

Capgemini BPO Supply Chain Management

Striving for excellence



Many organizations have, or are beginning to consider redefining, redesigning and recreating their supply chains. By the end of this decade, innovative ideas and practices are forecast to become commonplace within the business domain.

Businesses looking for higher growth, profitability and customer loyalty inevitably focus on their supply chains – many view this as a prerequisite. The supply chain forms the core of most businesses. In a world of globalized manufacturing, it connects hundreds, perhaps thousands of suppliers, and ensures the smooth running of processes that span continents. As the wider marketplace also embraces globalization, the supply chain connects millions of customers, collects revenue for goods and services, defines how much profit the enterprise makes, and plays a critical part in retaining customer loyalty.

The supply chain has been through a number of transformations. New models and technologies have been developed and there has been considerable progress in making supply chains faster, more accurate and increasingly responsive; however, the next stage of transformational change is now imminent. In some organizations, redefining, redesigning and recreating the supply chain has already started. These pioneers are soon to be joined by other early adopters and, by the end of this decade, innovative ideas and practices are forecast to become commonplace within the business domain.

Key challenges

Complexity is endemic in Supply Chain Management and the level of volatility is now rising exponentially. Customers have more channels to choose from and expect perfect delivery, faster – often in much lower quantities than before – and are more willing to drop existing suppliers and search for others better able to meet their expectations. It is difficult enough to manage today and, as the number of products and product variations continues to rise and the range of Stock-Keeping Units (SKUs) and channels to market expand, the task can only become more difficult. Existing supply chains are already struggling to cope with these developments. As change continues, or even accelerates, a breaking point for many existing systems and processes is now in sight.

In most supply chains there is a lack of end-to-end visibility and process integration. This means management teams often lack the insights needed to make the right changes, nor do they have the process levers to pull, once a new approach has been developed. When you add to this the burden of infrastructure complexity due to the persistent presence of legacy technology, and the growing difficulty of finding enough people with the right skills and knowledge, the future could hold considerable challenges for many businesses.

Capgemini believes there are four key issues threatening competitive performance, profitability and brand reputation today:

- **Costs and working capital:** supply chain professionals are under pressure to reduce overall costs, while access to and returns on working capital are critical concerns. Improved cost efficiency requires better planning and execution, and that, in turn, depends on effective analytics and organized, seamless processes. What arise are questions regarding how these are to be developed, accessed and utilized.
- **Response to volatile demand:** customers expect delivery on time and in full; however, this a growing challenge in a marketplace that is becoming ever more volatile. As customer loyalty drops and demand extends, the task of making supply chains more responsive in order to cope arises. Finding a method to do so without negatively impacting working capital comes to the forefront.
- **Integration, visibility and collaboration:** weak links in the enterprise's supply chain will cause disruption and loss. The only way to identify and eliminate such weaknesses is to improve end-to-end visibility. Today visibility remains problematic due to the lack of reliable metrics and an inability to measure outcomes at every point.
- **Talent:** a common problem for many supply chain management teams is recruiting the right people – people who combine the ability to build and understand complex mathematical models with deep understanding of the

relevant processes and technology platforms, and who also have a comprehensive appreciation for the realities of the business. Current experience suggests there are not enough of these people to go around, while keeping the current workforce is proving difficult.

Similar issues have arisen in other complex process landscapes and have been addressed through a combination of new technology platforms and targeted outsourcing. Examining whether the same approach could work within Supply Chain Management opens a new realm of possibilities.

Sharing the burden

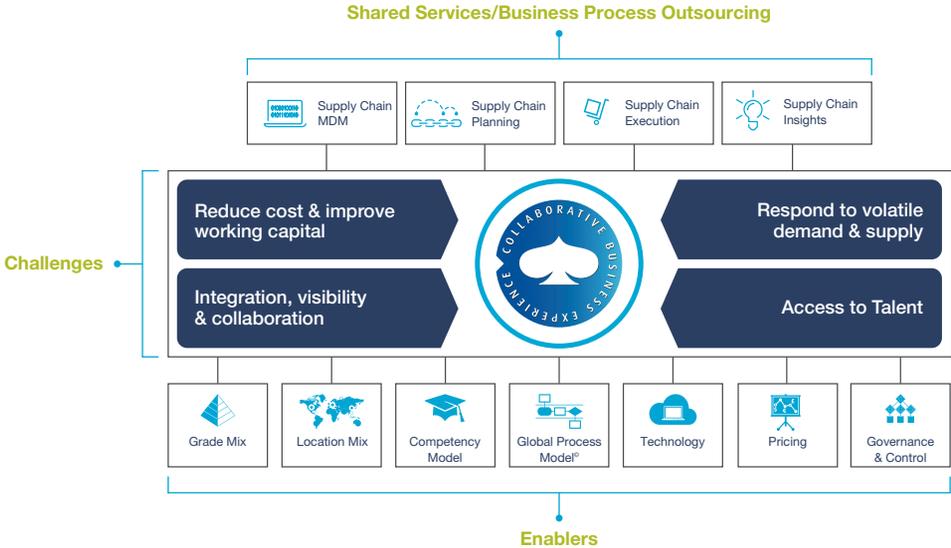
In order to understand how a shared service, IT Outsourcing or even Business Process Outsourcing (BPO) approach would work within a complex supply chain we need to look at the core components in a standard supply chain model and identify the areas in which **targeted intervention can make the greatest positive difference in the shortest possible time**. Many companies are reluctant to outsource missioncritical processes; however, there is increasing evidence to support the view that BPO is especially well suited to driving transformational change in core processes. Now there is reasonable cause to argue that a similar approach will also deliver measurable benefits within the supply chain.

Capgemini believes that the most logical and attractive areas for intervention are Supply Chain Master Data Management; Order Management; Logistics Management; and Planning & Optimization. These can each be addressed as individual activities and can be substantially improved through targeted BPO.

Master Data

Failure to define Master Data processes with sufficient rigour often leads to faulty data being entered, and that can prove costly. Only when true visibility is achieved can supply chain managers identify waste and redundancy, eliminate weaknesses, enable fast efficiency gains and foster a strategic approach to performance improvement. Master Data is the single most important factor in driving this kind of change for the better.

Current experience suggests that even large and capable organizations often lack standard processes across the entire internal supply chain organization, or clearly defined metrics for measuring process performance. The goal is to gather the right attributes for supply chain masters from multiple departments and divisions within the organization; to integrate, validate and cleanse the data; then update the data in the right set of systems to further aid supply chain planning or execution. This enables a 'single version of the truth' to be built and shared, and it also ensures true visibility across the entire supply chain.



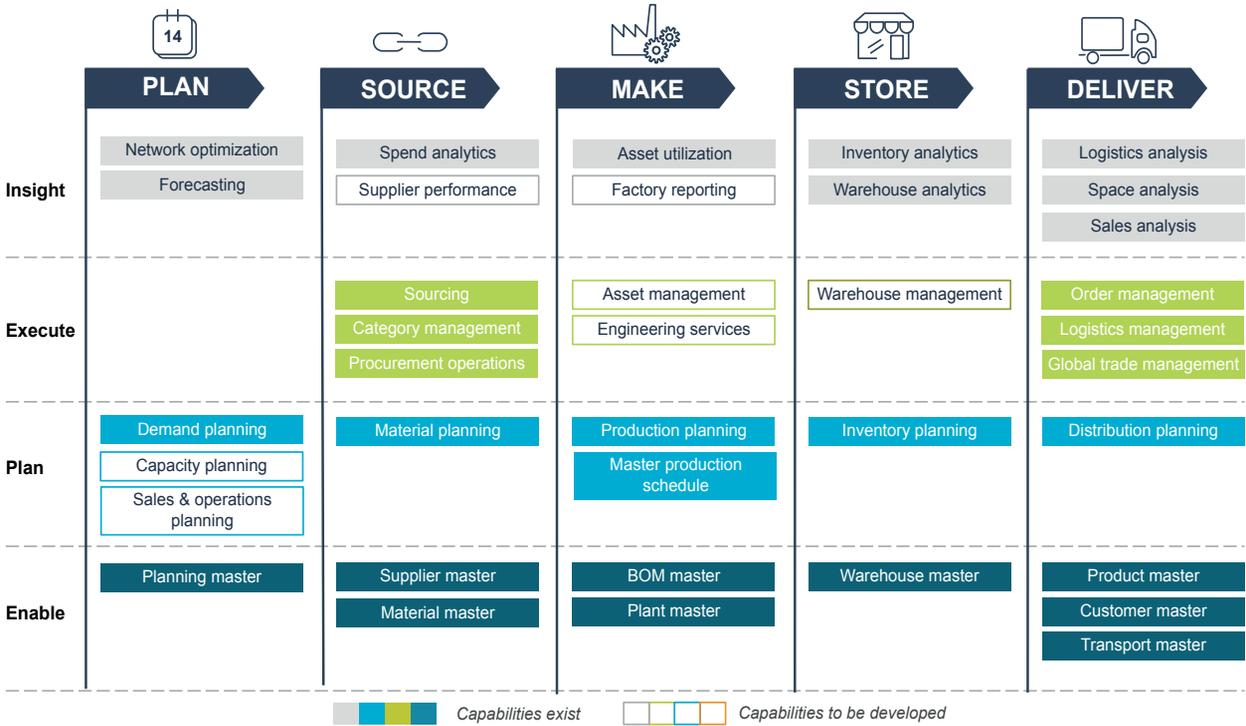
Driving change of this kind is not merely a technology issue. Many businesses invest millions in building new systems to manage Master Data but fail to take their people with them. If the full benefits are to be experienced in practice, technology must be supported by cultural and behavioral change, delivering the right process disciplines and supported by a continuous improvement mind-set.

Improved Master Data Management does not guarantee positive change in the supply chain, yet positive change is unlikely to be possible without it. The fastest way of getting a grip of data and then using it to drive performance change

instantaneously is to achieve process excellence around Master Data by using ready-made technology tools and platforms on a shared-service basis. That means BPO.

Planning & Optimization

Given the key importance of volatility on supply chains, it is somewhat paradoxical that demand planning remains problematic in many organizations. This can potentially be traced back to the fact that traditional supply chains are designed to respond to demand but not to proactively identify emerging demand in advance. Demand forecasting, leading to better demand planning, requires a combination of reliable



statistical models and advanced analytics, supported by personnel with skills in advanced modeling and focused system design. The general flaws in demand planning mean that cost-saving opportunities are often hidden just beneath the surface in many organizations.

Supply Chain optimization can potentially make a tangible difference in a wide range of areas, including:

- Optimizing the entire supply chain network – this consists of manufacturing locations and distribution centers;
- Determining the optimum locations for these manufacturing and distribution centers;
- Optimizing routes and modes within the logistics network;
- Optimizing inventory levels across the different nodes within the supply chain.

On the long-term path to transformation, optimization and advanced planning is a classic “quick win” for large organizations, and can be offered as a managed service to resolve pressing issues not just in strategic areas like supply chain design, but also in more tactical areas like daily optimization of routes and modes. The potential for fast change is often limited because of a chronic and near universal talent shortage. The key requirement is for people who understand their business environment well, are able to build mathematical models that represent this accurately and then use this to drive positive action in the physical environment. As mentioned earlier within this white paper, this is a continuing problem for most organizations.

Supply Chain Execution: Order Management

Order Management requires collaboration with a wide range of processes and stakeholders, external as well as internal. In its simplest terms, it is important to:

- Connect with sales to acquire orders, then process orders and feed relevant data to the departments responsible for procurement, manufacturing, finance and partner management.
- Manufacturers may have a mix of products: some made-to-order, some for immediate delivery, and others for stock, and this leads to different supply chain requirements.
- Customer orders could involve multiple line items, some of which may be in stock, while others will need to be produced or procured from suppliers. There will be a series of validation stages, including credit management, product specification, customer discounts and shipment rules, and these scenarios will differ from one industry to the next.
- Once production is complete the order must be followed to fulfilment, and this can require returns management, dispute resolution, complaints handling and customer satisfaction (or dissatisfaction) reports.
- The entire process is then reconciled in the form of a financial report, so that ROI and margin can be calculated.

Market-driven changes mean a more complex sourcing and production landscape can be seen emerging, in which global manufacturing means that raw materials and finished components are sourced from a growing number of partners.

Syngenta

is one of the world's leading agri-businesses, operating in 90 countries worldwide and rated number 3 in the global seeds market. Having been formed by a large-scale merger, it had four separate ERP systems and no single standardized method for managing data or achieving end-to-end visibility across the business. Capgemini supported Syngenta to establish a single ERP system for the business and from this developed a centralized Master Data management process, backed by consistent KPIs and process metrics. The result has been a significant improvement in Master Data accuracy and maintenance, with standard rule-based operating processes integrating data flows from disparate systems within the business. This has led to enhanced visibility, improved decision-making and measurable performance improvements across the supply chain.

Few businesses want to hold higher levels of inventory than are strictly necessary. Every component, therefore, has to be tracked across the wider value chain to enable just-in-time delivery to exactly the right production location. Quality oversight becomes more crucial than ever for keeping customer satisfaction levels high and avoiding the costs of replacement and compensation. Delivery is now a fundamental part of the ongoing sales and business development processes, so feedback loops should be in place at each stage.

The requirement is for accurate data, timely data sharing and effective exception management. The focus is not solely on data entry and management; there is also a need for proactive management of customer and supplier contact, through all relevant channels, backed by real-time data updating. The stakes here are high. Improved performance, even by modest percentages, will expedite the order-to-cash cycle, reduce cost per order, improve quotes conversion and raise levels of customer satisfaction, thus reducing churn. These all constitute substantial benefits to the business, and the ability to access world-class integrated systems and know-how at once, without the need for heavy capital investment and years of development, helps to further highlight the potential of BPO.

Nokia Solutions & Networks (NSN)

has the strategic goal of becoming the biggest mobile broadband company in the world that offers the best service. With operations in 150 countries, and with 80 of the world's top 100 telecom operators as clients, NSN's network now carries one quarter of all voice communications, from 3 billion individual subscribers. NSN's joint venture heritage meant its process landscape was complex, containing 27 major locations for Supply Chain Management, with different systems and processes in place within different countries. Streamlining the process landscape was an urgent necessity.

Beginning with Order Management, we jointly implemented a hybrid approach, in which the sales process – up to creation of a sales contract – remained in-house, with Capgemini taking responsibility for the entire Order Management activity, from customer sign-off to delivery and collection of payment. In addition, Logistics Management, an integral part of the fulfilment process within Order Management, was transferred to Capgemini's responsibility. Starting in late 2010, the BPO relationship has already delivered clear and tangible business benefits, including:

- Order lead-time improved by 12%
- Customer loyalty index for NSN up by 10%
- OPEX on track for a 36% reduction
- Order accuracy now at 98%

Attitudes from NSN's own customers have also changed for the better. In South West Europe, South America, the Nordic Countries and key areas in Asia Pacific (including Australia, Japan and India), NSN's order fulfillment is increasingly seen as best-in-class, outperforming competitors. Loyalty has improved and NSN is now more competitive than it was before the BPO relationship began.

Supply Chain Execution: Logistics Management

Logistics remains key to accurate, on-time delivery right across the supply chain. The physical aspect of logistics has been widely outsourced for many years, but with shipping and last mile delivery largely recognized as specialised activities, managing logistics generally remains an in-house supply chain management process. Why exactly is this? Efficient Logistics Management comprises four basic stages, all of which are founded in accurate data and supported by analytics and reporting:

- **Master Data Management:** the focus is on ensuring that all relevant information, covering everything from transport vendors to routes, modes and dispatching locations, is kept up-to-date to enable accurate planning and execution.

- **Sourcing:** covering every action from the analysis of logistics spend, identifying opportunities to reduce logistics costs, managing quotes and tenders, to freight contract management.
- **Planning:** determining best routes and modes, identifying preferred logistics partners; it also covers load building and route and mode optimization for individual freight movements.
- **Processing:** concerned with managing payments, reconciling orders and proof of delivery, and auditing performance; also covers compliance documentation and managing claims as they arise.

Data analytics digs deeper into the available information to clearly outline key trends, sustainability and emissions performance data, while analyzing time and costs for each specific transport mode, providing real-time reporting on all relevant aspects of performance. Given the need for delivery performance that is faster, more accurate, at a lower cost and likely to drive higher levels of customer satisfaction, absolute best practice in data management, process execution and analytics will constitute future norms.

Supply Chain Insights

Supply Chain Insights is leveraged in order to help enhance operational efficiencies and effectiveness by using data-driven decisions at strategic, operational and tactical levels. It encompasses reporting on the entire BPO delivery as well as analytics covering the complete value chain, starting from sourcing, manufacturing and distribution through to logistics.

The key deliverables cover:

- Devising inventory norms for all nodes within the supply chain;
- Conducting root cause analysis for excess inventory or stock-outs at the nodes;
- Optimizing freight utilization by improving loading levels and routing;
- Forecasting demand at product category and SKU level along with risk cover;
- Evaluation of service levels with current and revised forecasts;
- Network reconfiguration through design of all feasible network scenarios, evaluation of transition costs, and risks and returns linkage;
- Provision of optimum customer scenario based on critical success parameters.

From 2006

onwards, Capgemini has provided a steadily increasing number of supply chain, as well as other process management services for Unilever companies all over the world.

The relationship, to date, has reduced cost and risk, improved quality standards, cut error rates, driven higher productivity and contributed to attaining a competitive advantage.

An integrated approach to planning ranging from demand to production, material and distribution planning has delivered significant benefits by improving forecast accuracy, stock availability and fill rates. In addition, cost savings to the tune of several million euros have been identified through supply chain modeling and optimization projects; these include projects for SKU rationalization, throughput and replenishment analysis of assets, spend analytics and manufacturing/distribution location decisions.

A new model: the case for BPO

The potential for shared services in the Supply Chain has been increasing for many years, but the use of BPO in this context is a more recent development. The key pain points, identified by Supply Chain professionals themselves, are most closely connected to process excellence, data analytics and talent. These are exactly the areas in which a world-class BPO provider, such as Capgemini, excels. The question that arises is: how is value added to the client's Supply Chain through addressing the four main areas of concern?

- **Costs and working capital:** the application of best-in-class processes based on experience gained from working with a wide range of clients worldwide. Drive improved supply chain performance through optimization of inventory, distribution and manufacturing networks, and more informed decisions regarding location of manufacturing and distribution hubs for cost optimization.
- **Response to volatile demand:** as acknowledged world leaders in Finance & Accounting BPO, Capgemini will transform key back-office functions, improving planning and forecasting, managing logistics more efficiently while enhancing customer interaction. The right approach to order management, logistics management and wider supply chain planning will lead to an integrated approach for demand, material, production and distribution planning.
- **Integration, visibility and collaboration:** creation of a supply chain Command Center to provide visibility of every node in the Supply Chain. This aggregates all stakeholder interaction from customers and suppliers, which is used by our analysts to identify root causes

and potential corrective actions in order to deliver required outcomes. Greater process consistency and standardization will streamline collaboration and integration.

- **Talent:** access to the global capability of world-class professionals dedicated to the task of managing and optimizing each individual client's supply chain. As a service provider Capgemini is well placed to attract and develop high quality specialist talent, while sharing best practices across industry segments. Our approach is also truly end-to-end in nature, with skill sets that cover everything from business consulting, technology, through to BPO.

The need for a step change in Supply Chain performance is evident; however, internal resources alone cannot drive that change. In the BPO domain, capabilities are available that can transform key aspects of Supply Chain performance. The question is how to make best use of them.

Roadmap to the future

In order to create a best-practice Target Operating Model we combine the widely used SCOR model with the Capgemini Global Enterprise Model (GEM) – the basis for all our BPO services. Continuously updated as a result of lessons learned from the marketplace and enabled by the most advanced tools and methodologies, GEM ensures that the hybrid process structure implemented with our clients has:

- The right team structure;
- The optimum mix of locations for effective delivery;
- The right combination of skills and capabilities, in the right numbers;
- A best-in-class process model;
- The optimum technology toolkit;
- Flexible and commercially innovative pricing options;
- Transparent, collaborative governance that connects strategy, reporting and operations.

The Capgemini BPO approach is based on shared responsibility between a client-based, in-house team and an externally located Capgemini team, combining both internal and external resources within an integrated collaboration framework. This ensures that processes operate seamlessly, with no awkward hand-over points between functions or departments, where momentum can be lost. Most importantly, it delivers end-to-end visibility in real time, all the time.

Within this framework there is a logical division of labor. Marketing, sales, lead generation and overall management remain the responsibility of the client. All aspects of order management, however, including credit checking and finance, are handled on a BPO basis. In the same way, ownership of manufacturing and distribution processes remain in house but order to cash processes are handled through BPO.

The result is a highly efficient method for division of labor, ensuring progressive removal of barriers to speed and efficiency, reducing the cost of every process stage, while significantly increasing the overall agility and responsiveness of the supply chain.

In this framework governance holds particular importance; however, creating a hybrid in-house, BPO, third party approach is no more complicated than managing IT outsourcing in a multi-vendor environment. In each case governance and risk management are the keys to long-term success, ensuring that people and capabilities drawn from potentially diverse backgrounds can work effectively towards a common goal.

Where next?

The fundamentals of Supply Chain Management are now well established. Complexity and volatility are increasing rapidly, and there is a real danger that more precisely targeted sales and marketing activities could make it necessary to deliver fulfillment services that are beyond present supply chain capabilities.

Capgemini believes there is a clear need for a transformational approach, and BPO has a key part to play in driving performance improvement across the supply chain as part of a collaborative framework. The aim is to identify quick wins that validate the concept and build the confidence needed to continue the process of optimization. We have to understand, however, that transformation is, by its nature, a multi-year process that affects and improves every part of the supply chain, from end to end.

To avoid the risk of over-complication, Capgemini uses its proprietary Global Enterprise Model (GEM) as a key reference point and benchmark. We also use the built-in governance tools within GEM to ensure that all functions, disciplines and service providers involved in the supply chain interact with each other seamlessly to achieve greater agility and responsiveness. This represents genuine best practice in the market and ensures that we can drive major improvements within a hybrid process landscape. Some of these activities are handled from Rightshore® locations by Capgemini personnel, others are managed by in-house professionals, and the remainder are provided to clear specifications by third party specialists.

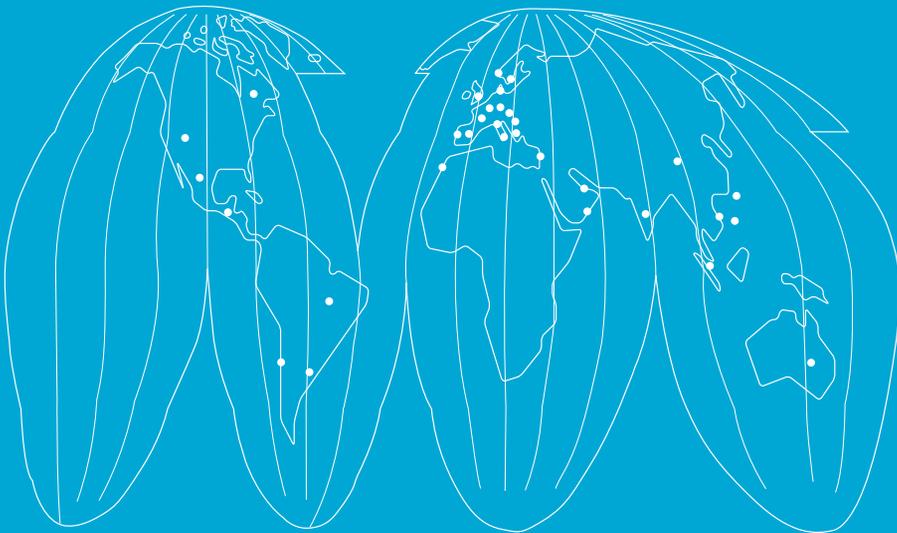
In the context of this consistent process framework, Capgemini can jointly deliver consistent performance excellence across the supply chain, meeting management's expectations and fulfilling the promise of more accurate targeting. Incremental improvements will not deliver. Instead, transformational change is necessary, and Capgemini sees BPO as the ideal means to achieve this.



About Capgemini

With more than 125,000 people in 44 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2012 global revenues of EUR 10.3 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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