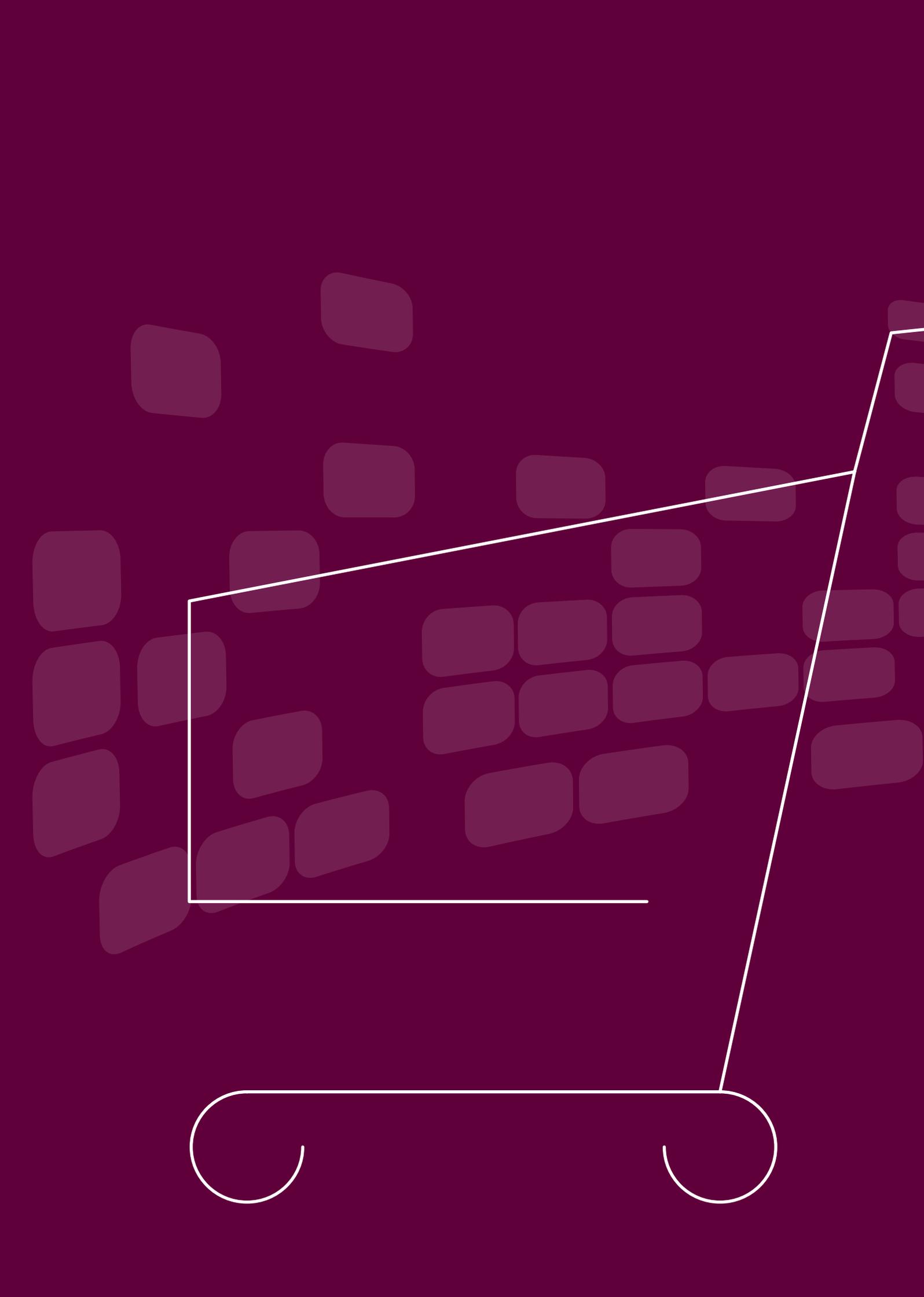


**Are you looking
for this!**

Think customer. Think digital.

A demand-driven supply chain in consumer products and retail



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1 Why is it time to take action



“You are rushing to the train station. You are late - if only you had ordered online for delivery this morning, but you forgot... plus you have to order 24 hours in advance. Suddenly, you see the symbol of freshness and hasten in its direction - five minutes until the train leaves. Dreaming of a fresh energizer you enter the store. You opt for coffee and pre-made fruit salad plus sweets for later. The sweets are a great random purchase. You wonder what you were charged, but the thought is quickly replaced with a satisfied smile on your way back to the track.”

Taking a closer look at this scenario you can see that the customer is completely controlled by a precisely adjusted assortment portfolio and demand forecast. Without thinking about his specific demand, the customer is controlled by the store's portfolio and buys random products that will be useful at a later time. Accurate demand forecasting is realized by comprehensive POS data, which is directly captured in the store via modern technologies.

Customers are desiring variety (see figure 1) since they do not like eating the same food for breakfast all month long. Variety is a key element – especially if they have not already decided exactly what they want. However, at the end of a day, the customer is buying a product that is intended to fulfill a certain want or need. Thus, it is not only about variety but also

about the right product, which has to function in the manner that the customer wants it to. It is critical to get products “right” not just the first time, but every time. But how to best plan and predict demand of goods?

Proximity is key to delivering goods fast to customers at the right place and time.

Figure 1: Understanding customer needs



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Demand-driven supply chain (DDSC) is a customer-centric approach that enables a direct and flexible response to changes in demand. Response not only includes understanding and forecasting, but also controlling customer demand. This is achieved by increased transparency and improved orchestration of all involved parties within the Supply chain network. DDSC enablers are agile processes, a state-of-the-art technology and a coherently collaborating organization. The result is optimized customer satisfaction and significant growth in financial profitability.

In retail, having a balanced supply chain is as important as stocking the right products and hiring the right people. However, meeting demand precisely with supply is definitely the most complex task. In addition to this known challenge, multiple things have changed considerably in recent years (see figure 2).

The first one is customers' expectations, which have been overwhelmed by higher quality, increased service requirements, and cheaper products that can be ordered one hour and be in their hands the next hour. The others are innovations, larger assortment portfolios and shorter product lifecycles that are adding to business complexity.

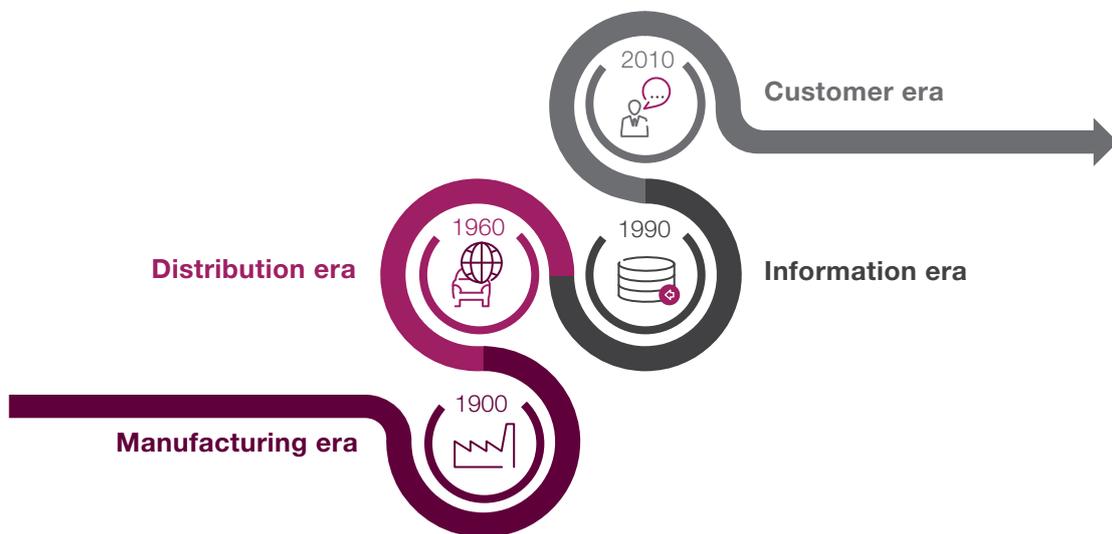
Thus, retailers face a dramatic increase in demand volatility and complexity. This requires adapting and reinventing the way supply chains are managed and planned. Retailers' business models are under attack – not only by their competitors, but also by their customers. Customers want new and engaging digital experiences which can imply customer loyalty and increasing revenues. In such an environment, being customer-obsessed is a promising and sustainable strategy for retailers.

A retail expert at Capgemini Consulting states that retailers must further optimize their business and improve what is no longer good enough. Due to high

competitive pressure and exhausted room to negotiate prices and conditions, margins are further shrinking.

The prevailing customer era forces retailers to have exactly what customers want and be available 24/7 at minimum costs. Retailers that cannot meet these requirements in the future will have a supply chain disconnected from the customer and see a significant decrease in sales.

Figure 2: Arriving in the customer era

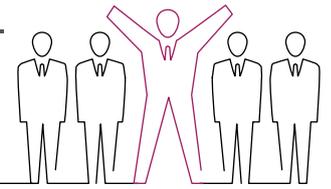


Source: Forrester Research, Inc.

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How to achieve a demand-driven supply chain



Capgemini Consulting introduces seven enablers for retailers to establish a customer centric and demand-driven supply chain (see figure 3).

Assortment portfolio

Understanding and aligning organizations to fulfill customer demand starts right at the offer. Companies have to adopt a category strategy, which takes into account customers' product demand, different pricing strategies, promotions and a company's strategy and structure. Offering the right product variety, requires companies to plan and manage their assortment portfolio while analyzing customers' demand. This means developing a customer-oriented portfolio instead of a procurement-driven one. Product correlations are key to meet demands in the short-term, long-term and during promotions.

Rather than developing an assortment portfolio based on the profitability of a single product, it should be developed based on characteristics and correlations between products. When considering why customers purchase a certain product, a logical connection cannot always be identified. However, customers expect a variety of products with varying qualities so they can then choose a product based on best fit or price. An optimized assortment portfolio with highly compatible products, enables a retailer to offer the right product to every customer and adjust the assortment to current and future trends. This leads to increasingly satisfied customers and customer loyalty.

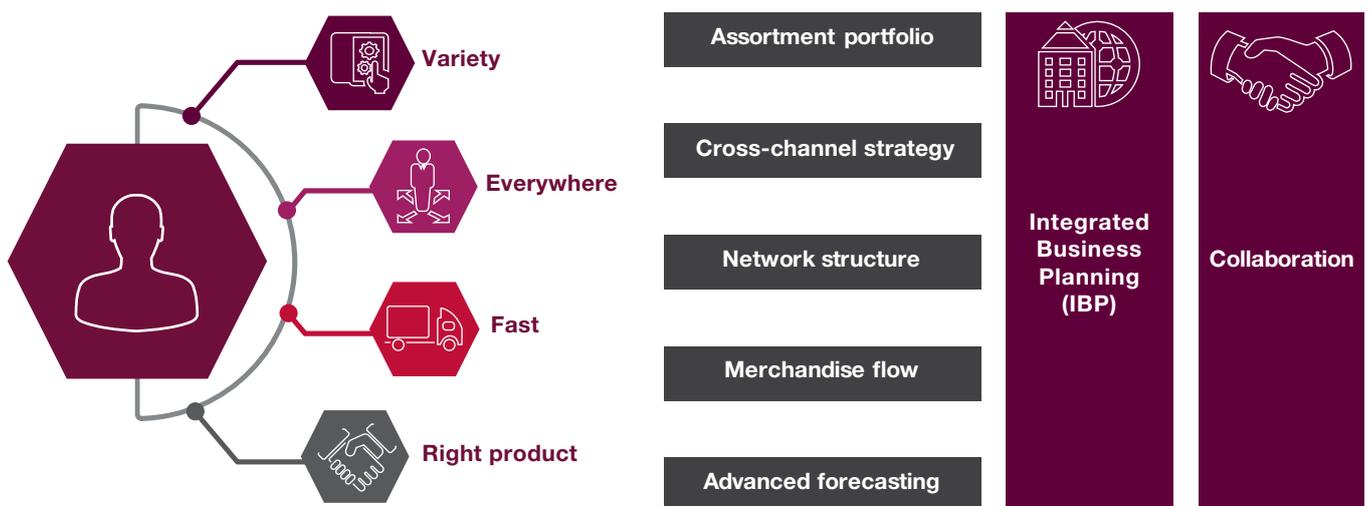
An increasing trend in retail's recent years is the desire of customers to not only purchase from retailers in physical stores, but via multiple sales channels.

An exciting customer experience across all channels plays an ever increasing role. Customers expect to be able to contact retailers, find out about products and receive further details about their purchases. Goods might be purchased online with subsequent home delivery.

Cross-channel strategy

Companies focusing on a comprehensive, cross-channel strategy can collect valuable information and are thus able to fulfill customers' desires and enhance their experience. Furthermore, social media platforms, customer loyalty programs and mobile solutions enable the set-up of tailored assortments and modelling of customers' demand.

Figure 3: Enabling a demand-driven supply chain



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A combination of location tracking via GPS and additional customer loyalty programs, covers the two dimensions “what” and “how”.

Analyzing sales data determines what the customer wants. With that, retailers can derive price sensitivity, promotion affinity or length of stay and subsequently launch tailored promotions to actively steer the customers. An expert at Capgemini Consulting states that retailers are usually considered trustworthy. Therefore, customers will likely have only minor concerns about providing their personal data and thus take advantage of customer loyalty programs. Such a cross-channel strategy depicts an effective way to direct customers in their buying behavior, and match actual supply with the newly created demand.

Customer loyalty programs across companies, channels and branches further support synergies and collaborative supply planning activities. With the increasing digitization of both demand gathering and planning, a demand-driven supply chain can extensively benefit from setting up customer touch points in multiple channels.

Network structure

To leverage the possibility of cross-channel demand satisfaction, close alignment of distribution and sales is necessary. At each stage the customer-centric approach must be the planning-basis and decision trigger. Customer demand is realized at the point of sale (POS), but the entire supply chain and its processes must be structured and planned to satisfy this demand at all times. In order to

offer diverse shopping possibilities to customers, supply chain processes and network structures have to be aligned. What are today's requirements on a retailer's network structure?

The network must be flexible, and capable of delivering fast, at all times and everywhere. The solution is a lean and demand-oriented network structure with the right network level, the suitable warehouse technology, an aligned warehouse functionality and the appropriate location spread. Building such a network requires one to have a strategy that accounts for all these aspects and then ensuring it is implemented in a harmonized fashion. It will be the retailers' duty to deliver within hours to customers ordering via smartphone or the internet, so the retailer must be able to deliver every offered product to every location.

Merchandise flow

Along with planning the company's network structure, increased efficiency on all related processes in the supply chain contribute to a successful demand-driven concept. Such efficiency gains can be reached through a state-of-the-art merchandise flow. This comprises the supply chain as a whole and includes solutions like information sharing and process automation, which have significant impact on operations.

Such impacts apply to transportation, warehouses, last mile delivery and particularly cross-docking. To achieve a sufficient state-of-the-art merchandise flow, a company has to connect the processes of its warehouses, stores and suppliers. Connectivity and aligned processes make

it possible to share real-time information, reduce lead-times from warehouses to point of sale and enable a quicker market response. The results for the retailer include unprecedented supply chain flexibility for dynamic planning and routing, quicker information and material flow and satisfied customer demand.

Advanced forecasting

After successful planning of a demand-driven supply chain, the initial element to trigger fulfillment is the demand forecast. Today's increased computing power and improved IT systems enable advanced forecasts that allow more accurate planning than ever before. Besides IT, a high-quality data source is crucial. This means the availability of comprehensive POS data, which today is more accessible to retailers because it can be captured not only through barcode scanning at checkout, but also through online and mobile purchases.

Thus, it is easier to track past sales and project them in the future, including seasonal trends, holidays and events. This is particularly important when a retailer plans promotions. With such advanced forecasts, retailers are able to sense customers' demand. These techniques enable companies to equip each store with the specific quantity of promoted goods that corresponds to the occurring demand. Data from customer loyalty programs can also be used to improve forecast accuracy for future planning. The use of advanced forecasts depicts the first key element in the execution process of a demand-driven supply chain, and makes it possible to steer a supply chain from the very beginning.

Integrated Business Planning (IBP)

The potential of advanced forecasting can be significantly increased when combining it with another planning process, Integrated Business Planning (IBP). IBP's goal is to create a "one-plan-company", where the incoming sales forecast is used to align demand, supply and financial plans in real-time. Thus, a retailer is able to adjust all planning activities across departments in advance, avoiding short-term emergency action. In the long-term, overstock and further operational and managerial inefficiencies can be diminished. IBP leads to increased transparency and better data availability while enabling faster and more precise decisions. This is of particular use in retail, since reduced lead times and product life cycles make planning activities much more complicated. IBP overcomes these obstacles and contributes to the successful execution of a demand-driven supply chain.

Collaboration

Collecting data, sharing information, implementing optimized processes and structures within a suitable ecosystem is only as good

as the level of collaboration and customer-centric culture within the supply chain. Collaboration is achieved through the proper application of technology and true partnerships.

A demand-driven culture enables the supply chain to adapt processes and tools for demand developments, as well as current and future market requirements. Enabling an organization to have an optimized demand-driven supply chain in the long-term, requires a continuous process review and adaptation.

But how can a retailer actually benefit from an optimally organized and aligned supply network structure? How is it possible to retain the overview and avoid getting lost in the ever increasing complexity of data, IT systems, suppliers and customer preferences?

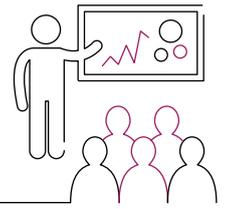
One possible solution is a control tower, where all information runs together and is provided to a retailer in a clear and organized way. A control tower has access to all relevant systems and accruing data along the entire supply chain allowing overall control of all processes.

An important part of implementing a collaborative supply chain is introducing and using internal social media solutions, which enable quick and easy communication, and the sharing of information across all involved parties. The transparency that results, helps to align KPIs, to give an overview of stock levels, and encourages knowledge sharing.

A collaborative supply chain is the pillar for a successful implementation of all previously stated enablers. It is a long-term journey, affords several steps within the company and requires cooperation with suppliers. Such a journey has to be carried by management and each department equally. With a combination of all enablers, a state-of-the-art demand-driven supply chain is feasible and it provides a competitive market position, enabling companies to meet customers' demand regardless of the what, when and where.

3

What are success factors of a demand-driven supply chain



Speaking of the concept, the question arises, what exactly is it that makes a retail supply chain really demand-driven?

We can conclude that the following six success factors (see figure 4) lead retailers towards implementing a demand-driven concept.

Mindset

A demand-driven concept is considered successful when employees understand customers' needs and start challenging their daily work according to demand-driven use, and ask themselves whether they act demand-driven. The existence of this mindset is the most profound requirement for a successful implementation of a demand-driven supply chain concept. Retailers need to focus on ensuring the creation of this mindset among their workforce. Positive views on benefits through functional changes, use of data and new tools should be in the center of such approaches.

Scope

Companies must incorporate all elements and processes into their planning scope. Instead of only tackling local spots in the supply chain, a comprehensive and holistic strategy ensures overarching alignment. A demand-driven supply chain is a strategic orchestration of the entire company. Therefore, all processes need to be designed end-to-end towards this goal.

Master data

Low master data quality causes each demand-driven concept to fail. Therefore, correct information about batch sizes, delivery or lead times, packaging units and article numbers is crucial and allows for utilization of a control tower, information sharing and sophisticated planning among the supply network.

Processes

The integration and sharing of information must be conceptualized in the beginning. It is more effective to focus on processes and structures first, rather than solely implementing high technology solutions. A stable baseline of well-elaborated processes serves as the foundation for building up state-of-the-art technology in the second step.

Staffing

Successful implementation of a demand-driven strategy in retail can be achieved only with strong merchandising and supply chain teams who understand the processes behind the concept, and are able to actively carry them out. This includes

the detection of interdependencies, technical knowledge of supply chain planning and a balanced set of KPIs serving as a fundamental pillar for the demand-driven concept.

Connectivity

Since the demand-driven concept affects each department of a retailer, effective planning can only be achieved when historically divided structures and silos are overcome. Collaboration and comprehensive optimization across silos contributes significantly to the supply chain's success. To achieve that, retailers are required to develop the respective organizational capabilities that remove barriers and break down silos.

Figure 4: Succeeding in a demand-driven supply chain



4 How Capgemini Consulting implements

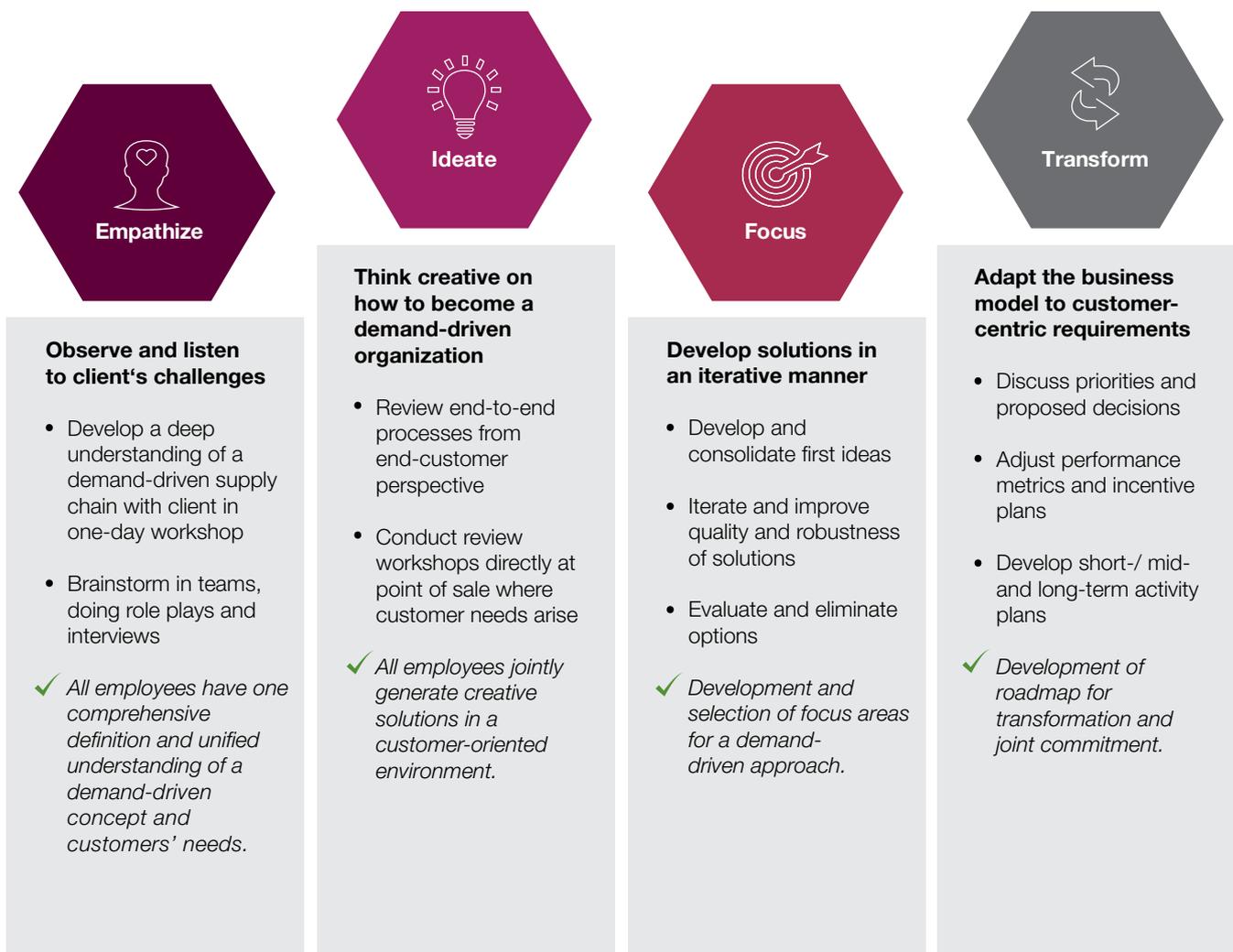


Capgemini Consulting, the global strategy and transformation consultancy of the Capgemini Group, sees the greatest success in changing a retailer's business approach towards demand driven. We achieve this through exploring and enhancing customers, and implementing the demand driven concept in their companies.

How can a retailer get a better understanding of customers' needs? And how do they put customers at the center? To deliver innovative and demand-driven solutions, we must begin with empathy. Empathy enables us to not only experience and understand customers' circumstances, but also to experience what they are feeling and demanding.

The Capgemini Consulting implementation principles - empathize, ideate, focus and transform - represent a customer-related environment and an effective working process foundation (see figure 5).

Figure 5: Implementing the Capgemini Consulting principles



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Capgemini Consulting is the global strategy and transformation consulting organization of the Capgemini Group, specializing in advising and supporting enterprises in significant transformation, from innovative strategy to execution and with an unstinting focus on results. With the new digital economy creating significant disruptions and opportunities, the global team of over 3,000 talented individuals work with leading companies and governments to master Digital Transformation, drawing on their understanding of the digital economy and leadership in business transformation and organizational change.

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With more than 190,000 people, Capgemini is present in over 40 countries and celebrates its 50th Anniversary year in 2017. A global leader in consulting, technology and outsourcing services, the Group reported 2016 global revenues of EUR 12.5 billion. Together with its clients, Capgemini creates and delivers business, technology and digital solutions that fit their needs, enabling them to achieve innovation and competitiveness. 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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