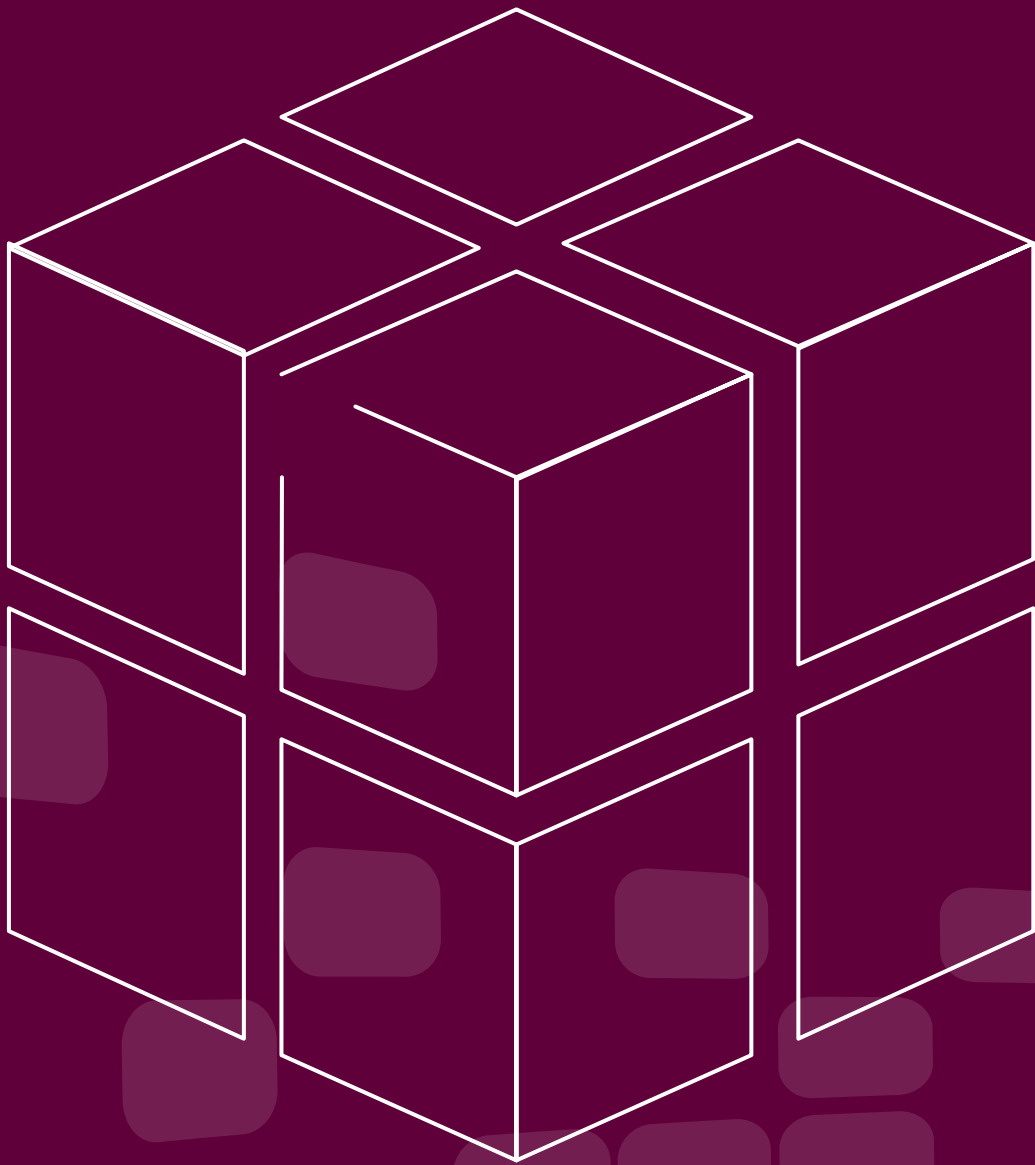




Supply Chain Customization

Efficient mastering of diverse client expectations with customized supply chains



Agenda

Executive summary	04
Approach	06
Best practices	10
Start your journey today!	11

Executive summary

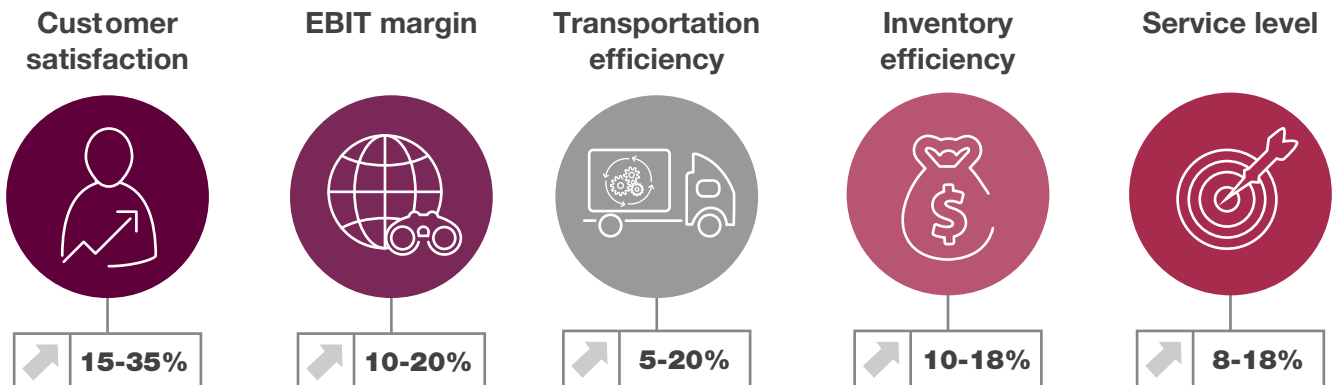
In a global business environment that is becoming more and more complex, a high number of existing supply chains do not contribute enough to the required performance of an organization. In many cases, they are designed to serve stable demand with high reliability. Other examples show extremely customized network structures tailored to very specific customer requirements, virtually regardless of cost considerations. In many cases, this is caused by a lack of alignment with other business functions such as Sales, Finance or Marketing.

However, increasing customer needs and changing market conditions are challenging factors, that cannot be addressed with a one-size-fits-all strategy. Many global companies are facing considerable changes in their supply chain, i.e. changing transport prices, currency fluctuations, rising labor costs, local shifts in customer demands and competitive pressure on both price and technology. So the question is: how does one handle such diverse customer expectations in an efficient manner, considering existing trade-offs and conflicting targets?

In our opinion, today's dynamic and uncertain business environment requires a more diversified supply chain approach: Supply Chain Customization. It allows organizations to configure their supply chain networks according to relevant clusters so that client demands can be addressed in both an efficient and effective manner.

Our wide experience shows that Supply Chain Customization offers various ways to improve business performance, as indicated in the figure below.

Figure 1: Benefits of Supply Chain Customization



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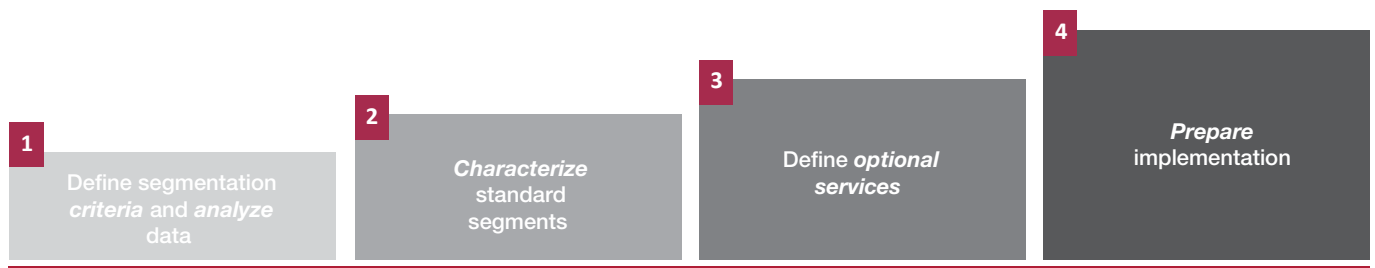


Approach

The basic objective of Supply Chain Customization, is to design the supply chain network individually in order to meet specific customer requirements regarding time, costs and quality of logistical activities. However, a supply chain organization cannot always be adapted economically to hundreds of buyers, operating in various locations and selling countless product variations.

The approach of Capgemini Consulting offers organizations multiple possibilities for setting up an optimized value network, and of coping with today's business challenges. Capgemini Consulting focuses on four steps (see Figure 2) to customize supply chains adequately.

Figure 2: Four steps to customize the supply chain

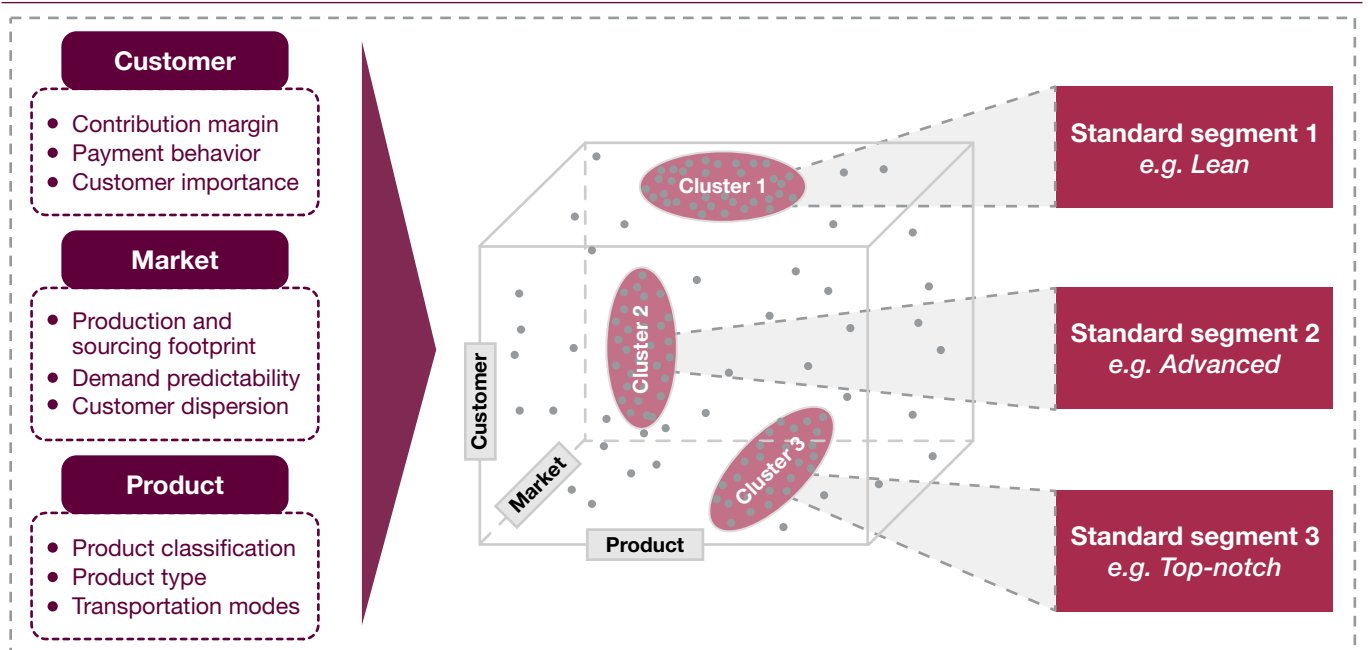


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Step 1: Define segmentation criteria and analyze data

By limiting the amount of combinations of customers, markets and products that need to be provided with standardized supply chain services, economies of scale can be achieved. For this reason, the customization approach of Capgemini Consulting starts with the identification of potential clusters to set up standard segments. Within this analysis, all customers, markets and products are evaluated in relation to different attributes as indicated in the figure below.

Figure 3: Segmentation definition and analysis approach

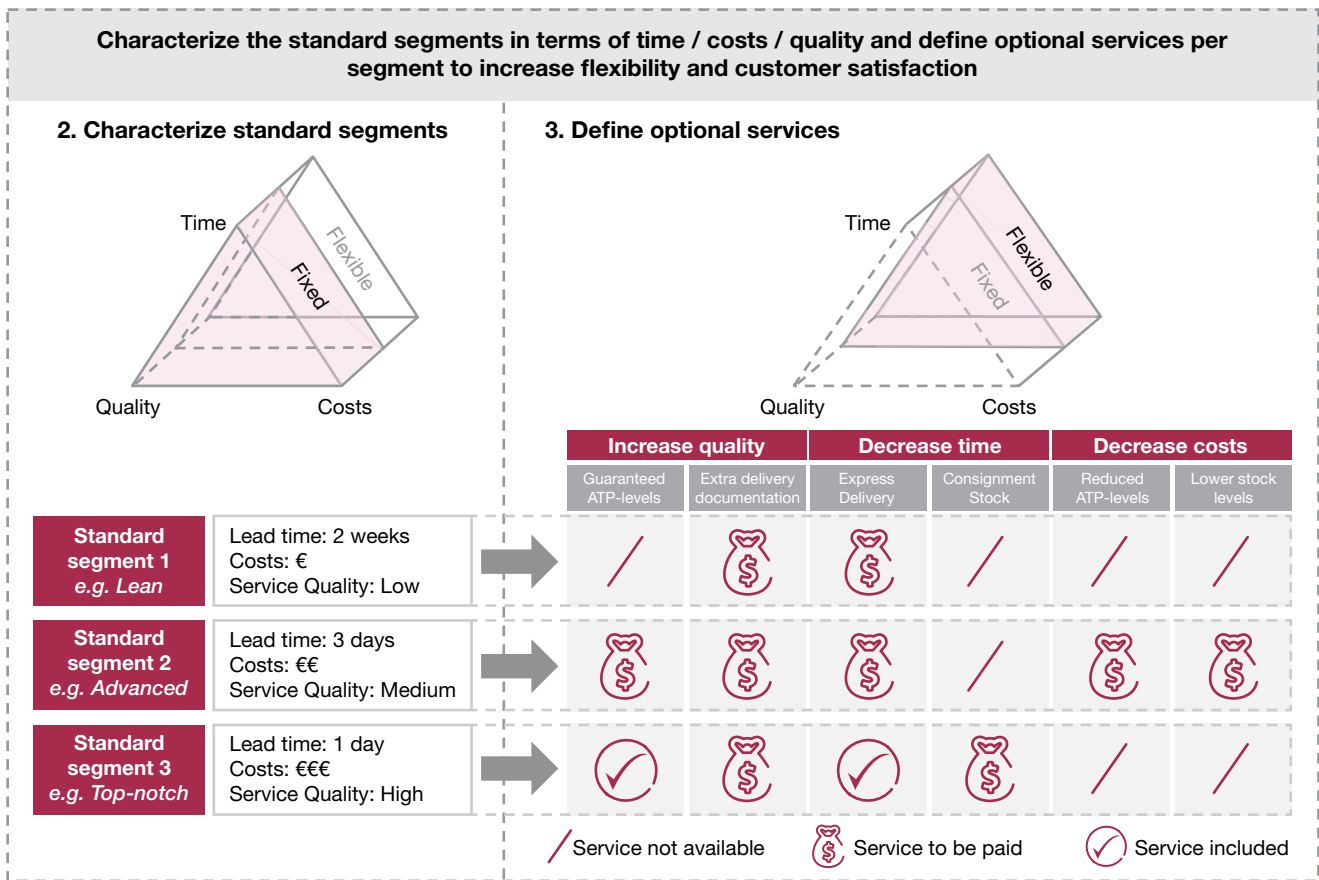


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Step 2: Characterize standard segments

In a second step, each cluster is characterized individually in terms of time, costs and quality, to fulfill the customer needs within the different segments as much as possible. After outlining the required set-up per segment, the complexity is already reduced significantly, since similar requirements are bundled within segments. This is based on our experience that, in most cases, these clusters can indeed be identified within an imaginary cube of customers, markets and products. However, relying purely on these standard segments does not usually generate a sufficient coverage of customer expectations.

Figure 4: Definition of standard segments and derivation of optional services

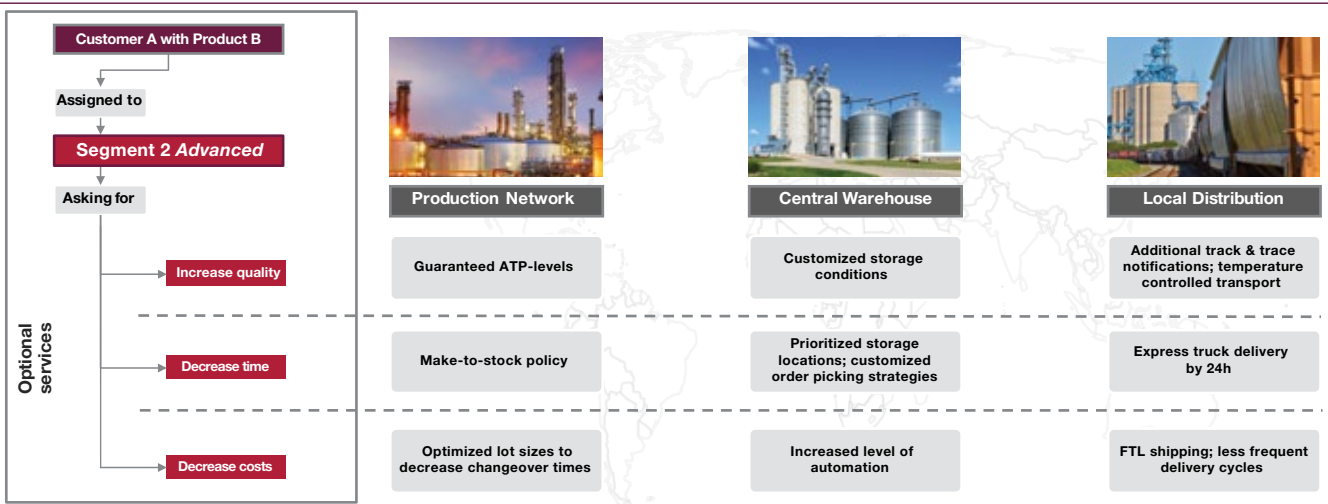


Step 3: Define optional services

Even though the expected performance of standard segments can be easily determined, the definition of optional services requires a more detailed evaluation. In order to increase customer satisfaction, chosen segments have to be diversified even more by offering optional services in addition to standardized services.

In the previous considerations, a set of fixed services was defined for each of the identified segments. Our approach, however, foresees a more detailed analysis of each segment, in order to further customize the supply chain and meet customer expectations. By offering optional services in addition to default settings (e.g. shorter replenishment cycles, express deliveries or guaranteed ATP-levels), the three dimensions time, cost and quality can be further improved:

Figure 5: Examples of optional services



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1. Example: Increase quality

Due to changing market conditions, a customer might ask for instance to increase supply chain quality, in terms of availability of a product and high service levels. One way of adjusting the supply chain by using optional services, is the implementation of track and trace systems within the distribution of finished products to increase transparency. Additionally, in the area of manufacturing, ATP-levels are one way of improving quality. The overall supply chain quality can be increased, by promising a defined quantity of the product, and a defined delivery date for an order. Switching to default inventory levels instead of standardized replenishment cycles, can also help to achieve desired outcomes. Prioritized ATP-levels agreed by suppliers are crucial to achieve the desired supply chain quality, for instance in the case of production bottlenecks.

2. Example: Decrease time

In this scenario, our customer asks to decrease the leadtime for a product within the specific cluster. As in the first scenario, by implementing optional services, the customer's requirement can be fulfilled. While a guaranteed truck delivery within 48 hours is provided for the standard segment of this customer/ product, the implementation of express truck deliveries ensures a delivery within 24 hours. Switching to a make-to-stock policy as an optional service, instead of a make-to-order policy for the standard segment, is another way of changing the supply chain output. Both the manufacturing modes and the sourcing strategy must be switched accordingly. Increasing the amount of replenishment cycles within raw material warehouses also leads to a leadtime reduction.

3. Example: Decrease costs

Increasing competition and growing cost pressure, might result in the need for even lower prices for certain supply chain services than the ones defined in the standard segment. If a customer is clustered in a particular segment, he can be offered optional services that will help to reduce costs for a specific product. While a guaranteed truck delivery within 24h was defined in the fulfillment strategy, adapting to less frequent consolidation cycles will result in less distribution costs. Lower ATP-levels within internal manufacturing and by external suppliers are also positively affecting supply chain costs as well. Lastly, the reduction of inventory levels (e.g. by decreasing safety stock) also aims at reducing costs within this example.

Step 4: Prepare implementation

Once you start your implementation measures, make sure you adhere to the following six standards:

- **Check feasibility and implications**
Due to numerous dependencies between the supply chain network, the organization, the systems and business processes, all related aspects must be considered in detail. Realistic ramp-up times for planning and testing help to successfully rollout the services.
- **Define target dimensions for segments and optional services**
All flexible services must be aligned with the basic objectives of the fixed supply chain segments. Due to the implications on other business areas such as Sales, Marketing and Finance, a cross-functional alignment is also strongly required.
- **Limit suggestions for standard and optional services**
Only the supply chain segments of comparable homogeneous regions and business units must be addressed, in order to avoid too complex clustering processes.
- **Establish prioritization rules**
Fact-based business rules are to be created and communicated to the customers. The establishment of bonus incentives for third-party providers might encourage scalable solutions.
- **Encourage regions and business units to use standard segments**
An incentive system should be created, for a fair profit share for all parties involved. In order to generate momentum among the internal community, a launch with promising pilot cases usually raises the interest of the stakeholders.
- **Focus on real customer needs**
In order to create high cost transparency, the supply chain must be analyzed and designed from the back-end. This allows a definition of clear criteria, to evaluate the added value of services for the customers.



Best practices

On the basis of the developed approach, Capgemini Consulting supported several clients in different industries, in customizing their supply chain. Due to the wealth of experience and knowledge, three projects are briefly presented below.

Focus: Strategic service customization

Capgemini initiated a step change in Supply Chain Excellence for a chemicals company and defined supply chain services for different customers and product clusters. The Supply Chain Excellence (SCEX) project has been launched to improve the overall supply chain performance for a major polyolefin producer. The main issues were a lack of differentiation of service levels for high profit grades, a high level of inventories compared to industry benchmarks, low transparency on operational costs and a lack of integrated processes.

After analyzing all customers and product segments e.g. regarding their sales margins and their overall importance to the company, different supply chain clusters were defined in relation to customers and products. For each segment, optional “pay services” were implemented in order to satisfy customer needs and to improve the organization’s supply chain. Customized service levels regarding availability and continuity of supply have increased the sales margin of the company.

Focus: Customized warehousing strategy

Capgemini Consulting analyzed and redesigned the current distribution network structure for a ships service company. The objective was to suggest a solution that enables top-line growth, improves cost position and reduces inventories. By using four segmentation criteria (demand variability, product

volume, port importance, share of revenues) several clusters have been created. Afterwards, defined business rules have been used to assign the individual product segments to different service classes (from Bronze to Platinum). Finally, the supply chain was configured for all service classes individually, in order to stick to leadtime promises towards customers. Platinum products with a high revenue contribution and low demand variability for instance, were kept in stock constantly in order to ensure defined leadtimes for the customers. At the end of the project, the process complexity was reduced significantly. The increased transparency has resulted in less manual effort on the execution level. And finally, the reliable leadtimes resulting from the new service classes, could be communicated to the customers of our client which leads to a competitive advantage.

Focus: Customized service operations concept

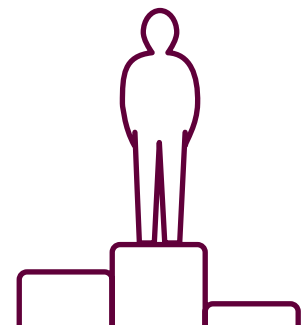
Capgemini Consulting introduced different supply chain segments and services for a wind turbine manufacturer. It is crucial for the service organizations to keep the balance between costs and customer satisfaction, as well as avoiding penalties due to turbine breakdown. Therefore, the integration of information flows and the visibility of demand and inventory are essential to keep service levels at a maximum. The analysis of the challenges within the respective company, resulted in the need to address three traditional factors during the segmentation: Time, cost and quality. In addition to this, three segments were defined reflecting typical service scenarios of the organization:

- For a “turbine down” case, for instance, costs are not the deciding factor. All services for this segment (e.g. 24/7 service, prioritized

availability for special spare parts) are designed in order to fix the respective turbine as soon as possible.

- The scenario “urgent repair” requires significant speed. However, an algorithm to balance costs and time must be applied. The service foresees a manual check by technicians and a business case evaluation. Therefore the required speed can be ensured, considering several cost parameters simultaneously.
- “Standard replenishments”, on the other hand, require low cost and inventory levels, which is also regarded in the services.

Based on this, Capgemini Consulting designed a new supply chain network in order to reduce the time to customer considerably. Additionally, a global control tower was implemented within the organization, in order to increase responsiveness. Standardized, harmonized and highly automated execution processes were introduced, to gain efficiency and speed at the same time. By implementing all these changes, the organization was able to massively reduce penalties for turbine down cases. In addition to this, material availability has increased strongly and customer satisfaction has risen accordingly. Even though the organization is facing a 20% annual growth, higher efficiency will allow the organization to keep its cost down.



Start your journey today

Supply Chain Customization is an essential element to tackle a variety of challenges along your value chain. It matches the requirements of your customers with your internal capabilities, by focusing your operations on areas where you can generate the highest benefits. The approach is an efficient and effective way of performance improvement, simply by placing your clients at the heart of the concept.

By applying this four-step approach in collaboration with our qualified experts, you will be able to boost your supply chain efficiency and the overall profitability of your business. In this exercise, it is of utmost importance to have a holistic approach along your full supply chain. This might lead to implementing a smaller pilot at the beginning with a limited scope. But the further you apply the approach across

other product / market / customer clusters, the more you will see the positive effects behind it. Build on our wide range of experiences, and open up your mind to the possibilities of Supply Chain Customization. We are there to start your journey today!



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