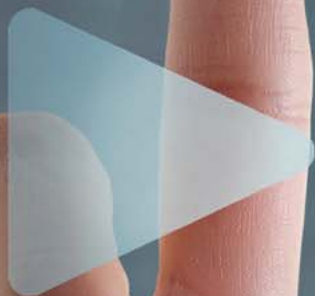


**When on-demand  
is the norm,  
can your supply  
chain respond?**



**Building a better  
working world**



The better the question. The better the answer. The better the world works.

# When on-demand is the norm, can your supply chain respond?

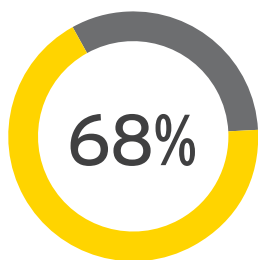
## Supply chain management must evolve

Three-quarters of consumer products and retail companies say traditional methods of value creation are increasingly disrupted, with 68% acknowledging they need to make significant changes.<sup>1</sup> Supply chain is one of the top questions our clients are grappling with: 81% of senior supply chain executives say their company's supply chain is not fit for purpose for omni-channel.<sup>2</sup>

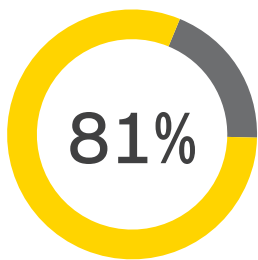
In the era of omni-channel shopping, supply chain management is no longer a company's hidden back-office function but a highly visible, consumer-facing, revenue-generating capability. This capability has the potential to determine the ultimate shopper's experience. In today's marketplace of highly commoditized and ubiquitous products and services, companies are turning to service and process innovation as their next competitive frontier.

The digital world has shattered two fundamental assumptions of the traditional supply chain: unknown demand and limited capacity. Connected shoppers, devices and objects have enabled real-time demand to be known and assessed, while a web of connected carriers, contractors, service providers and suppliers make capacity almost infinite. And the rise of the sharing economy has revealed a plethora of under-utilized resources which the best companies are exploiting in their strategies.

To succeed in this omni-channel world requires companies to evolve their supply chains into demand response networks (DRNs) – demand-driven, data-rich networks, built to motivate, sense, modify and respond to demand in real time and in an agile, efficient and sustainable way.



68% acknowledge the need for changes



81% admit their supply chain is not fit for purpose for omni-channel

1. EY global survey of consumer products leaders, 2016.

2. EY in collaboration with the CGF: *Re-engineering the supply chain for the omni-channel of tomorrow*, February 2015.

## What shoppers expect today ...

### Anytime or anywhere

**Anytime, anywhere shopping:**

Shoppers engage with brands and products through multiple channels at any time and place. Control has shifted to them and they respond with only qualified levels of loyalty.



### Personalized interactions and products

**Personalized interactions and products:**

Consumers expect their favorite retail and consumer brands to curate the products they want. They prize memorable and personal interactions with brands, for example, through co-created events, online and off-line communities, and social media conversations.



### Anytime or anyhow



**Anytime, anyhow shopping:** Shoppers expect to find, choose, buy and consume products in both physical and digital marketplaces. Service expectations are high, seamless and consistent across all channels and devices, and always on.

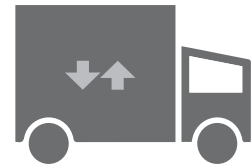


### Transparent, holistic information throughout the path-to-purchase

**Holistic information:** Consumers conduct thorough research before they buy. They demand transparent details on every aspect of the product or service, including price, positive and negative recommendations, and authentic engagement throughout the whole path-to-purchase.

### Delivery to suit them

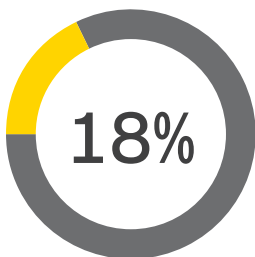
**Delivery to suit them:** Shoppers expect not only free shipping and returns but also for their purchase to arrive at a time and place that is convenient for them. They also want the flexibility to make last minute change to delivery arrangements.



## ... and the challenges of meeting those expectations

### Controlling the cost to serve

The cost of getting goods to omnichannel consumers on their terms is spiraling as demand increases. Traditional routes to market are not adequate to the task. In their rush to develop mobile commerce capabilities, companies have often bolted on systems and processes without fully integrating them with traditional channel fulfillment. As a result, many consumer goods manufacturers and retailers are experiencing continued margin erosion. A mere 18% say they are able to understand cost to serve at the granular level required.<sup>3</sup>

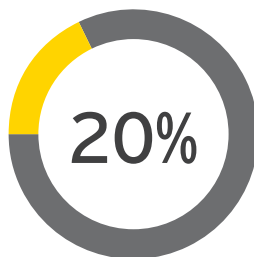


18% say they understand the cost to serve.

3. EY global survey of consumer products leaders, 2016.

### Fulfilling dynamically

Only 20% of CP companies are confident they can rapidly align supply chain activity with changes in demand.<sup>4</sup> They are struggling to address questions of where best to store inventory and how to fulfill orders from any shopper in any channel to any destination in the network. Particularly in categories like apparel, the dressing room has moved from the store to the shopper's home, meaning companies' handling of the returns process is critical.

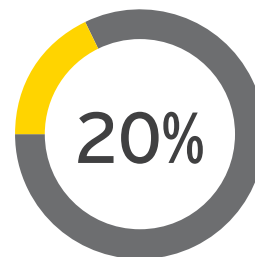


20% are confident they can align their supply chain with changes in demand.

4. EY global survey of consumer products leaders, 2016.

### Understanding big data

Digital enables direct contact with shoppers in real time and in context. Connected consumers, shoppers, equipment and devices all generate petabytes of structured and unstructured data. These data can explain demand behaviors and calibrate the impact of marketing and commercial activities. However, only 20% of CP companies say they are able to collaborate with partners to get a real-time, end-to-end view of the value network chain.<sup>5</sup> Big data can be either a minefield or a treasure box for a company depending on the extent to which cognitive analytics drive smart decision-making and performance.



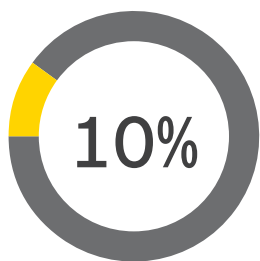
20% feel they are able to collaborate with partners to get a real-time, end-to-end view of the value network chain.

5. EY global survey of consumer products leaders, 2016.



## Reinventing your supply chain: three essential tasks

To thrive in the omni-channel world and return to profitable growth, consumer products companies must evolve their supply chains into DRNs. This is critical if they are to move beyond traditional sales forecasting to a position where they can sense and shape demand in real time – something only 10% feel they can do at present.<sup>6</sup> There are three essential tasks for completing this evolution:



10% feel they can sense and shape demand in real time.

### 01

#### Harness real-time demand signals

The first job is to map what demand signals are available, and to harvest and interpret them, so they become meaningful to the organization. They will leverage the opportunity to significantly reduce their forecast error rate and, increasingly, directly fulfill to order triggered by a connected appliance, device or other consumption “node” upstream from a physical store.

**Tomorrow’s winners will tune in to consumption patterns well ahead of traditional point-of-sale data.**

As the environment tells us where an individual is, it also announces what they need, how much they are willing to pay, what choices they are making and the overall context in which these decisions are being made. The moment these signals are captured, the organization must decide what kind of modification is needed and what customized response to trigger in the rest of the network.

**Processes have to be redrawn so demand signals and contextual information arrive clearly and swiftly.**

6. EY global survey of consumer products leaders, 2016.

Partnership with the IT organization is critical. Teams in both operations and IT must lead the digital transformation of the enterprise. Investment in sensors, beacons, listening campaigns, remote order entry and other strategies must be explored.

Companies need to build and understand their “demand curves”. With this information, they can find effective ways to modify demand behaviors as needed and to use the information to drive decisions for the next iteration – not just to prepare historical performance reports.

**Harnessing real-time demand signals in context allows companies to explore new strategies to shape and respond to demand profitably.**

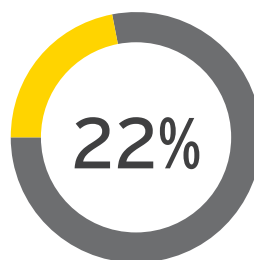
### 02

#### Align operational and commercial functions

**Too many consumer products companies still have an organization where the commercial and supply chain functions operate in silos.**

When sales, marketing, finance and supply chain all develop separate operating plans, influenced by their own agendas, it should not be a surprise that demand and supply cannot be balanced.

At present, only 22% of businesses feel able to balance go-to market objectives with supply chain capabilities.<sup>7</sup> They must break with their old habits and enable the functions to collaborate closely in order to understand demand and modify it before responding.



22% feel they are able to balance go-to market objectives with supply chain capabilities.

7. EY global survey of consumer products leaders, 2016.

This is likely to involve going back to basics but with better information, planning and executing forecasts that integrate the demand and capacity sides of the business to ensure the right products flow through the right channels to reach the shopper as she needs it.

When companies integrate go-to-market commercial strategies with route-to-market supply chain strategies, they can face demand volatility in agile and effective ways.

**The ability of the commercial and supply chain functions to collaborate will help the company focus its investments for the short, medium and long term to generate profitable growth.**

03

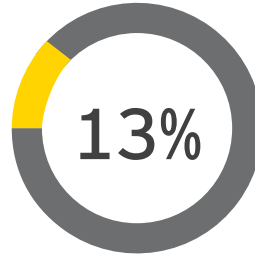
### **Actively manage the capacity network for maximum profit-to-serve**

Disruptive trends including omni-channel, “endless aisle”, growth of discounters and product personalization have caused a huge increase in supply network route-to-market options and costs.

**There is an urgent need to properly measure and understand unique “product-customer-service model” profitability to make sure the true cost to serve is known and can be optimized.**

To handle the demands of emerging channels and markets, companies can plan and execute projects that integrate the demand side and supply side of their business. This will help tap those accounts and channels, both existing and new, with the biggest opportunities at an optimal cost to serve, fueling profitable growth and service innovation.

Segmenting channels based on service requirements and commercial value is vital; today, 13% of companies say they are able to do this.<sup>8</sup> Those firms that can accurately calculate the service and cost implications of requests from channels and customers, and undertake joint value-creation initiatives, will witness a major impact on their bottom line.



**13% say they can segment channels based on service requirements and commercial value.**

### **A continuing evolution**

The consumer is not standing still. As omni-channel continues to evolve, so too will supply chain management need to. Companies must change their paradigms in order to accommodate new realities. Creating a DRN needs innovative thinking and diversity of approaches. Engaging operations in the quest to deliver superior levels of service is a “nested” purpose that must be aligned with the mission of the organization as a whole.



#### **About the author**

Maria Rey-Marston is a Partner Principal in EY’s Global Supply Chain and Operations and Performance Improvement advisory practice. She leads teams across EY to help clients innovate and optimize processes in ways that deliver superior market response and improved financial performance.

Maria has worked with leading beverages and consumer goods companies around the world, supporting them to execute strategies that connect supply chain operations, innovative commercial processes and financial performance.

Her experience includes projects in operating model design, business strategic transformation, performance management, supply chain strategy and digital demand strategies. Maria is passionate about sharing her knowledge with the next generation of leaders and encouraging them to act. She has taught at graduate level in a number of top-tier universities.

8. EY global survey of consumer products leaders, 2016.

## About EY

EY works with many of the world's leading consumer products and retail companies. We deploy our proprietary tools, methodologies and data to help them reinvent their supply chain, unlocking its full strategic value. We enable businesses to identify opportunities and implement solutions that will drive competitive advantage and create profitable, sustainable growth.

With more than 2,400 supply chain and operations professionals across 150 countries, EY is a truly global organization. This connectivity, including alliances with businesses such as Procter & Gamble, means we combine deep operational consulting capability with industry-specific leading practices.

EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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### How EY's Global Consumer Products Sector can help your business

Consumer products companies are operating in a brand-new order, a challenging environment of spiraling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behavior and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. Our Global Consumer Products Sector enables our worldwide network of more than 17,500 sector-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can assist you in making more informed, strategic choices and help you execute better and faster.

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