IBM

The Consumer Driven Supply Chain

Meeting the needs of today's demanding consumers
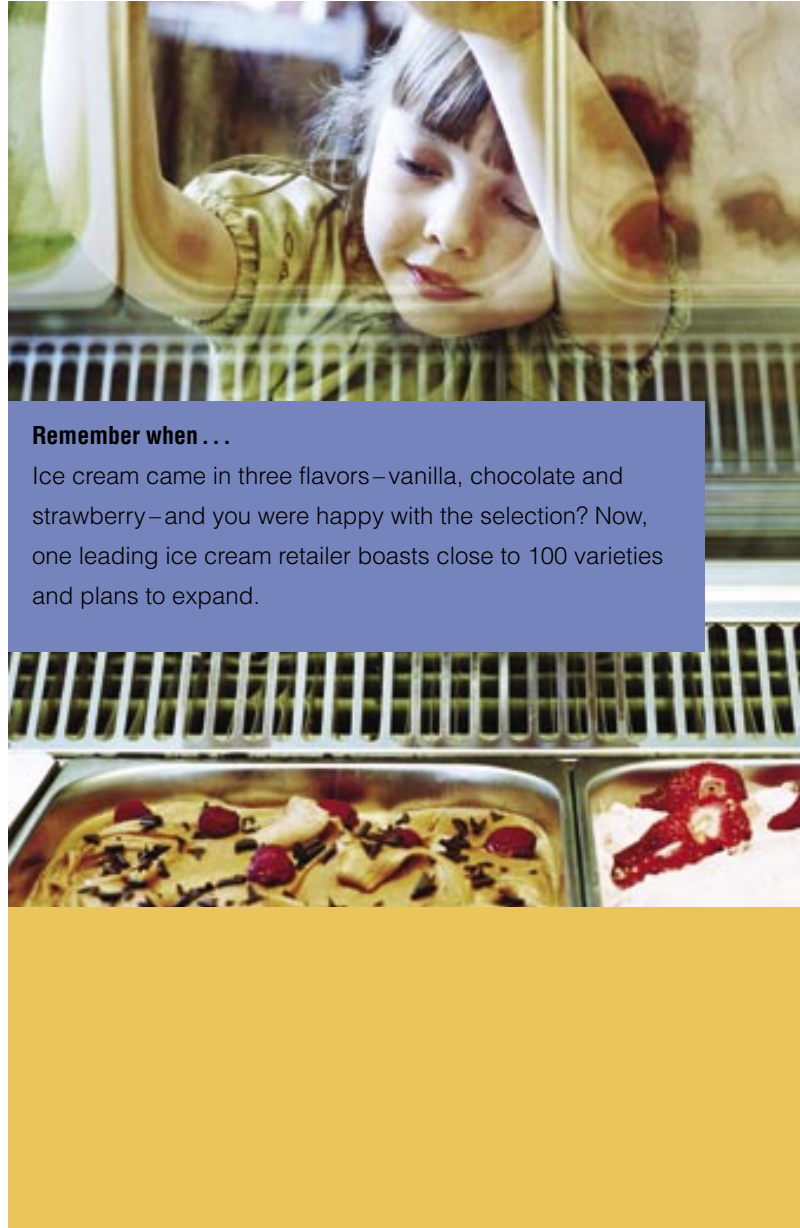
Exploding demand and *the solutions to manage it*

In today's retail and consumer products environment, it's consumers who rule. If they don't find what they want at one store, they'll find it across the mall or on the Internet – at a price they want to pay. These consumers are a diverse lot and picky, too. Armed with an unprecedented abundance of product information and reviews, they demand a dizzying selection of products. Take toothpaste, for instance. No longer content with just mint or regular flavor, they now want tartar control, whiteners, anticavity, sensitive, herbal, natural or baking soda – in a tube, pump or squeeze dispenser.

This explosive transformation of consumer demand is driving complexity and cost into the supply chain at exactly the same time retailers and their consumer package partners need to invest more in meeting consumer needs. On one hand, these executives are faced with a consumer base that is demanding more. On the other hand, they are hindered by outdated supply chain models that already have trouble keeping up.

To meet these challenges, industry leaders are beginning to build specialized supply chain models that are fast, responsive, low cost – *all with a laser focus on meeting consumer demands*. But as many are discovering, that's often easier said than done. Initiatives such as Global Data Synchronization, Collaborative Planning Forecasting and Replenishment (CPFR) and Radio Frequency Identification (RFID) compete for attention and cloud the central question: Which investments will deliver the most tactical benefit – and position us for a long-term competitive advantage and ROI?

IBM understands this challenge. What's more, we can deliver cutting-edge supply chain solutions that enable you to move tactically within a broader strategy. You get supply chain solutions that can not only improve your ROI now, but also provide the building blocks for long-term supply chain optimization.

Remember when . . .
Ice cream came in three flavors – vanilla, chocolate and strawberry – and you were happy with the selection? Now, one leading ice cream retailer boasts close to 100 varieties and plans to expand.

Trends reshaping the industry

To survive and thrive, industry executives need to understand how dramatic consumer changes are transforming the retail landscape. Households are becoming more diverse. Consumers not only have more access to product information, but are exercising more control over the information they take in. What's more, the consolidation of mega-retailers is forcing the remaining players to differentiate themselves. Those who remain in the middle are in the riskiest position. The one bright spot is that rapid advances in technology are providing levels of visibility and flexibility never before possible.

Three consumer trends are having a particularly profound impact on consumer product and retail supply chains:

Consumer diversification – Gone are the days when the average Nielsen household with two adults and 2.3 children was content to buy average, plain products – thus allowing retailers and manufacturers to compete effectively with average, plain products. The last few years have brought dramatic demographic and lifestyle changes, along with an explosion in information available to consumers. This has rendered traditional means of tracking consumer purchase behavior irrelevant and exploded the range of products retailers must offer in order to remain competitive. There are no more mass markets … only niches.

Consumer polarization – Not only do today's consumers demand a greater range of products customized to their particular needs, but their purchase behavior is polarizing into "new luxury" and "mass value" extremes. Fleeing the middle, consumers are becoming less interested in paying a middling amount of money for a middling quality product. Instead, they want to pay rock-bottom prices for basic items with good enough value, but at the same time are willing to pay top dollar for high-end goods they perceive as particularly important. The family that opts to pay premium prices for organic vegetables and free-range chicken, for example, might refuse to pay for designer clothing. The consumer who thinks it's crazy to pay $5.00 for a morning latte, will happily plunk down $60,000 for a European sports sedan because it makes them feel good about themselves.

Powerful mega-retailers – Mega-retailers like Wal-Mart, Target and Tesco are consolidating and have successfully staked out the "mass value" end of the spectrum. This is forcing remaining retailers to either differentiate themselves by moving to the high end or stay in the middle and wither. As the chart below shows, many retailers are moving to the "new luxury" end of the spectrum just to survive.

Companies at both ends of the value spectrum are moving to develop highly specialized and differentiated supply chains that can quickly deliver what their consumers want at the price they want to pay. These supply chains will have different characteristics depending on the company's position on the value spectrum. It's important, therefore, to define your value proposition as you begin your transformation.

Consumer polarization

A shift in consumer purchase is forcing a change in fundamental product strategy
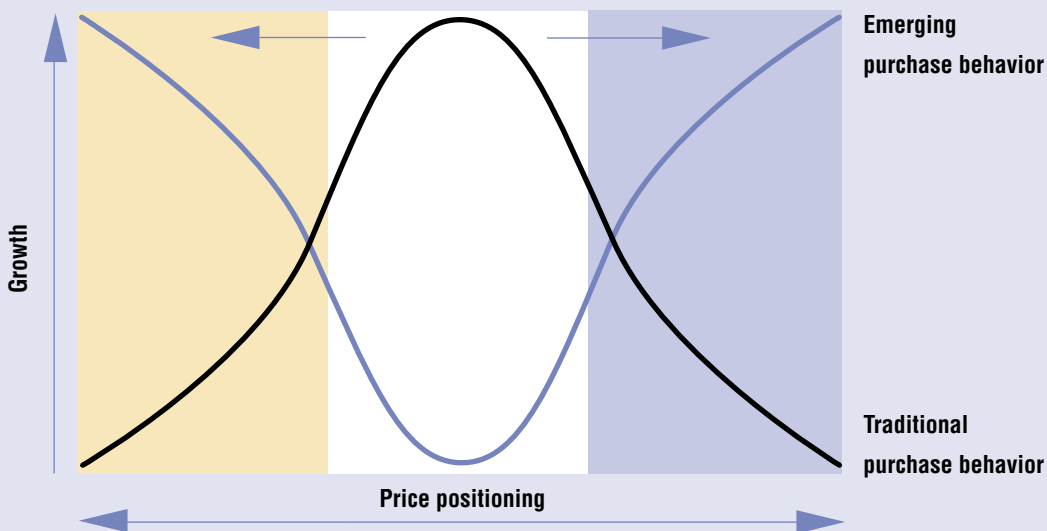
- Consumers are trading down to "*mass value*"
- "Good enough" quality for rock-bottom prices; no differentiated value
- Consumers are trading up to "*new luxury*" providers
- Willing to pay significant premiums for differentiated value

The consumer-driven supply chain

Industry leaders realize that in order to remain competitive, they need to stay focused on meeting the needs of consumers. To that end, they are building consumer-driven supply chains that will enable them to sense consumer demand and respond to it *in realtime*. These new supply chain models are designed to be flexible and responsive, as well as high volume, high velocity and low cost. These leaders know they need supply chains that will enable them to:

- Sense changes in consumer demand
- Synchronize planning, manufacturing, distribution and replenishment
- Improve on-shelf availability
- Lower waste and stock holding
- Lower operating costs

To be truly consumer driven, supply chains must also enable collaboration both within enterprises and with key trading partners. This represents a fundamental shift from the past in which manufacturers and retailers often focused more on maximizing their own internal systems than on working together to meet the needs of consumers.

The objective of today's industry leaders is simple: Provide high levels of service and a superior consumer experience at every opportunity while also speeding time to market, trimming costs and optimizing productivity. More than ever, industry leaders must build collaborative trading relationships characterized by shared visibility, workflow and tight integration – with the common goal of satisfying fickle consumers.

Measuring success: A consumer-driven supply chain vs. a traditional supply chain

Consumer-driven companies measure success by what happens on the shelf:

- Total supply chain response time from demand signal to shelf delivery in days or hours
- Quality defects per million at the retail shelf
- Zero out of stocks on the shelf
- Speed to deliver innovation to the shelf

Traditional companies measure success away from the shelf:

- Order cycle to the retailer distribution center in weeks or days
- Quality defects per million at the plant
- Number of perfect orders to the retail distribution center
- Forecast accuracy in replenishing the retail distribution center
- New product design, manufacture and delivery cycle

Consumer driven vs. traditional

How to tell if your supply chain is consumer driven? The IBM Consumer Driven Supply Chain model focuses on the value it delivers to the consumer. It bases planning on real-time, store-level data that describes item movement via innovative technologies such as RFID. Plus, it uses flexible planning cycles all the way down to an hourly cycle. These supply chains are highly collaborative and integrated and help enable visibility across all players.

In contrast, the traditional supply chain focuses on opti-mizing the internal system. Instead of basing plans on point-of-purchase data, it uses other data such as warehouse withdrawal or store receipts. This is often batch data at the case or brand level that describes what happened yesterday or last week – as opposed to what is happening right now. What's more, traditional supply chains operate in a series of silos with little integration, collaboration and visibility among various players.

Raw material supplier → Raw material warehouse → Manufacturer → Distribution → Manufacturer warehouse

What it means to be consumer driven: Transforming the supply chain

The traditional supply chain model
- Generic,"one size fits all"
- Bases decision making on data that is old, batched and removed
- Is characterized by planning cycles that limit responsiveness
- Operates in a series of silos limiting collaboration and visibility
- Measures the optimization of internal supply chain metrics

The consumer-driven supply chain
- Specialized, fit for purpose
- Bases decision making on a realtime, store level view to consumer demand
- Is characterized by flexible planning cycles, to an hourly or conceivably sub-hourly level
- Is highly collaborative and integrated, with shared visibility across the ecosystem
- Measures the supply chain on consumer impact

The IBM Consumer Driven Supply Chain framework

Although many industry executives embrace the consumer-driven supply chain concept, they are often not sure where to begin. Using the IBM Consumer Driven Supply Chain framework, we can help our clients address tactical business challenges while also building an extensible and reusable platform that helps support the full consumer-driven vision.

In short, you can start small, think big and scale up fast.

Geared for rapid deployment, the following offerings can be implemented separately or together:

Consumer Driven Supply Chain Strategy Services – These strategic consulting services help retail and manufacturing executives understand the big picture – from the business opportunity that the consumer-driven supply chain represents to their specific enterprise to the viability of newly available technologies within their environment. IBM works with clients to assess current capabilities, needs and requirements, then develops a supply chain strategy that will get them where they need to go. The result is a roadmap that can accelerate ROI, while laying the foundation for long-term strategic advantage.

Transport to retailer   Retailer DC   Transport to store   In-store handling   Shelf
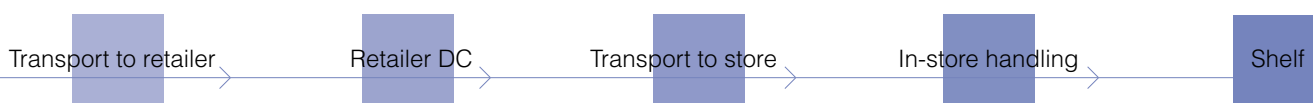
Consumer-driven supply chain
A map of IBM's solution capabilities

Strategy services	Business model development	Business case		Roadmap development	SC organization design	
Business processes	Best-of-breed ISV applications					
	Accelerated innovation	Sourcing and procurement		Consumer-driven replenishment	Operations excellence	Product quality and compliance
Process enablers	RFID	Enterprise data management		Trading partner integration	Enterprise performance management	
Enabling technology	WebSphere® Product Center	WebSphere business process modeling/workflow		WebSphere Business Integration	DB2® information management software	Tivoli® intelligent management tools
	WBC gateway	Communications				WPS portal
IT service capabilities	Infrastructure strategy and planning	System integration and testing		System management and maintenance	IT support and help desk	Business resilience

Business Process and Supporting Applications – All the IBM business process expertise, integration skills and partner applications necessary to support clients as they build a consumer-driven supply chain. This includes an array of discrete offerings – from the most basic and tactical to the more strategic and leadership focused:

- *Accelerated innovation* – Processes and applications designed to help manufacturers develop accelerated product lifecycle management capabilities – from translating a change in consumer purchase behavior into a new product concept, through design and development, and finally the arrival of the new item on the shelf.
- *Sourcing and procurement* – Help for controlling costs by streamlining the methods for buying materials, components and finished goods.
- *Consumer-driven replenishment* – Optimized supply chain planning processes that tie replenishment to consumer demand.
- *Operational excellence* – Fast, flexible and efficient supply chain executional processes and applications that enable agile responses to changes in consumer demand.
- *Product quality and compliance* – A toolkit that helps retailers and their manufacturing partners meet increasingly onerous product quality requirements and track and trace regulations from trading partners and governments.

Process enablers – Cutting-edge solutions that will serve you today and tomorrow:

- *RFID* – Radio Frequency Identification, a powerful enabling technology that streamlines the supply chain and ultimately transforms the retail ecosystem – as long as it is coupled with business processes that provide it context and unlock its full potential.
- *Enterprise data management* – A set of tools and capabilities for aggregating, managing, sharing and synchronizing product information both within the enterprise and with trading partners.
- *Trading partner integration* – A collaborative trading partner portal providing a single window through which trading partners can access the full range of collaborative supply chain processes required to break down functional boundaries and enable the consumer-driven supply chain.

ISV partnerships – Best-of-breed applications from leading software vendors – including Manugistics, SAP, Retek, JDA, PeopleSoft, EXE, Manhattan Associates, SeeCommerce, Alien and Intermec (to name a few) – to augment and help improve processes unique to business.

Enabling infrastructure – Proven components of IBM's middleware collaboration and integration infrastructure solutions including the WebSphere suite of process modeling and simulation tools, WebSphere Product Center, WebSphere Business Integration software, role-based portals, DB2 information management tools, Tivoli intelligent management tools and IBM @server® systems. Communication defines the best way for data and information to flow among external and internal business partners and customers, and includes WebSphere portal and gateway tools, plus XML, EDI and EDIINT skills.

IT service capabilities – All the help you need to make it work: infrastructure strategy and planning, network consulting, system integration and testing, system management and maintenance, IT support and help desk and business resilience.

IBM: The recognized industry leader

IBM is uniquely positioned to provide the industry experience, supporting technologies and implementation strength that is necessary to support the industry on its path to transformation. We not only understand the big picture, we can also help you develop a roadmap for achieving it. In fact, our combination of business consulting services; software, middleware and partner software; and business process integration capability can deliver results every step of the way.

With more than 2,500 consumer product and retail professionals who are veterans of many successful engagements worldwide, IBM is the recognized leader in each of these areas:
- Supply chain management
- RFID
- Business process integration
- Project consulting services
- Partner software relationships

Acting as your trusted advisor, we'll help ensure that every solution you implement today can be leveraged across your strategic consumer-driven supply chain tomorrow.

Faster time to market
When the United Kingdom's second-largest clothing retailer needed a way to get its apparel into its outlets while it was still fashionable, they turned to IBM Global Services for help. The result: a worldwide extranet for supply chain management that netted a 100 percent payback in the first year. Not only did the company achieve its goal of faster time to market, but it also reduced supplier error through more accurate communications, improved work and resource scheduling, increased stock visibility, and it freed up its staff for more strategic tasks.

Gaining first-to-market advantage
Since average product and service turnover in the food and drink sector is moving upward of 21 percent, companies can achieve a significant competitive advantage by shortening their development time. Taking advantage of IBM e-business capabilities, one of the world's premier drink businesses reduced its time to market from 14 months to four months. As a result, it was able to outsell its forecasts by a factor of three from launch – and flex its supply chain to maintain its ability to meet this increased demand.

The next step

Find out more about how IBM can help improve your ROI today…and position your business for success tomorrow. IBM knows the key industry issues and has defined the answer: the Consumer Driven Supply Chain. What's more, we can deliver the technology and services to build it.

Contact us today to find out how to get started or visit our Web site at:

ibm.com/industries/distribution

Tell us where it hurts

IBM understands the key industry issues and has solutions to help address all the pain points in your supply chain.

Procurement
• Lower cost of goods sold
• Reduce time to market
• Improve margins

Logistics and distribution
• Lower warehousing costs
• Reduce transport costs
• Improve picking accuracy

Supply chain
• Reduce inventory
• Reduce lead time
• Improve in-stock position

Manufacturing (CP)
• Lower manufacturing costs
• Increase asset utilization

CIO and senior IT executives
• Help keep up with the pace of change
• Lower cost of operations
• Drive supply-chain systems in realtime

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