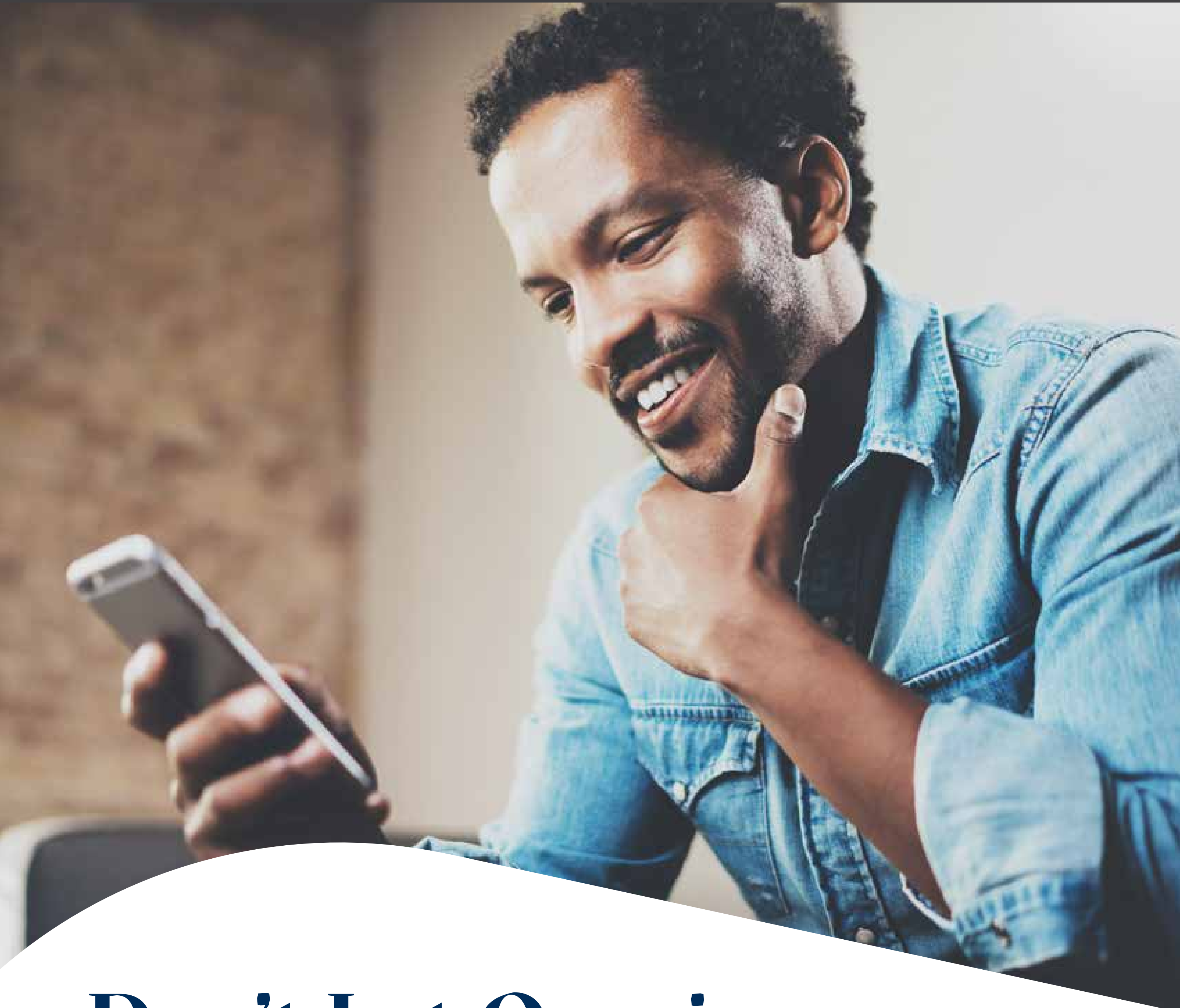


Don’t Let Omni-Channel Pressures Force You off the Supply Chain Grid

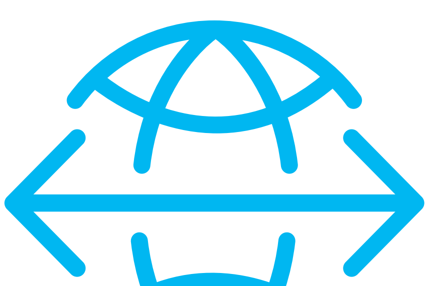
BlueYonder
Fulfill your potential™

A new approach to supply chain strategy can help you offer consumers the personalized products and services they want, without losing sight of profit margins.

Seamlessly managing business in today’s ever-changing omni-channel environment is a lot like competing in the Super Bowl. It requires a superior level of skill, agility and collaboration to take home the championship ring. Coaches must devise a strategy and reach consensus about their offensive and defensive lines before they finalize the game plan. Yet, once the players are on the field, any number of things can happen to disrupt a team’s plan, from an injury to an interception. The team that can react more quickly to these disruptions, and then execute a newly revised plan to score, is the one that wins.

The same is true in business today. A company’s dynamic response to market trends, disruption or demand changes depends on the agility of its supply chain, as well as its collaborative relationships with supply chain partners. Just as a football is rarely carried in a straight, uninterrupted path toward the goal line, getting a product from one end of the supply chain into the customer’s hands requires significant coordination, adaptation and collaboration among all players of the extended supply chain.

But all too often, little to no collaboration occurs among retailers, manufacturers and their partners because of differing or conflicting business objectives. We rarely see suppliers, manufacturers, third-party logistics (3PL) providers, warehouses or retailers operate in unison.



The evolution of today’s connected consumer has only amplified this problem. Consumers’ expectations are higher than ever now that smart technologies have become an intrinsic part of the shopping experience. Increasingly connected via social media, consumers are more informed and influenced by their peers than ever before. From initial promotion to post-purchase communication, consumers expect a personalized shopping experience that’s tailored to how and when they like to shop. They are also willing to pay more for products and services they value, and they expect these preferences to be anticipated and met.

As a result, succeeding in this new consumer-driven environment is not easy. Increased complexity in the marketplace, data overload, fluctuating demand, trust issues and competitive threats are just a few of the challenges retailers, manufacturers and distributors are facing.

The impact of omni-channel in manufacturing

Fearful of being left behind, many companies embark on a “me too” omni-channel game plan, rushing to offer consumers more personalized products and services. The problem, however, is that few businesses are earning a return on these investments. In fact, according to a study conducted for Blue Yonder by PwC, only 16% of companies can fulfill omni-channel demand profitably today.

In the race to address consumers’ ever-changing expectations, companies pay a high price to sustain or grow their market share. As businesses sell and deliver products across multiple channels, the high cost of fulfilling orders is eroding margins. Sixty-seven percent of companies in Blue Yonder’s study reported that their fulfillment costs are growing, not shrinking, as they increase their focus on selling across channels.

One factor behind this increase is the complexity and high costs associated with managing a fulfillment network that is essentially driven by the end consumer. Smaller order quantities (e.g., eaches or cases); more order variants (e.g., a zillion yogurt flavors); and temperamental consumers shopping across many channels influence the complexity of the supply chain. This means that a new level of coordination is required of all supply chain players. In the Blue Yonder study, businesses reported that their highest costs associated with omni-channel selling are related to handling returns, shipping directly to customers and shipping to the store for customer pick-up.

It’s no surprise that the need for multi-channel management has created a plethora of planning and distribution challenges not just for retailers, but also for manufacturers, wholesale distributors and 3PL providers. In the face of increasing competition and rising demand volatility, companies often make ambitious price/product/service offers in order to win the sale, without considering the true cost of fulfilling those offers.

Manufacturers and their trading partners need to work together as collaborative partners to achieve the ideal balance between too much product and not enough. By tightly connecting the planning and execution processes with actual demand, inventory visibility is increased, and products can more effectively flow through a synchronized supply chain.

To achieve this level of seamless supply chain planning and execution, companies must build an entirely new type of supply chain.

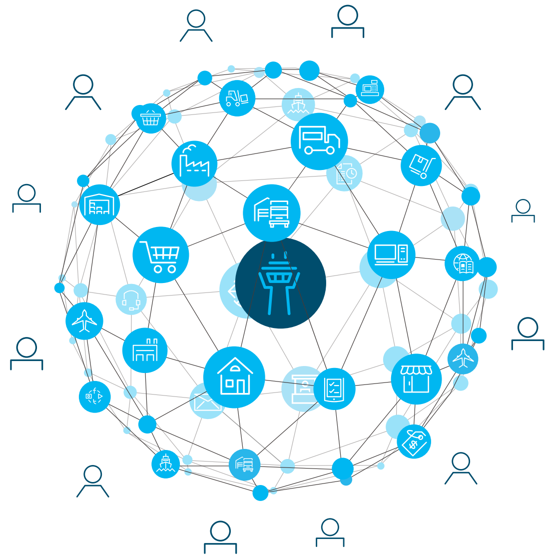
Introducing the supply chain grid

In order to thrive in today's omni-channel environment, companies can no longer operate a linear supply chain and hope to win the game. Instead, industry-leading companies are taking supply chain planning and execution to a new level by embracing the concept of the supply chain grid. The supply chain grid is a multi-dimensional network of nodes (suppliers, warehouses, distributors, carriers, etc.) that are interconnected and continuously monitored by a core control tower with one common objective: to efficiently and profitably manage the dynamic nature of consumer demand (see Figure 1).

One of the defining attributes of the supply chain grid is the interconnectedness of all nodes. This interconnectedness enables enhanced levels of collaboration and provides companies with critical, alternate pathways when the inevitable supply chain disruption occurs. The grid's spherical shape enables optimal decision-making among supply chain players, as collaboration among multiple connection points delivers greater insights into consumer behavior. As a result, supply chain players can select the most effective supply chain path, based on available resources, to profitably meet their customers' needs. To truly benefit from the supply chain grid, organizations must ensure that all the connection points are strong.

By adopting this new supply chain strategy, companies can take their supply chain game to a new level, embracing new approaches for collaboration, customer-centricity and segmentation.

Figure 1 – The supply chain grid, with customer on the perimeter and the control tower at the center



Collaboration

The design of the supply chain grid supports continuous, multi-directional, collaborative communication. Yet, despite the benefits of this approach, few companies have achieved this level of collaboration with their trading partners. Instead, in response to omni-channel pressures, companies make fulfillment decisions without a holistic view of inventory, labor and transportation availability and costs. As a result, they often sacrifice long-term profitability in order to gain short-term customer satisfaction.

For example, if there isn't enough labor at the distribution center to unload inbound shipments for a planned promotion, companies have to choose between costly overtime and lost sales. If order management and transportation management systems are not linked, carriers may frequently ship less-than-full truckloads to the same location. If the planning process lacks visibility into upstream and downstream order and inventory information, the supply chain cannot respond quickly when the unexpected occurs, rendering plans both out-of-date and un-executable. This leads to overstocks, out-of-stocks and, most impactful to the business, dissatisfied customers. Embracing a new level of collaboration, enabled by the supply chain grid, helps address these issues.

It's no longer enough to share transactional data with trading partners. To achieve game-changing performance, retailers and manufacturers must be willing to engage in higher levels of collaboration, such as shared visibility into forecasts and demand intelligence, or data transmission via the Internet of Things (IoT). By sharing this kind of strategic information across nodes, trading partners can realize tremendous opportunities for collaboration and visibility into true demand, including demand that is known, as well as demand that is yet-to-be-known.

Customer-centricity

Increased collaboration can lead to leaner supply chain organizations and the formation of better supply chain plans. However, seasoned supply chain practitioners know that not everything goes according to plan. Supply chain disruptions or bottlenecks can unexpectedly threaten a company's profitability. Some examples of disruptions include an unexpected surge in demand, a shipment held up at port, unexpected factory shutdowns, or a last-minute order from a priority customer. In order to be agile and responsive to these types of changes, and ensure that customers' needs are being met in a profitable manner, companies need to adapt their operations to mirror the supply chain grid.

At the core of the supply chain grid is a control tower, designed to help companies monitor their operations and determine which alternate, profitable course of action to take when disruptions or bottlenecks occur. A control tower ensures customer-centricity by enabling companies to proactively plan for potential disruptions or bottlenecks by predetermining the best course of action based on a cost/benefit analysis. Plan adjustments can also be predetermined based on evaluations of past consumer behavior.

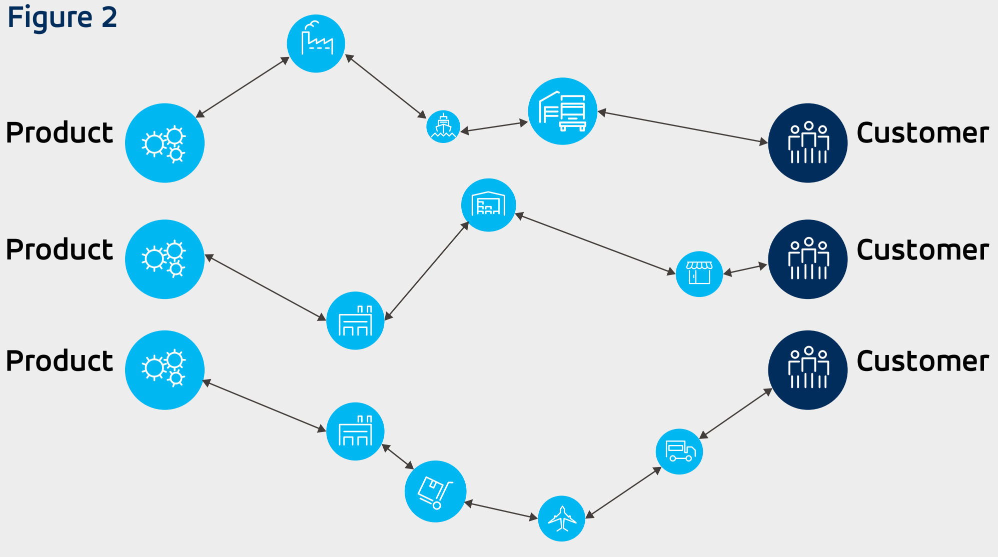
By executing on the most profitable, expedient course of action, companies can be sure they're continuing to meet their customers' needs, without sacrificing margins.

Segmentation

Finally, companies in virtually every industry embrace and recognize the need for segmentation. Since not all customers are the same, there's always a clear business need to provide differentiated service levels. That requires companies to structure their supply chains appropriately. Instead of adopting a one-size-fits-all supply chain strategy, companies must segment their supply chain operations to balance the cost to serve with the value of each customer segment.

The supply chain grid provides companies with the dynamic foundation they need to easily execute their segmentation strategies. For example, in Figure 2, there are three different supply chain paths, each of which involve different nodes, time constraints and cost considerations. Companies strategically evaluate these paths as they choose when and how to deliver a product to a customer.

Figure 2

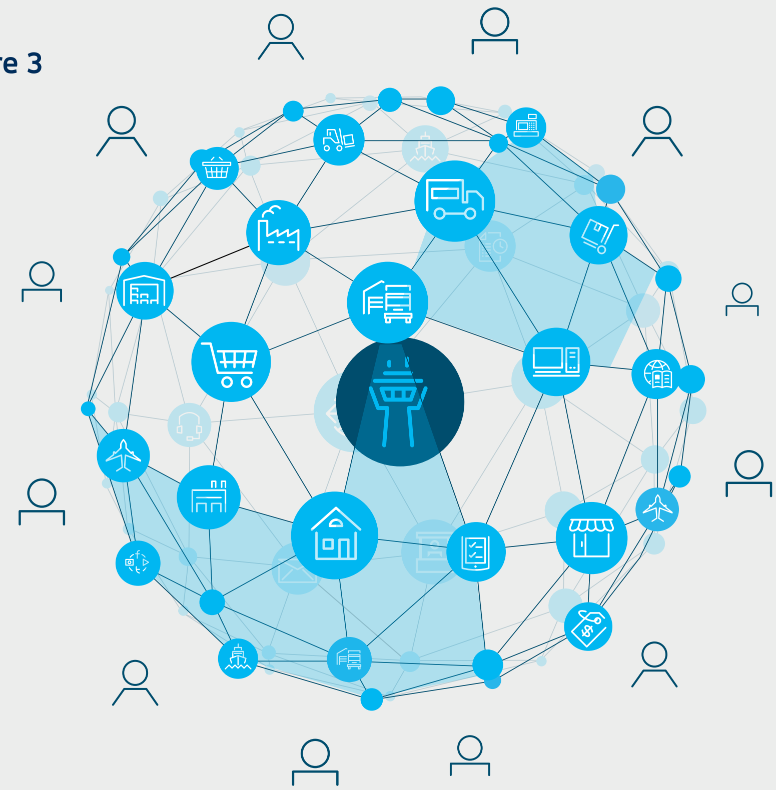


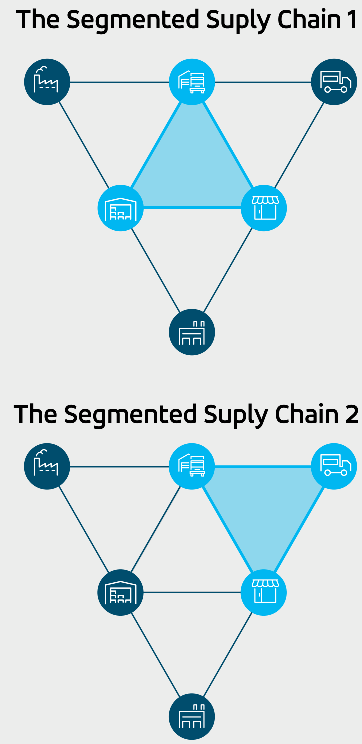
Path 1: 7-9 Business Days
$1.85 Cost | $2 Customer Cost

Path 2: 4-6 Business Days
$2.75 Cost | $0 Customer Cost

Path 3: 2-4 Business Days
$6.22 Cost | $7 Customer Cost

Figure 3





In each instance, the company can select the path that works best, based on how important that particular customer segment is to its business. For instance, priority customers might get the option to receive products via the second or third path, while less valuable customers might only be given the option of the first path.

Because the supply chain grid is not static, neither is the data associated with each path. The cost to serve an order could be different every time, even if that order is for the same product, from the same region and for the same customer. The benefit of the intelligent and adaptable supply chain grid is that it reveals the most profitable routes/decisions based on the latest collaborative intelligence.

By leveraging the supply chain grid concept, a company can set up all of these segmented paths so that they can co-exist, and thrive, together with its supply chain partners (see Figure 3).

Winning the game

Executing a supply chain grid strategy across your organization won't win you a place in the Pro Football Hall of Fame. However, if you can enable interconnectivity between your planning and execution processes across all nodes of your supply chain, you'll have greater flexibility to efficiently and profitably meet consumers' ever-changing needs, every time.

As a result of the increased information flow and collaboration enabled by the supply chain grid, relevant decisions can be based on current and future realities, as well as trends driven by actual end-consumer demand. The result? A responsive, adaptable and synchronized supply chain organization that can quickly react to a disruption, and execute a new plan to score and win the game.

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