all the components of process excellence are integrated with the best people in co-located teams, delivering language relevant support in the client theatre. Orchestration includes the deployment of Global Process Models for standardisation and accelerative tools such as Business Insight & Analytics all deployed through a cost effective "Rightshore" network.

Orchestration of IT

In a turbulent economy there is a greater need for agility, process control and visibility. When combined with increasing levels of complex collaboration and interaction in the supply chain, it becomes essential for a service provider to bring together

(orchestrate) the best capability in IT, best in class tools and leading Systems Integration capabilities. The best people, the best processes and the best practices will get nowhere without the right tools. Typically the level of IT and systems integration capability needed is outside the core competence of the client/shipper and, more often than not, beyond the reach of most in the 3PL community. Contemporary systems integrators must also be able to exploit the processing potential, economics and agility of the new era of cloud computing, Software-as-a-Service (SaaS) and contemporary work flow tools, Business Process Management (BPM) technology, and the use of Business Intelligence. This must be integrated and in harmony with maximising the ROI from any legacy enterprise systems investments.

Orchestration for Visibility

Providing the desired levels of end-to-end visibility, and the flexibility and agility to respond to rapidly changing market scenarios, will require IT Orchestration across a combination of third party systems from logistics providers, freight forwarders, banks, regulators, road, rail, air and ocean operators. This must be coordinated with client legacy systems and cloud based point solutions bringing new capabilities such as GPS enablement, integrated Forecasting, Replenishment and Planning in the "Demand Driven Enterprise" incorporating Social Media Monitoring services.

Capgemini BPO uses a 'Command Centre' model as a process accelerator to co-ordinate workflow, manage

service levels and quality, and to provide visibility across the end-to-end processes under management. This Command Centre model can be re-engineered and tooled to deliver to the supply chain community 'Control Tower' capability for oversight, governance, control, visibility and business insight.

Orchestration for Sustainability

The challenges discussed so far would be enough for most, but the market faces a new future of scarce resources and pressure on sustainability as the world shifts into an age of a 'carbon constrained economy'. The cost of oil, diesel and petrol is escalating, congestion charges are being mandated in major cities, and the "carbon footprint of this" or the "food miles of that" is on everyone's lips. Alongside the future supply chains' continual pressure to contribute to competitiveness and the customer experience there is the new spotlight of 'Sustainability'. Many enterprises are wrestling with sustainability requirements in three key areas: Operations, Marketing/

Branding and Legislative Compliance. All three of these areas contribute to the company's sustainability and environmental goals and one of the biggest contributors to the corporate carbon footprint is the impact of the supply chain.

As a result the new focus on sustainability is driving supply chain operations to incorporate new KPIs such as the shift from more traditional measures of: ROI, cost per mile, on time and customer service to include measures such as CO₂ footprint, product miles and water consumption. But how can these be incorporated into the supply chain equation when there is typically no system of record for sustainability data? For those supply chains operating in the B2C environment, this is particularly key with companies such as Walmart, Unilever and Proctor & Gamble now demanding sustainability compliance

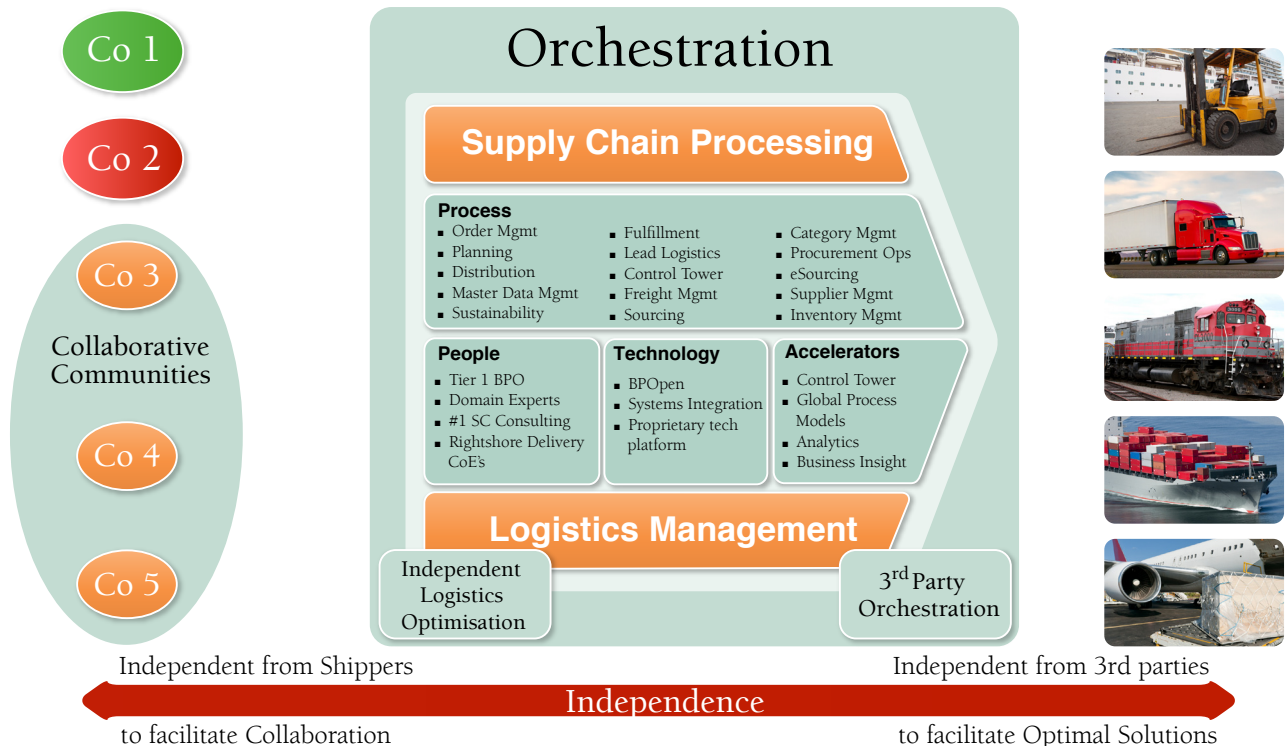
from their trading partners.

Addressing this data challenge is a facet of any future supply chain and requires a capability in orchestration of the competence to address the topic and deliver robust solutions at global enterprise level. Still better if the BPO Service Provider has a sustainability team embedded in the Supply Chain Management (SCM) offering with the necessary Energy, Carbon and Sustainability data management services and tools built into the proposition so that sustainability orchestration is 'out of the box'.



Collaboration

BPO Supply Chain Services Orchestration Hub



Vigorous step changes are needed to significantly improve supply chain costs, while at the same time reducing out-of-stocks, improving quality and service. The future supply chain architecture will benefit from a structural change, combining process excellence with new trading models including integrated collaboration options.

The supply chain industry has been on the path of continuous improvement and refinements for decades and there are only a few remaining areas of potential for a genuine step-change in operating costs and service delivery. In addition to the outsourcing of supply chain back office processes

and logistics management, as we've discussed earlier in this paper, perhaps one of the few remaining areas is the use of a collaborative supply chain approach. This combines the activities of similar companies, or even competitors, operating in the same freight corridors, with similar warehousing needs and perhaps the same source regions and end destination combinations.

According to research done by Capgemini in collaboration with the supply chain industry body 'The Consumer Goods Forum' for the 'Future Supply Chain' paper, collaborative models can deliver

reductions of more than 20 percent in:

- Transport costs per pallet
- Handling costs per pallet
- Lead times
- CO₂ emissions per pallet

In recent trials, Capgemini BPO Supply Chain Management demonstrated through a working model, that step change reductions in CO₂ foot prints of freight operations by as much as 40 per cent are possible through collaboration, independent orchestration and optimising shared loads and via a multi-modal shift. The model also brought additional benefits of improved operating costs.

Independence

Independence is a key element of the position Capgemini BPO takes in Supply Chain Services. We see three facets driving the need for an independent stance in our BPO SCM Orchestration model.

Independence from the Client for Shared Services

Many clients have already made some movement towards a shared services model for the supply chain back office and will have created benefits through co-location, specialisation and perhaps some standardisation of processing. We have seen for those companies that have sufficient scale it is possible to generate significant savings. But for most companies lacking the economies of scale in their centres, an internal shared services can be limited in its ability to deliver all of the benefits that could be available if that centre was outsourced to a third party. In shared service centres of small or moderate size our experience is that - assuming all benefits of efficiency and centralisation have been released - there is typically at least 15 per cent of residual benefit unexploited due to the constraints of being an internal cost centre versus an outsourced solution with contractual commitments to deliver the targeted outcome.

Independence for Collaborative Supply Chain Services

New impetus in the supply chain market to embrace collaborative initiatives as discussed above, creates the need for a new independent services model. Independence from the client base and the logistics provider network has significant

advantages. In the case of the client side, there is a legal imperative created as a result of competition law. Independence from the service providers is also a benefit.

Independence from Logistics Service Providers for Optimal Solution Provision

Historically, the logistics elements of most supply chains have been a subcontracted to third parties. The Independent Supply Chain Services Orchestrator is in a position to be unconstrained by the need to be constantly focused on asset utilisation which is the constant pressure of the truck, rail, air and ocean operators. The independence of the orchestrator can also facilitate the best possible combination of logistics providers and solutions working on behalf of the client. The BPO provider focuses on the best interests of the client, unconstrained by asset ownership and is contractually committed to deliver the agreed outcome.

Orchestration, Collaboration, and Independence

The BPO SCM Services model takes the core supply chain business processes as the foundation for service provision and provides the orchestration capabilities discussed in this paper as a key requirement to deliver the future supply chain. This helps address the pressures in the new economy and pulls together the skills, processes, technology and best practices needed to deliver excellence in supply chain end-to-end transaction processing such as Quote to Deliver or Logistics Management.

Capabilities in collaboration provide the potential for addressing one of the last remaining arenas for a step change in cost and sustainability benefits in the supply chain.

Independence helps with the optimisation of services. Independence from the client, as opposed to an internal shared services model, helps focus on service and contracted outcome. Independence from all parties is needed for legally compliant collaboration and independence from the logistics community helps orchestrate multi-modal solutions unconstrained by asset ownership.



BPO Supply Chain Orchestration supporting the Future Supply Chain

Capgemini BPO Supply Chain Orchestration can support all the key components of an optimised supply chain back office for processing and logistics management. Providing solutions to alleviate the extreme pressures in the current “perfect storm” generated from economic, ecological, demographic, technological and regulatory sources.

Capgemini BPO SCM services can provide the Orchestration capabilities to assemble, integrate and optimise a supply chain services hub (a supply chain centre of excellence) to drive best practice in supply chain processing and logistics management, combining:

- Supply chain expertise
- Sustainability Services
- Sector expertise
- Technology Platforms
- Process excellence
- Optimisation engines
- Best practice
- Systems integration
- Global Process Models
- Control Tower/Command Centre

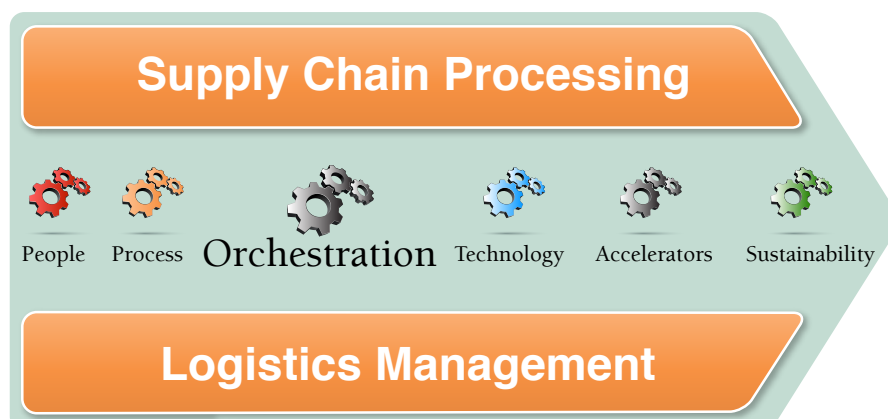
- Global delivery models
- Social Media Monitoring

This is assembled together in a “Rightshore” (best of onshore, nearshore and offshore) delivery framework that is economic, language relevant and matches the client’s local and global reach requirements. Yet it is independent of the shipper and logistics service provider while serving the client through contracted outcomes.

When further combined with the wider Capgemini Group capabilities in supply chain strategy, consulting, technology implementation and hosting these combined offerings, we provide the composite and complex capability needed to meet the demands created by the new business pressures impacting the supply chain. This combined capability is the USP of the BPO Supply Chain Orchestrator.

The BPO SCM Orchestrators delivery model for supply chain transaction processing and logistics management services embracing Orchestration, Collaboration, and Independence

can help transform the supply chain through optimal processes, agile technology, flexible delivery, end-to-end visibility, and sustainability. This combination allows the client to focus on their core business, strategic direction and operational objectives secure in the knowledge that the BPO provider will deliver industry best practice as well as the contracted business outcome.





About Capgemini and the Collaborative Business Experience™

With around 115,000 people in 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2010 global revenues of EUR 8.7 billion. Together with its clients, Capgemini creates and delivers business and technology solutions that fit their

needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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