Achieving High Performance through Demand-driven Operations

Orienting Your Business Around Consumer Demand to More Cost-effectively Deliver the Right Products to the Right Places at the Right Times

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For consumers, few experiences prove more frustrating than going to a store in search of a favorite product and finding that it is out of stock, or that a heavily promoted new product has not yet made it onto the shelves. The frustration is equally great for the retailer, and, for that matter, all the way back through the supply chain to the manufacturer. How great? It is estimated that out-of-stocks cause consumer products manufacturers to lose more than $90 billion in annual sales to competitors[1]. Not achieving the appropriate "localized" mix of products for a particular region or store also exacts a huge cost, both in lost potential sales, diminished consumer confidence and the cost of returning unpopular items.

Particularly in an economic downturn, when consumer loyalty is critical to maintaining revenue flow without incurring unnecessary production, distribution or marketing costs, it is imperative that retailers and manufacturers work together to translate every intention to buy into realized revenue and avoid product miscues and supply snafus. Indeed, Accenture's ongoing High Performance Business research with more than 6,000 companies across industries, and our experience in working with some of the world's most successful companies, have yielded important insights into how high-performance businesses distinguish themselves.

Accenture's High Performance Business research analyzes high-performance businesses and identifies common attributes of excellence that transcend and unite otherwise disparate organizations. We called this common ground "competitive essence," which, in turn, is comprised of the three "building blocks" of high performance. These are market focus and position, distinctive capabilities and performance anatomy, and are the foundation for remaining ahead of the game. Ultimately all three are necessary to sustain high-performance in a multi-polar world—a world that finds global businesses needing to understand and serve mature markets while also growing their presence in emerging markets where consumers have different needs and expectations.

1. 5th Annual RIS Store Systems Study 2008. Accessed Feb. 26, 2009, at http://www.risnews.com/ME2/dirmod.asp?sid=&nm=&type=news&mod=News&mid=9A02E3B96F2A415ABC72CB5F516B4C10&tier=3&nid=6EAA70DC2E55476FA1B58199EC26792D


Auto
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As part of our High Performance Business research, we analyzed the financial results of 850 companies in the United States that lived through the recession of 1990-1991. What is interesting is that those companies that outperformed their industry for six years following the recession kept their eyes on the prize and actually put distance between themselves and the low performers during a recession. High performers adapt well to change and think differently. They act decisively—they focus on generating cash flow, investing in segments in which they lead and managing a narrow portfolio of businesses. In the context of consumer packaged goods, that means that more companies should invest in evolving their operations across the value chain from product research and development to distribution to be more demand-driven. Rather than a traditional, reactive "push" approach to getting product on the shelves, high-performance businesses need to use a variety of strategies and tools to become more demand driven. The benefits include: deeper insight into consumer needs and buying patterns, closer collaboration with retailers and supply chain partners, and more flexible operations capable of serving a variety of customers and consumer segments cost-efficiently and effectively.

A recent Accenture study titled "Consumer Goods Demand-driven Operating Models" found that a small number of leading consumer-packaged goods companies are taking some of these steps already, but progress is slow. Customer service, supply chain and product specialists from these companies revealed that, although they recognize the opportunities and challenges inherent in building a more demand-driven approach to business, much is left to be done before business models are configured to be truly demand focused. While improvements to traditional planning and replenishment processes are gaining traction, inconsistent investment in the capabilities and tools that could deepen insight into customer and consumer buying patterns is prevalent. Furthermore, permeating their strategic value chain with the same focus and capabilities to make sure the right item is delivered to the right place at the right time is very much a work in progress.

This article draws upon Accenture's Consumer Goods Demand-driven Operating Models research and our client experience to identify the significant benefits of moving from the traditional "push" model to a more demand-driven, "pull" model. This complex reorientation can be done incrementally or as part of a transformational effort, but however it is achieved, it requires enhancing organizational elements critical to executing a more consumer-centric strategy:

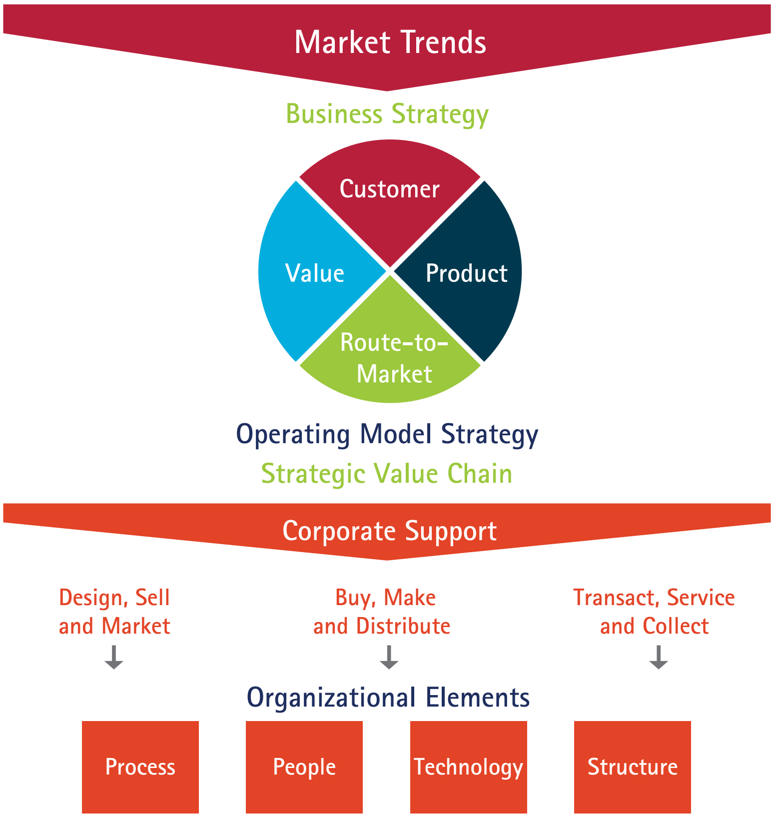
Demand-driven operating models require new strategies and new capabilities to create value.
At the heart of demand-driven operating models is a shift to a consumer-centric business strategy that reflects deliberate and shared decisions taken about customers, products, routes to market and value creation.

Gain deeper consumer insight enabled by technology.
Technology can support rapid, continuous exchange and analysis of store-level data between manufacturers and retailers so that each can respond more effectively to consumer demand. Industrial-strength analytics as well as collaborative, sometimes co-located processes and teams, can reduce costly research, planning and execution errors.

Realign internal and external organizations to support demand-driven operations.
Manufacturers need to better align demand-management processes—from idea generation to forecasting to fulfillment—to meet business goals and customer service requirements. This requires reorganization within and outside the four walls of a manufacturer to move from reactive product replenishment to more fact- and trust-based collaboration with retailers.

These improvements—backed by executive sponsorship to keep the focus on the consumer—can transform the way manufacturers work with retailers and suppliers and redefine how store replenishment will work in the future. They can deliver the kind of business results that strengthen the bottom line.

Figure 1: Operating Model Framework



Retooling the operating model into a strategic value chain

For years, the byword in consumer products companies was "efficiency." Manufacturing facilities produced the same products for long periods to minimize line changeovers, and distribution networks were designed to optimize transportation costs often at the expense of customer service and responsiveness. While operating efficiency is laudable, the customer and consumer were not at the center of the equation.

These days, consumers' and retailers' expectations of manufacturers are higher—and different. Specifically, companies are expected to reorient their business strategy and operating models so that both respond to the different channels used, reflect consumer needs and unique consumer segment behaviors, and tightly integrate expertise and information in the functional silos within a manufacturing company.

Figure 1 shows how the core elements of an operating model—people, process and technology—can work together to deliver a consumer-centric, demand-driven ethos. Linking demand and supply planning allows the end-to-end alignment needed within the organization and throughout the value chain.

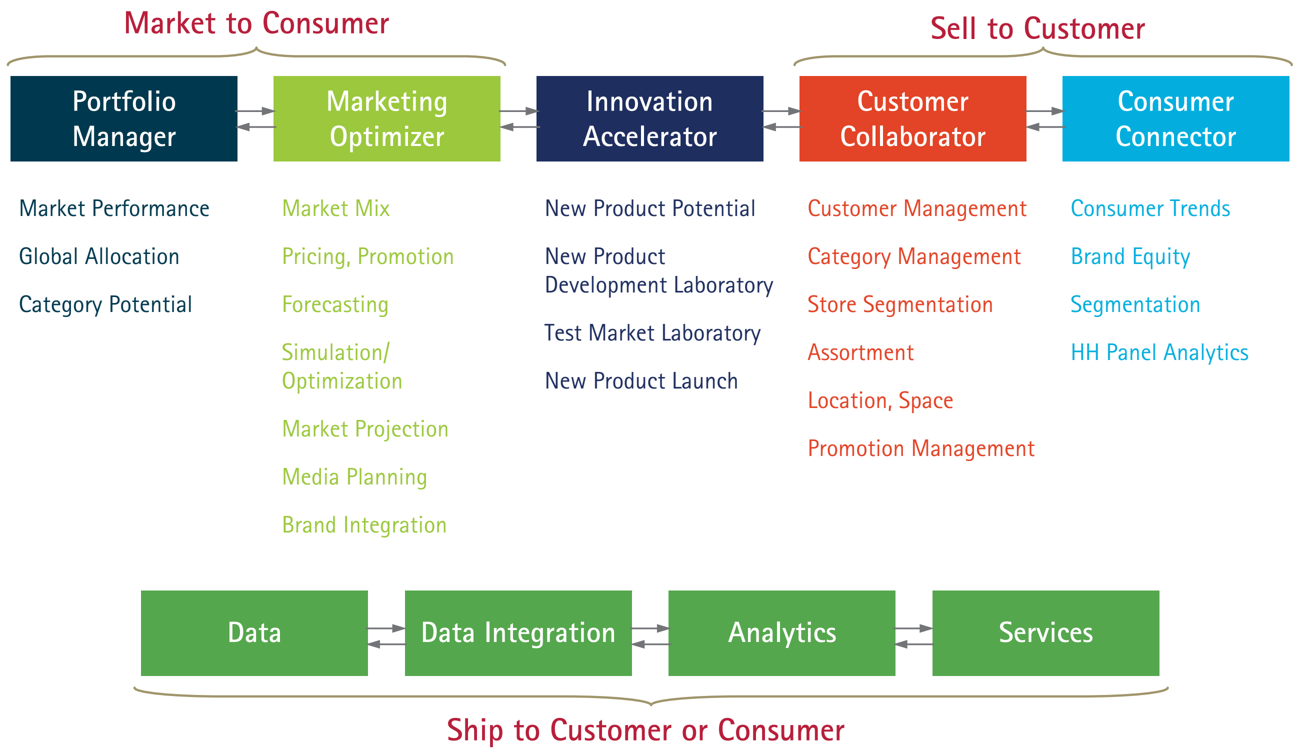
Far from being discrete silos of activity, these components should be viewed as part of a strategic value chain designed to deliver an end-to-end experience. Manufacturing operations built to achieve optimal efficiency—plants dedicated to producing a discrete set of products to maximize machine uptime and minimize time-sapping line changeovers—are unable to quickly respond to changes in consumer demand. This approach also reinforces functional fragmentation because it rewards efficiency, rather than customer responsiveness, so there is little incentive to take a holistic view of how the quest for efficiency affected other areas of the company.

Despite these shortcomings, Accenture's Consumer Goods Demand-driven Operating Models research revealed that focus on production efficiency is a hard legacy to overcome, as many companies continue to cite the lack of flexibility in manufacturing operations and networks as a primary weakness that prevents faster response to changing consumer demands. More importantly, the transition requires a new organizational mindset to look at the value chain holistically, from end-to-end, which, in many ways, is harder to achieve. However, companies intent on achieving high performance hear their retailers and consumers demanding more targeted products that are delivered faster. Therefore, it's imperative for functions within a consumer packaged goods company to work together to reduce the siloed functional structure and develop more consumer-centric cross-process teams that are more responsive.

Zara, the European leader in "fast fashion," takes only weeks to ensure that new looks move from the runway to its stores[2]. How? Its operating model and sourcing strategy are designed to support the whole fast-fashion ethos that is the company's overall strategy. For example, the week after the major seasonal fashion shows, dedicated Zara and production facilities are already at work replicating the latest silhouettes in cheaper, mass-produced fabrications; clothes go from design studio to shop floor in two weeks. How can Zara do it? The retailer has "virtual" vertical integration, that is, total control of the production process—from loom to shop floor—but does not own all of the production assets. Speed is baked into the retailer's store operations, too: once the clothes hit the racks, their popularity and turnover are communicated in real time by managers who wield hand-held computers to send replenishment orders. While Zara's customer base may be narrower than that of companies in more complex

2. Retail at the Speed of Fashion, http://www.3isite.com/articles/ImagesFashion_Zara_Part_I.pdf

Figure 2: Accenture Adaptive Analytics Framework



industries, even in industries such as technology, manufacturers are using multiple operating models geared to quickly serving specific business segments such as consumers versus large enterprises.

To make a demand-driven value chain a reality requires clear strategic direction and promotion from C-level executives and business unit leads. These individuals can elevate discussions of operating models beyond the realm of supply chains or manufacturing schedules, and actually reorganize a company in ways that make it more consumer centric. Kimberly-Clark, for example, has taken this step. The operating model (Figure 1) details the many strategic and organizational elements that companies need to consider when developing an end-to-end, demand-driven value chain. Addressing each element individually and holistically ensures that companies' strategies and goals are clear before investing in reorganizations or capability development programs to support those business goals.

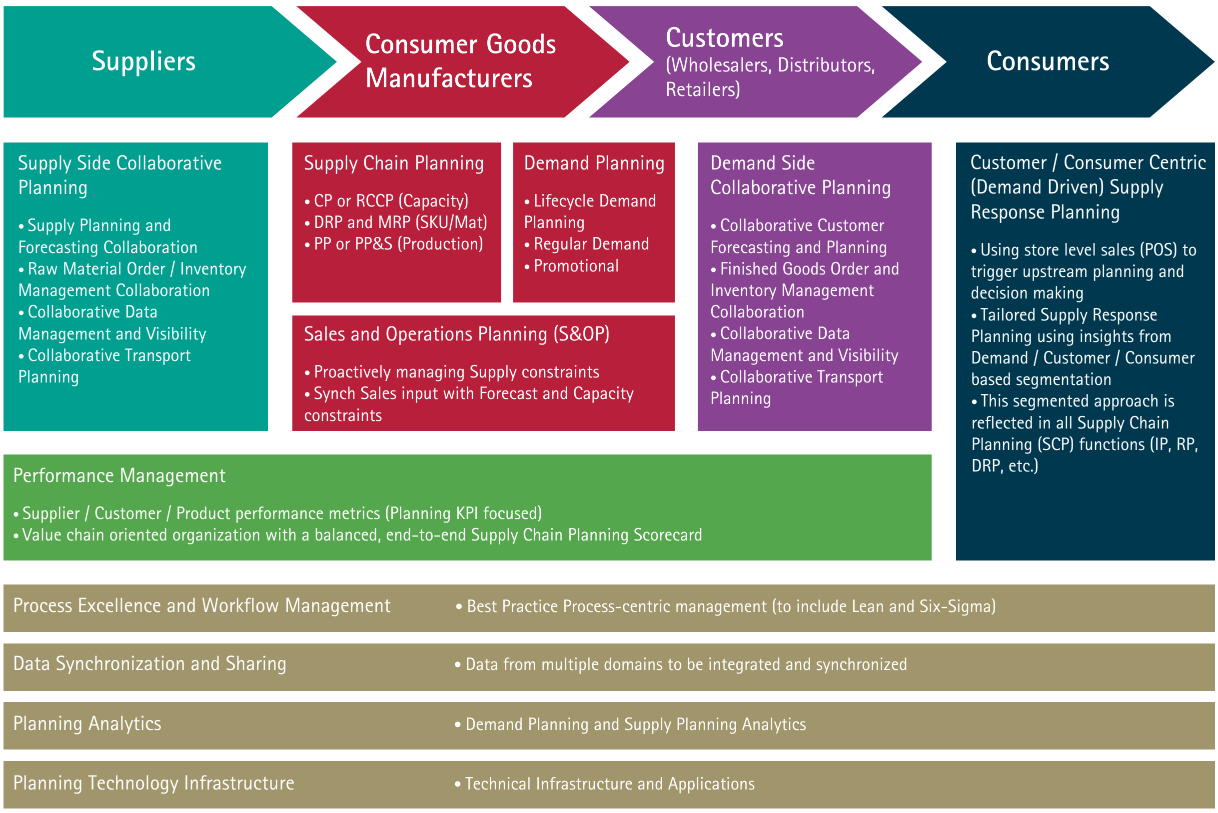
Leveraging technology to gain deep consumer insight

Achieving clear insight into consumer desires, insight that is comprehensive enough to allow manufacturers both to see hidden trends and predict future buying patterns, is a prerequisite to any demand-driven model. Yet, while companies acknowledge that building new and deeper analytical capabilities is critical to becoming more consumer focused, Accenture's research shows that it is also difficult to achieve. In part, this reflects natural organizational inertia working against change. A bigger barrier seems to be research and development or marketing functions that are familiar with more traditional market-research tools (such as focus groups) or historical segmentation. Even where enthusiasm for more comprehensive analytics is strong, fear of change can be a barrier. To develop the insight necessary, Accenture's experience is that there are several foundational and IT capabilities essential to developing the kind of consumer insight at the core of demand-driven operating models. Figure 2, the Accenture Adaptive Analytics Framework, identifies how participants in the value chain would use these analytics to support a truly integrated demand-driven supply chain.

First, technology systems and tools must be employed to ensure a data layer of accurate and granular data is captured and made available in a timely fashion. A critical step that all participating companies reported taking is standardizing information on an enterprise resource planning data backbone so that "one version of the truth" about product supply is available and leveraged. That internal data must be supplemented with sales data (for instance, daily store takeaway) captured at the retailer level and shared and analyzed

Figure 3: Accenture's Approach to Integrated Demand and Supply Planning

Consumer Goods Extended Value Chain



jointly with the manufacturer. While traditionally manufacturers have relied on syndicated data to gain a view of sell through at the retail level, the timeliness and accuracy of those sources makes them less useful for demand-driven planning and replenishment. That said, syndicated data retains an important support role in demand-driven planning and replenishment processes in terms of validating the raw retailer data as well as in documenting key promotional activity.

Second, data validation, cleansing and filtering tools must be developed or acquired. The data provided by retail streams can give an incomplete picture of sales activity if used in its raw form. For example, this can happen if promotions are not figured into the equation or if some stores are missing from the holistic report. If this data is to be useful in driving improved decision making, it must first be "treated" to ensure the accuracy and overall quality that allows more meaningful interpretation. Several manufacturers have adopted, sometimes at the urging of retailers, a demand signal repository that cleanses, harmonizes and synthesizes data, making heavy-duty analytics possible. Software and analysts capable of crunching point of sale (POS) and other data and harmonizing it, thus get a more accurate read on demand at various levels—store, store cluster or town/region—which is a vast improvement over data about inventory at distribution centers.

Establishing a direct connection to actual shelf sales at specific retailers has a number of benefits throughout the value chain. It improves forecast accuracy, which in turn allows manufacturers to design more effective production and distribution schedules. Improving production, distribution and stocking can drive out inventory carrying costs and enhance sales, a pattern that can be detected in weeks. Over the long term, enhancements to data quality and timeliness that become a standard part of operations can deliver significant returns in revenue and cost savings.

Third, new, heavy-duty analytic capabilities are needed to glean the desired insights and build the responsive plans that are the promise of demand-driven planning and replenishment processes. These analytics may require investing in new resources, tools and training, as well as an organizational willingness to refine workflows to allow time for such analysis. It also may require reshaping roles and responsibilities at both the manufacturer and retailer levels, and along the supply chain. Figure 3 shows the roles and benefits each member of the value chain can play to achieve tighter integration. Accenture's High Performance Business research has found that attaining this level of market focus and distinctive analytic capability are prerequisites to achieving high

performance. Using an approach detailed in Figure 3 can help to balance manufacturer needs and retailer requirements, spurring each to develop appropriate capabilities and outputs, and to ensure that there is a clear business rationale and benefit for enhancing analytic capabilities.

Taken together, these three capabilities provide the information technology architecture required to support the shift to demand-driven operating models. Particularly in a down economy, fact-based conversations and collaboration are critical because the costs of poor information leading to wrong product and retailing decisions are too high, for both the retailer and the manufacturer.

Designing organizations that support demand-driven operating models

While the causes of supply problems—be they stock-outs or overstocks—are many, part of the solution for manufacturers is a more collaborative approach to demand planning within and outside the manufacturer. Accenture's experience shows that inadequate planning, caused in large part by fragmented or misaligned processes that feed inaccurate demand forecasting, is one of the largest contributors for out-of-stocks. The validity of this insight was borne out when the companies participating in Accenture's Consumer Goods Demand-driven Operating Models research identified their inability to use point-of-sale data to generate accurate forecasts and improve on-shelf availability as one of their largest capability gaps.

Relying on traditional roles and behaviors, periodic interactions and standard tools such as monthly or even weekly reports is not always adequate for planning and forecasting purposes. This level of communication and collaboration is simply not enough to truly understand what is being bought, when and by whom, particularly for high-volume channels where the velocity of item sales is intense. What is clear is that to be successful—accurate, timely and actionable—demand planning, generation and forecasting are becoming shared responsibilities between manufacturers and retailers, one that requires tighter collaboration, evolved organizational structures and increased collaboration than in the past.

Dedicated service teams ensure a more collaborative process.

Several manufacturers are collaborating closely with large retailers to determine how best to capture, interpret and act on the data available. Agreeing on the right approach and defining objectives that are critical for the collaboration to be mutually satisfying, is very important. Many manufacturers now have cross-functional on-site teams at major retailers to ensure, in part, that the right data is captured and also to facilitate information flow throughout the value chain. These teams could consist of personnel from account management, product marketing, regional sales and/or research and analytics, for example. Many manufacturers see their co-located customer service teams (and investments in analytics) as enabling better decisions about a range of demand-side decisions, including assortment and promotion strategies and new product development.

Of course, not all retailers can have this type of dedicated team. Determining which retailers to work with and building a solid business case for increased investment in on-site teams and analytics appears to be a definite trend and one welcomed by retailers that are sitting on mountains of data. Accenture's Consumer Goods Demand-driven Operating Models research also identified manufacturers' limited ability to measure, much less factor in, the cost to serve[3] by customer as both a significant weakness and opportunity for them to improve overall demand management. It is a weakness because the lack of information could result in overinvestment in inefficient or unproductive retailer relationships. It is an opportunity because quantifying and comparing retailers' cost to serve can identify operating elements that drive revenues and profits. Ideally, the investment in providing an on-site team would be made with those retailers that have demonstrated a commitment to developing demand-driven capabilities that yield the highest return for both the manufacturer and the retailer, as well as benefiting the consumer with improved responsiveness. Accordingly, consumer packaged goods companies remain challenged to expand this one-to-one demand-driven model across a broad array of retailers or channels which may serve different or mixed consumer segments. A prudent solution, and one some manufacturers are implementing, is to make their best retail customers—the 80/20 rule—a top priority for dedicated service teams, and develop a plan and incentives to team with remaining retailers.

Developing a demand-focused command center.

Just as on-site customer service teams ensure better collaboration, many manufacturers see the development of an internal "demand-driven command center"—where consumer and sales data is synthesized, analyzed and disseminated—as an imperative. A command center that oversees the management of demand data and effectively syndicates the output of the analytics and information throughout the organization as well as to retailers and suppliers can improve everything from new product development to life cycle and exception management. It is an essential ingredient for each of the three building blocks of high-performance businesses, particularly in developing the kind of performance anatomy strong enough to withstand the vagaries of economic cycles.

Higher trust needed to yield return on investment.

In addition to new tools, capabilities and structures, a shared commitment to realizing the vision of a demand-driven model is needed. Manufacturers need to rely on retailers to capture and report shelf-level data and consumer information so that manufacturers can design a fulfillment approach and supply chain that satisfies customers and consumers. Retailers want to be sure that if they invest in generating and making this granular information available, manufacturers will use it to best advantage. That goes beyond minimizing out-of-stocks to increasing the success of new product introductions with truly differentiated products and better management of product life cycles. However, product proliferation can hamper even the best demand management efforts, and manufacturers will need to rein in SKUs before they undercut both profitability and customer service.

Clearly, given that they both serve the end consumer, the roles and responsibilities of manufacturers and retailers may need to blur or even merge for manufacturers to become truly demand-driven. Even as the elements of this new relationship between manufacturers and retailers are still being identified, some companies are reaping the benefits of their commitment to more open, dynamic and closer collaboration.

3. Cost to serve calculations are more comprehensive, and seek to quantify the cost of all supply chain investment and collaboration activities between a manufacturer and retailer. As such, it is a process and activity focused methodology rather than one focused on broad measures of costs collected through the general ledger and standard accounting practices.

Conclusion

To become demand driven and consumer centric, manufacturers and retailers need to commit to a closer, data-based collaboration that looks more like a strategic alliance rather than a series of handoffs. New analytic capabilities, technology investments and organizational refinements that improve communication and cross-functional effort have all proven to yield improved business results. A mindset shift to increase the level of trust and reliance manufacturers and retailers have in each other is also needed.

Although the whole journey may be long, the transformation can be made in smaller phases, and eventually getting to a place where operations are truly demand-driven represents a "win-win" proposition both for manufacturers and retailers. It allows manufacturers to measure and refine service to retailers based on actual consumer needs as well as retailer cost to serve. It also provides a path to jointly and proactively have all players react more effectively, with the same strategic understanding, so that they can accurately respond to market dynamics to improve business performance. In short, implementing a demand-driven operating model can help consumer packaged goods companies and retailers address recurring problems and also grow through all stages of an economic cycle—which requires efficiency and innovation, both of which are hallmarks of high performance.

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Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 181,000 people serving clients in over 120 countries, the company generated net revenues of US$23.39 billion for the fiscal year ended Aug. 31, 2008. Its home page is www.accenture.com.

About Our Consumer Goods & Services Practice

Having worked for decades with the world's most successful consumer goods companies in the home and personal care, food and non alcoholic beverages, alcoholic beverages, consumer healthcare and fashion segments we have the insight and experience to help these organizations come out on top. We enable consumer goods companies to achieve high performance through dynamic market conditions by developing an in-depth understanding of consumers and their varying needs; enabling sustained capabilities through enterprise resource planning, custom and emerging technologies; optimizing supply chain and cost structures; and offering a unique mix of strategies that serve as building blocks for accelerating growth and sustaining long-term success.

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