



**Some observations from the field...**

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**Congratulations, you've just sold a great  
promotion program!**

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**Now what?**

# Where we are at...

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"The Consumer Goods marketplace will be a hotbed of change over the next several years.

Organizations have optimized their own internal processes. The next step is to create a supply chain that is driven by consumer demand.

Technology plays a pivotal role, for it is only through automation that the speed and flexibility required to make this a reality can be achieved."

*John Fontanella, VP and GM, AMR Research*

# Serving Consumers Today-

## Some general observations...

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- Consumer Products companies must continually delight end consumers with their product offering to keep/grow retailers as customers, increase basket size and gain market share
- Innovative technologies are presenting a breakthrough opportunity to position brands, advertise effectively, touch consumers, leverage transaction information and provide new services
- Manufacturers and retailers who leverage and exploit these capabilities will emerge ahead of their peers
- Achieving today's mandatory improvement targets will require introducing the right processes, information, training and technology
- New and innovative products and services, profitably sold using *demand fulfilment optimization*, will be the key factors that drive growth for the foreseeable future

# Selling and Demand Fulfilment- Marketplace Issues...

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- Low growth, value shoppers, shifting tastes and demographic trends, customer loyalty schemes and privacy considerations, re sharing of customer data between retailers and Consumer Products companies
- Ever changing demand requirements by retailers, wholesalers and end consumers
- Blurring of sales channels (multi-channel integration) and industry segments -Retail, Consumer Packaged Goods, Life Sciences, Consumer Electronics-
- Growth of eCommerce and how to avoid cannibalization of consumer sales
- Margin and private label pressure
- Increasing growth in home-meal solutions and expanded food service in retail stores
- Promotion pressure and trade funds tracking - promotional mechanics need to be more adaptable even as they become more visible
- “Global Markets” require, nimbleness in global thinking, planning and execution

# Supply Chain Management & Intelligence-

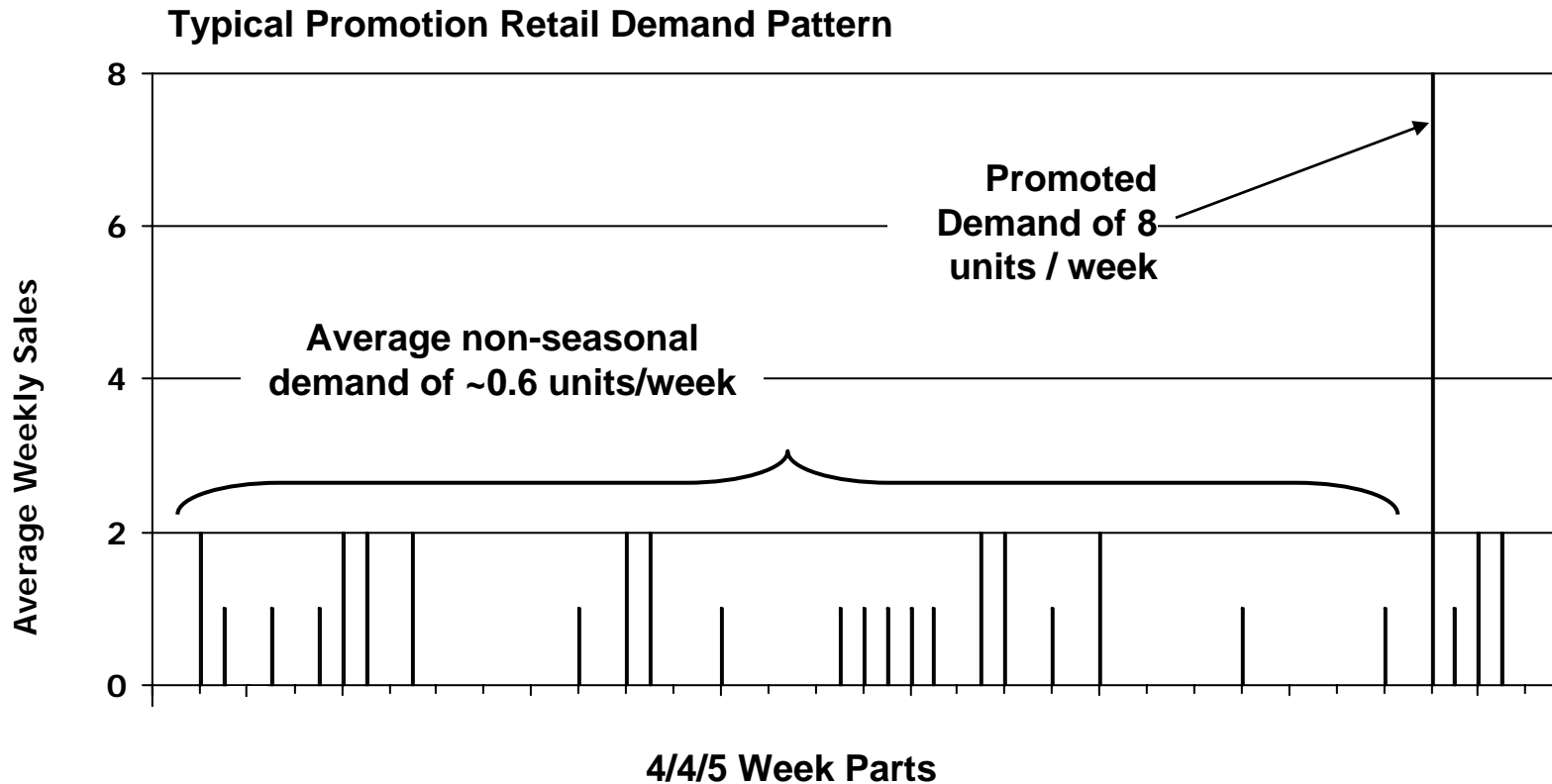
## Some general observations...

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- Warehouse optimization has become the top priority for supply chain executives, whether manufacturer or retailer, indicating the need to more effectively manage capital resources or support store growth
- Demand Driven Supply Network (DDSN) is a key enabler to increasing efficiency and consistently delivering against customer “moments of truth”
- DDSN can deliver gross margin improvements and operating / capital expense reductions through:
  - Enabling reductions in variability
  - Fully leveraging trading partner relationships
  - Providing access to real-time visibility
- “Accuracy” has risen to mirror inventory turnover among the primary metrics for measuring supply chain performance internally *and* externally
- Benefits to collaborative planning, forecasting and replenishment (CPFR) include higher in-stock and improved inventory turns. However, the most often cited barrier is integrating with other supply chain systems and processes

# Promotions (good for sales) Complicate and Often Frustrate Demand Planners



Increasing weekly demand by 5 to 10 times is quite common

# Promotion and Merchandising Trends That Impact The Supply Chain



*We must address causes of out of stocks in the supply chain to drive increased comparable sales and customer satisfaction*

**37% of retailers report a < 91% in-stock percentage for promotional merchandise**

IN-STOCK PERCENTAGE	REGULAR MERCHANDISE	PROMOTIONAL MERCHANDISE
Less than 50%	4%	7%
51-75%	7%	4%
76-80%	7%	7%
81-85%	9%	6%
86-90%	10%	13%
91-95%	32%	19%
96-100%	16%	24%
N/A	13%	19%

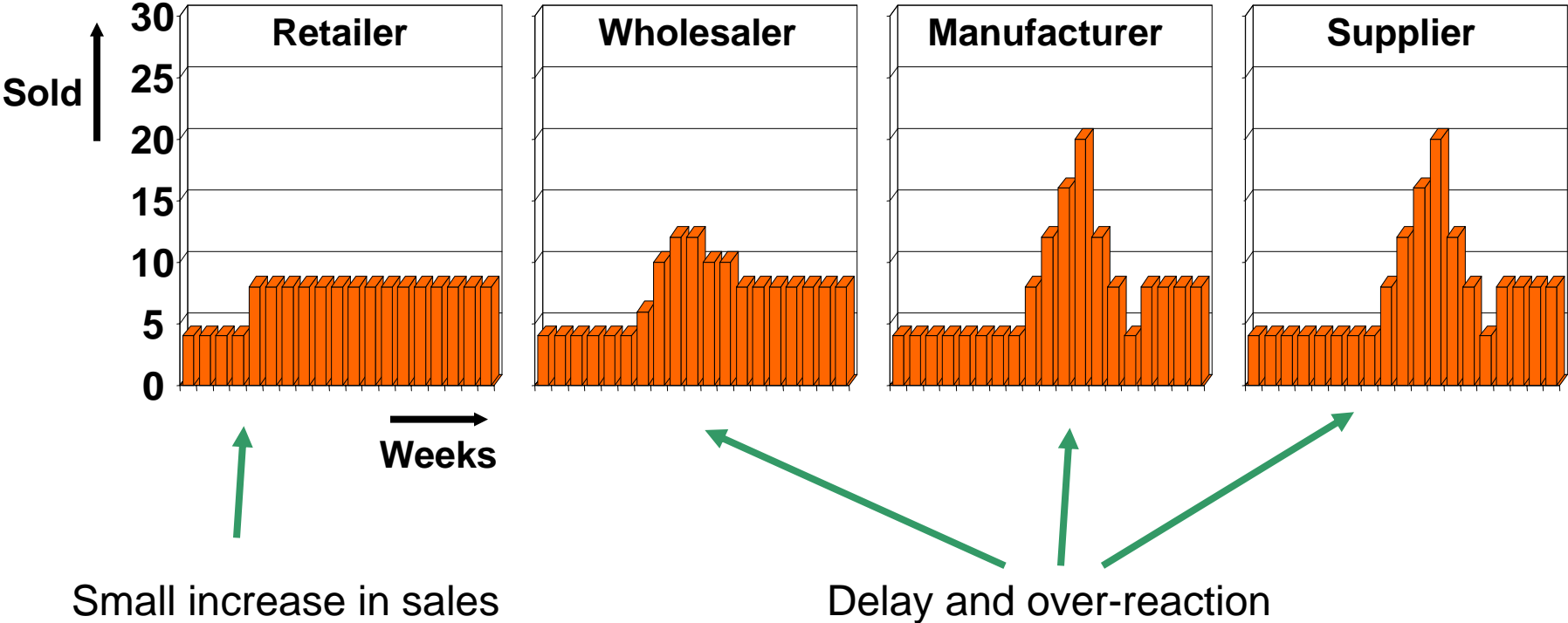
OUT-OF-STOCK CAUSES	% OF COMPANIES
Late deliveries	37%
Poor store execution	34%
Poor promotional forecasts	34%
Poor allocations	33%
Poor data integrity	30%
Product shortages	19%
Ineffective tracking of out-of-stocks	18%
Last-minute ordering	16%
Poor perfect order delivery	13%
Lack of inventory visibility	13%
Poor supplier performance tracking	12%
Irregular stocking	7%
Conflicting reports and data	6%
Multiple performance goals	6%
Rigid pallet requirement	0%
Optimization in silos	0%
Other	6%

**Execute with precision across the entire supply chain and extended enterprise to address root causes**

# The “*Bull Whip*” And It’s Effect...



A Lack of Supply Chain Visibility Leads to Chaotic Demand For all the Players



# Selling and Demand Fulfilment- Current “Strategic” Responses

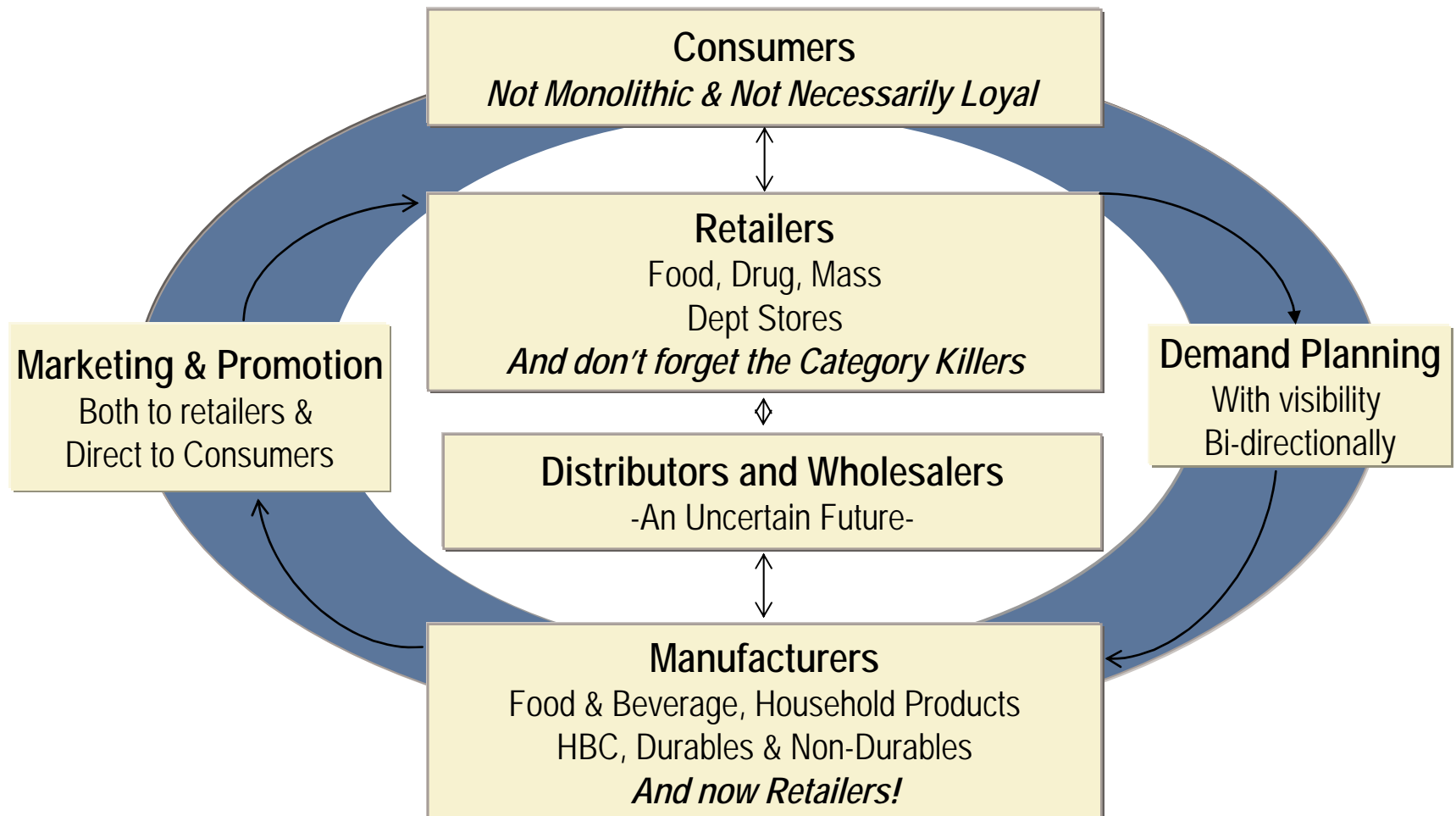
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- IT investment in customer management, tied to demand signals that can be pulled through the supply chain
- A morphing of CRM into customer intelligence efforts, all woven into the supply chain
- Trade funds promotion management, with its evergreen status, tied to:
  - Product and Brand Management
  - Increasing volume/revenue
  - Protecting and increasing margins
  - Managing regulatory requirements *and...*
  - Supply chain management initiatives

# Promotion and Demand Fulfilment- An Industry Schema...

In order to achieve competitive advantages both suppliers and retailers need to look outside their 4 walls



# ***Points of Pain* in the Retail- Supplier Extended Supply Chain**



## ■ **Forecast Inaccuracy and Margin Pressures**

- Inaccurate forecasts and distribution challenges often find partners absorbing costs in the form of too much safety stock throughout the value chain

## ■ **Category Management Complexity**

- Typically poor management of product categories due to lack of integration in managing the “extended” supply chain

## ■ **Integration Challenges**

- Reaping opportunities in increasingly competitive markets requires some form of collaboration among partners but unforeseen “friction” in the extended supply chain is a common occurrence
- Developing tight collaboration with partners takes substantial time and mutual investment

## ■ **Internal Organizational Disruption**

- Management of store-level inventory is particularly exasperated by the organizational walls between the different functions within supply chains (internal and partners)
- Process integration within the organization itself and with suppliers is often hampered by disparate systems, processes, data and/or policies

# General Status of Retail-Supplier Approach in Addressing Pains in the Extended Supply Chain

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- Retailers have typically approached supply chain management by pressure or force rather than from a value creation perspective
- As a result, most suppliers have traditionally focused on internal operational excellence to buffer against retail demands and manage margins
- Enabling technologies have been available for many years, although it is only in the last 1-2 years that value has been enabled outside of baseline transaction sharing
- Collaboration has in the past, and even in the present, been a piece-meal, band-aid approach at best.

# Organization Responses- A Wide Variance...

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- Looking backwards towards suppliers to integrate and drive cost reductions and increased agility
- Focusing internally to standardize decision platforms and information
- Looking to use the power of execution data from customer and suppliers to increase responsiveness
- Phasing in new processes and technologies in more manageable, tactical ways to gain quick wins and build momentum
- Working out ways to build trust and enable success across multiple tiers in the chain
- Taking ownership of supply chain improvements towards the retailers
- Understanding that supply chain vs. supply chain is key to competitiveness

# A Possible Solution- Replenishment and Allocation Planning



## ■ What is it?

- A process to ensure that cross-functional teams make informed decisions to balance customer demand with supplier constraints in order to achieve desired service and financial goals

## ■ Why do it?

- The allocation and replenishment of merchandise has become more complex and challenging due to several key external and internal drivers.
  - It is now imperative for trading partners to implement a consistent process
  - Multiple store formats and geographic locations add complexity
  - More stores and more items in the assortment mean more data to review and filter
  - More and stronger competition, including from private labels, requires more emphasis on promotion optimization, objective shelf planning, and replenishment

## ■ What is the business rationale?

- Through use of a consistent replenishment and allocation process trading partners can:
  - Achieve reduced out-of-stocks
  - Increased profitability through improved flow of merchandise
  - Obtain detailed sales analysis allowing for real-time event management

# Nine-step S&OP Process of Demand-Driven Supply Network Leaders\*



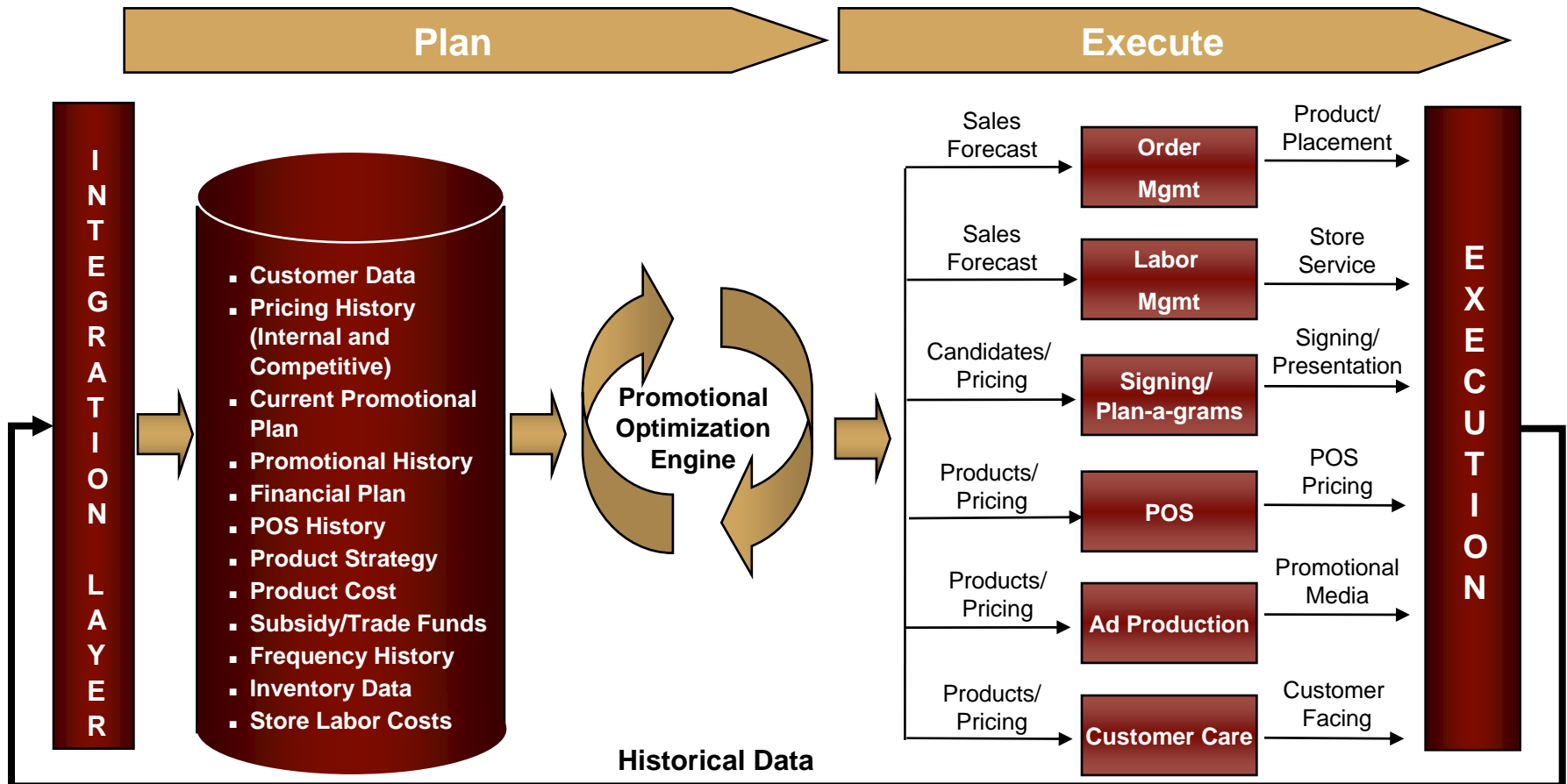
- **Step 1 – Collect sales and market input.** Gather data from sales and marketing using simple and intuitive electronic forms. Best-in-class processes review and accept input after applying a filter for bias on an analysis of historical input.
  - Step 2 – Develop a demand plan
  - Step 3 – Refine demand consensus
  - Step 4 – Shape demand based on what-if-analysis for demand and supply
  - Step 5 – Develop a constrained plan
  - Step 6 – Conduct what-if-analysis
  - Step 7 – Develop a consensus plan
  - Step 8 – Publish the constrained plan
  - Step 9 – Measure the plan and publish metrics



# Tools of the Trade- Data and Information Technology...



Requires systems and data integration to provide accurate quantification of promotional scenarios and timely execution of results.

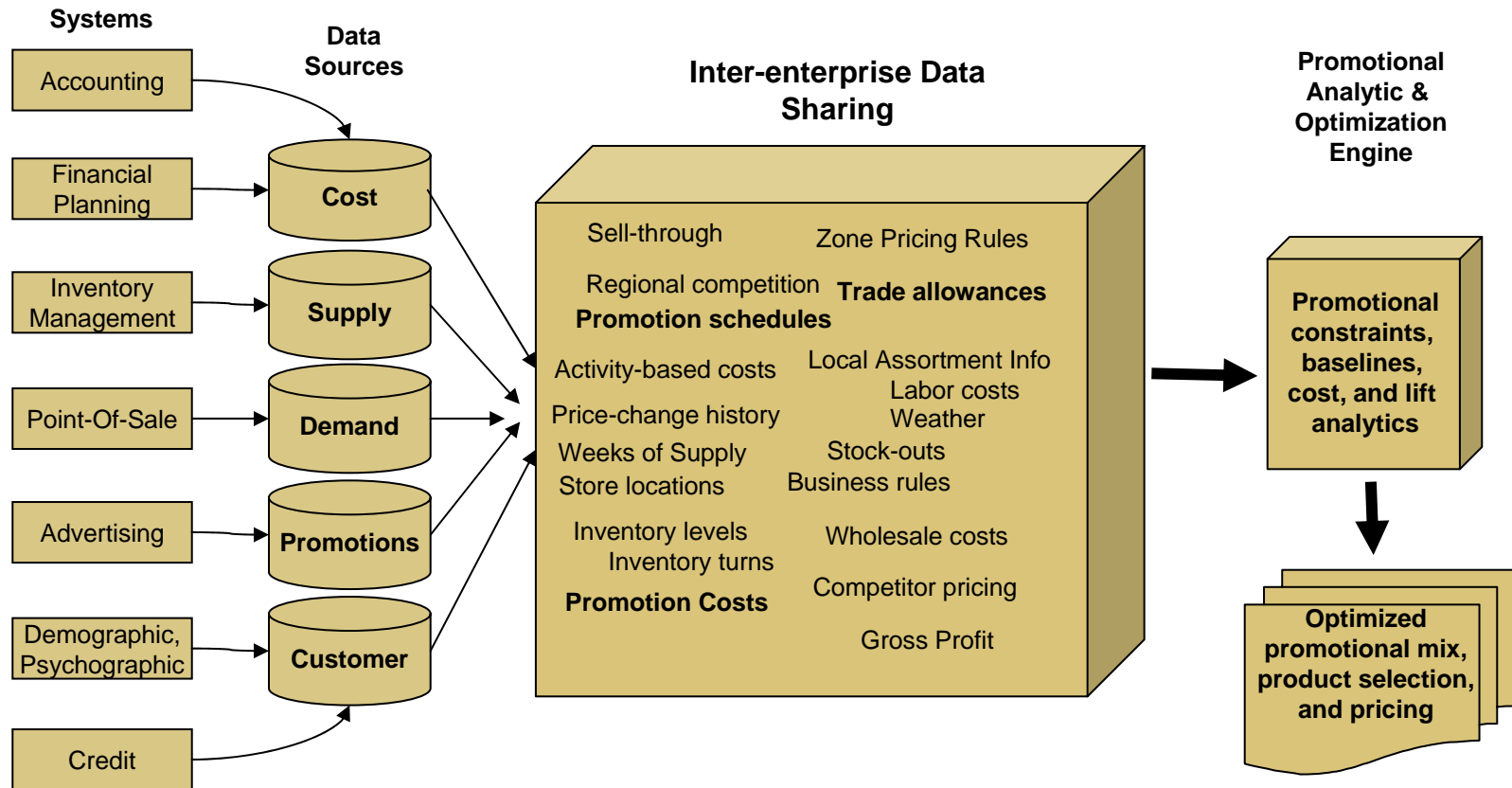


*Lack of integration often leads to poor planning decisions and negatively impacts trading partner ability to execute promotional optimization agreements*

# Inter-enterprise Integration Requirements...



Making this a reality, however, requires tight data and process integration across functional groups, including HQ, Field Operations and the Trade.



***Robust analytic and optimization capabilities are necessary for all the players to consistently predict and deliver the revenue and profit growth expected***

**Let's pause...**

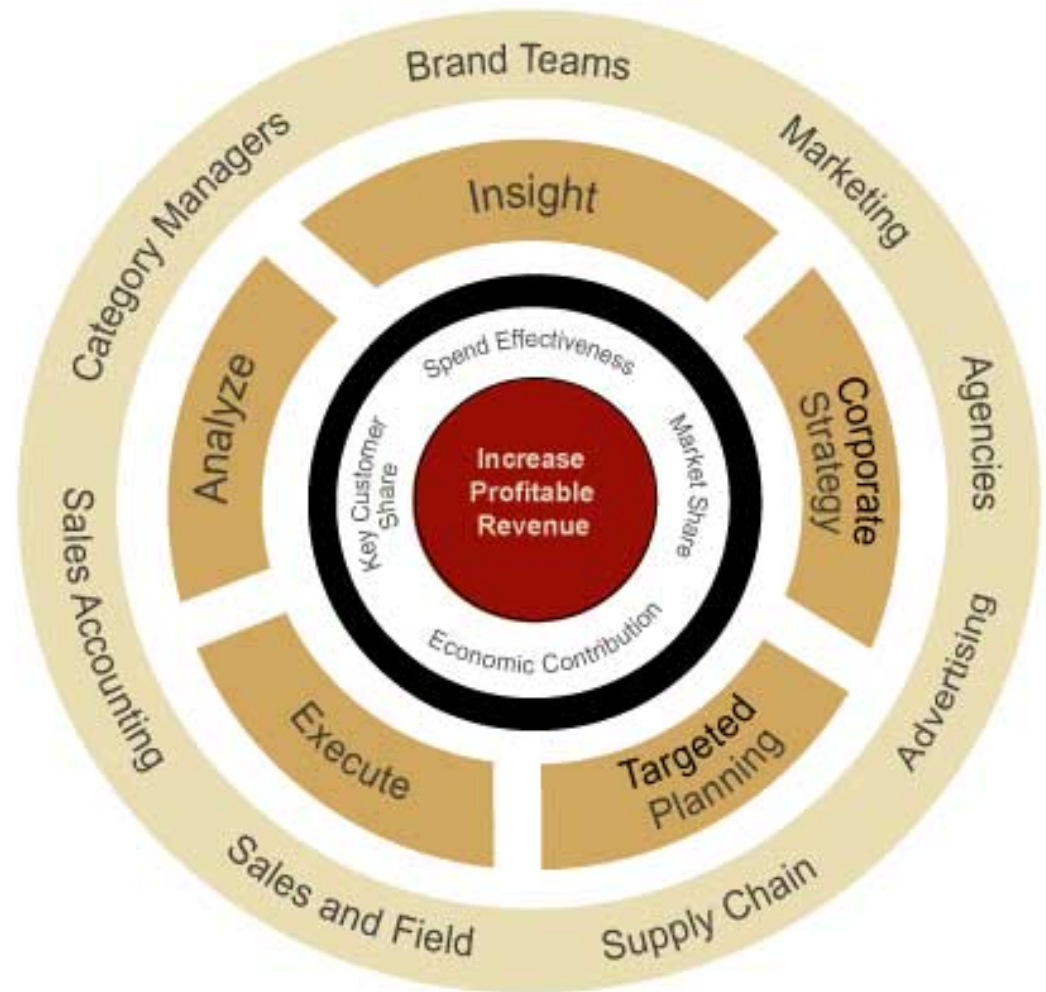
# Summary- Market & Demand Optimization



To grow revenue, consumer goods companies must continually exceed consumer expectations at the point of use as well as win the battle at that the “moment of truth.”

Achieving desired revenue and profit targets requires introducing the **right processes, knowledge, information technology, all used to drive *flawless* end-to-end execution.**

**Market and Demand Optimization** considers the key factors that drive profitable growth across the entire enterprise, and **YOU** are one of those factors!



# A parting thought...

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"You will see the industry continue to robustly invest in technologies that are 'real' and deliver 'real impact'.

Competition between retailers and manufacturers for share of the overall margin pool is intense. Technologies that deliver efficiencies and effectiveness of spending will be adopted by the industry... and rapidly."

*Randy Benz, VP & CIO, Energizer Holdings*

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*BearingPoint*<sup>TM</sup>

**Management & Technology Consultants**