

DEMAND-DRIVEN REALITIES

CGT and Clarkston explore motivations behind the Industry's push to become demand driven

The consumer goods industry has focused a lot of attention on becoming demand driven over the past few years. Driven in part by industry leader Procter & Gamble's Consumer Driven Supply Network initiative, it is gaining traction in an industry where understanding one's customer is a prerequisite to success. But are these demand-driven initiatives just the new flavor of the year or is it a trend that makes long-term sense in this industry?

Consumer Goods Technology and Clarkston Consulting partnered to conduct research on the demand-driven imperative and find out if the industry is, indeed, starting down a demand-driven path, and if so, where the focus lies. The findings are not surprising overall — demand is a key driver, but there are some nuances to how companies achieve the ultimate goal of integrating demand into their business model.

BUMPS IN THE ROAD

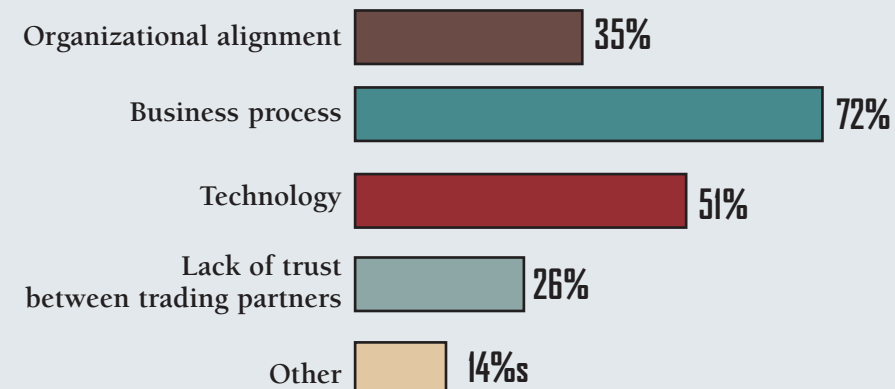
When asked what the obstacles to achieving real-time integration of supply and demand (Figure 1), the majority of our respondents identified business process as the key impediment. This is not surprising, as most discussion on this topic emphasizes that becoming demand driven requires people, process and technology changes, and it is not merely an IT project. However, technology was the next most commonly cited barrier, underscoring the fact that data is required to feed business process change and decision making processes.

Organizational alignment was the next most popular response, most likely reflecting the "people" aspect and change management challenges that most companies underestimate. Lack of trust between trading partners was cited by more than a quarter of our participants, which is an unfortunate situation that appears to be more prevalent in smaller and mid-sized companies. Without trust, data is not shared and collaboration is undermined, making it almost impossible to become demand driven.

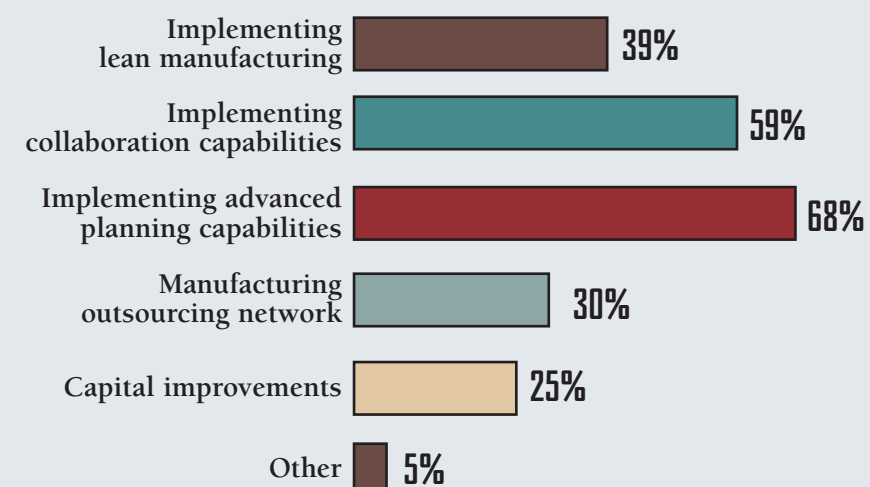
THE RIGHT LEVEL OF DETAIL

Most companies in our survey are evaluating demand to differentiate base activity from new product introductions and promotions, but not all are consolidating demand signals into a single enterprise view and even fewer are doing it at a micro level. Getting to the appropriate level of detail is a challenge for most IT departments — it is one thing to gather,

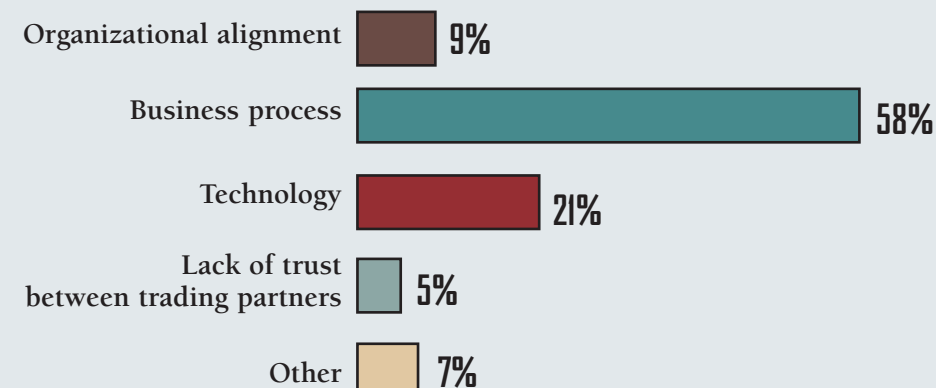
(FIGURE 1) WHAT DO YOU CONSIDER YOUR COMPANY'S OBSTACLES FOR ACHIEVING REAL-TIME INTEGRATION OF SUPPLY AND DEMAND?



(FIGURE 2) WHAT STEPS ARE YOU TAKING WITH YOUR SUPPLY CHAIN TO BE DEMAND DRIVEN?



(FIGURE 3) WHAT DO YOU SEE AS THE MOST IMPORTANT FACTOR FOR GLOBAL MANUFACTURING PARTNERS?



cleanse, analyze and act on huge volumes of data. It is quite another thing to do it at the SKU/customer/store/day level.

Customer segmentation is another example where our respondents are not focusing narrowly enough. In order to start leveraging demand, companies must select a small group of customers (or suppliers) to collaborate with. Most frequently, this small group of customers is the top group of customers that are typically targeted for strategic business level activities. Unfortunately, however, our survey revealed that companies are not focusing on a small enough segment of their customer base, thereby defeating the purpose of the segmentation.

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RELATED IMPLEMENTATIONS

Demand-driven initiatives are far-reaching and often involve many disciplines within an enterprise. When asked what steps they were taking with their supply chains to become demand driven, many strategic capabilities were cited by our respondents (Figure 2). Advanced planning capabilities are being implemented, often over and above long-standing traditional planning processes.

Collaboration is, not surprisingly the next most cited capability. This is with customers, as well as suppliers as companies get their supply capabilities in line with their new demand insights. This is also related to lean manufacturing capabilities, another frequently cited response. Once companies understand what their true demand is, they need to ensure their product supply is adaptive enough to meet that changing, yet more accurate, demand. Production operations are increasingly becoming a focus of CG companies as they strive for manufacturing flexibility.

OUTSOURCING MANUFACTURING

Almost one-third of our participants are leveraging outsourced manufacturing networks as part of their demand-driven initiatives, and the majority feel that the use of global manufacturing partners is a critical enabler. They feel the most important success factor for global manufacturing partners (Figure 3) is business process, similar to the response in Figure 1. Here too, technology was the next most cited response, but there is a big gap between the two. **CG**

BASICS FIRST

THE PRESSURE IS MOUNTING for consumer products manufacturers to conduct business in real-time and provide innovative products to the market in warp speed. Clarkston Consulting has recently worked with three companies, with very different brands and categories, to create a strategy and roadmap for the integration of demand and supply. In all cases, practical matters came first—governance, process and managing data.

Attending to the mundane empowered the manufacturers to establish the basic knowledge and capabilities needed to move closer to a demand-driven model. The first priority was to manage the complexities of using global sources of supply. Even within the same company or division, there traditionally has not been a consistent number to manage the single view of demand. This is often further complicated when regional business units attempt to source the same product from a single external source and are using separate numbers and specifications.

Effectively aligning governance and process for the North American market is challenge enough for most companies. Cross-markets, such as Africa and the Middle East, further complicate demand-driven initiatives. In all cases, the companies stepped back and benchmarked what made sense to be managed at the local, regional and global level. All companies found that proper alignment would directly affect consumer demand, customer service and costs. Prevailing ad-hoc systems that were not providing consistent and clear information were also addressed.

The final key challenge was implementing new delivery processes to meet the changing inventory requirements of retail customers. Customers are driving down their inventory in two areas. They are becoming more sophisticated in how to manage their shelf space as well as in their distribution space. Managing a full truckload has caused manufacturers to shift distribution strategy and look at the increasing trend of starting distribution centers. The centers manage a complete portfolio of products and are located within a short distance of the retail customer delivery site. The distribution centers also help resolve the rising issue of adequate trucking capacity for longer distances. Though the push for a new distribution process has come from the retail customers, the resolutions will help better prepare these manufacturers for the real-time integration of demand and supply. Attending to practical matters first — governance, process and managing data — were key components for all three companies in taking their first steps to demand-driven supply. Increases in revenue and decreases in costs will start to take hold as the new practical initiatives will change the way consumer products companies are conducting business and prepare them for the future marketplace.

—Scott Shrader, Director, Demand/Supply Chain Practice, Clarkston Consulting

For a more in-depth look into research conducted by CGT and Clarkston Consulting about the demand-driven imperative, visit www.consumergoods.com to download the entire survey.

Additional topics surveyed include:

- ▶ Customer segmentation – who, what and how
- ▶ How demand data is being managed
- ▶ How demand signals are impacting strategic direction
- ▶ Insights on global manufacturing partners
- ▶ RFID's role in DDSN
- ▶ Order management

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