

# Leveraging the supply chain to optimize customer and shareholder value

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# Introduction



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## Executive summary

- 10+ years in Supply Chain operations consulting with PRTM & PwC
- Helps clients transform business and supply chain operations into strategic differentiators in order to improve customer experience and drive shareholder value
- Completed projects with clients across Retail, Consumer Products, Food & Beverage, Luxury Goods and Electronics

## Relevant expertise

- Designed differentiated Supply Chain strategy to support multi-billion dollar Omni-Channel retail growth opportunity
- Led a Lean Manufacturing and S&OP transformation to drastically reduce order to lead times and inventory and improve service levels for a luxury goods company
- For a global food manufacturer, provided a go-to-market and supply chain strategy to help the company's largest division expand their DSD operations into new channels to accelerate growth

# About PwC's supply chain operations practice

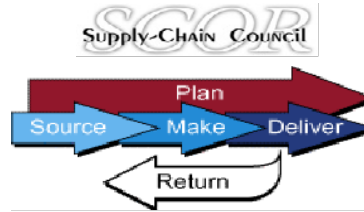
## Providing innovative insights

We "wrote the book" on supply chain strategy.



## Setting SC standards

We developed and introduced the Supply-Chain Operations Reference-model® (SCOR®).



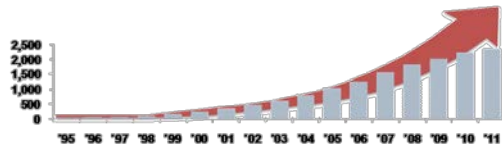
## Fostering SC leadership

We contribute regularly to the supply chain industry and academic publications worldwide.



## Practicing what we preach

We conducted more than 2,000 supply chain transformation projects over the last 10 years.



## Enabling excellence with unparalleled benchmarks

We are a leading source of Supply Chain benchmarks, with 1,000+ companies in our database (Performance Mgmt. Group, PMG).



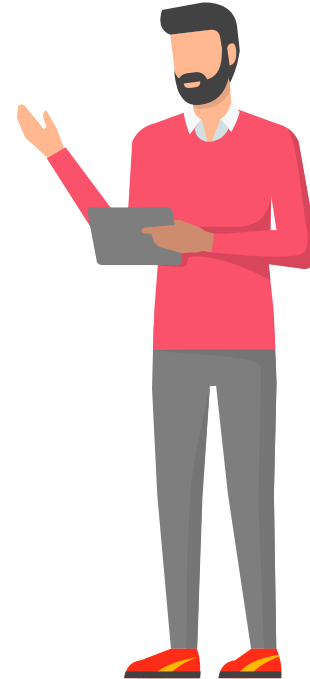
## Developing partnerships and experience on the leading edge of technology

We have hands-on experience leveraging technology to drive supply chain transformations.



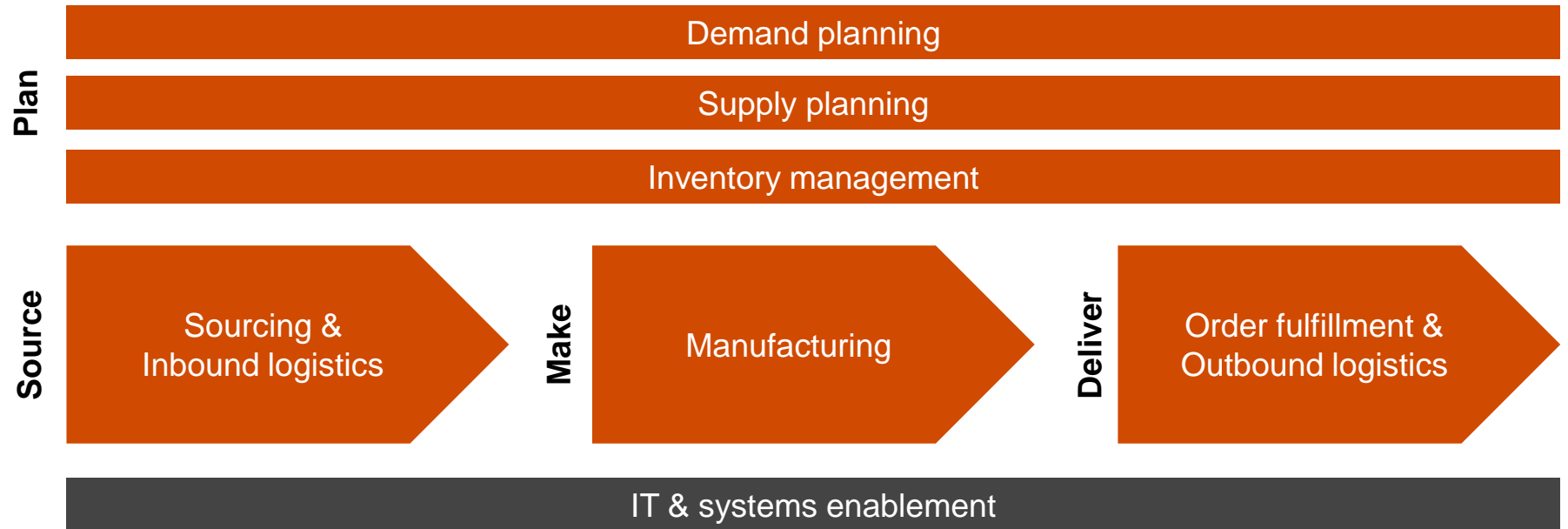
# Agenda for today

- Supply chain fundamentals and key value drivers
- Challenges for today's supply chain leaders
- Effective and emerging supply chain optimization strategies
- Select case examples
- Wrap up and Q&A



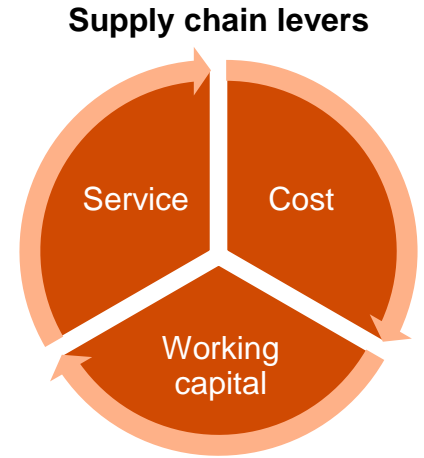
# The supply chain is a complex set of business functions responsible for managing the flow of goods from supplier to customer

## Core supply chain functions





Optimizing the supply chain is the art and science of balancing service, cost and working capital to maximize customer and shareholder value



**Business outcomes**



# A number of factors are putting new pressures on supply chain management and optimization



Customer expectations

- Broader, more customized product assortments
- Shorter lead times (Prime effect)
- Inventory visibility



Fulfillment complexity

- Buy in store
- Pick up in store
- Deliver to home

Omni Channel



Input costs

- Logistics: Driver shortages & trucking cost
- Labor: availability & minimum wage policies

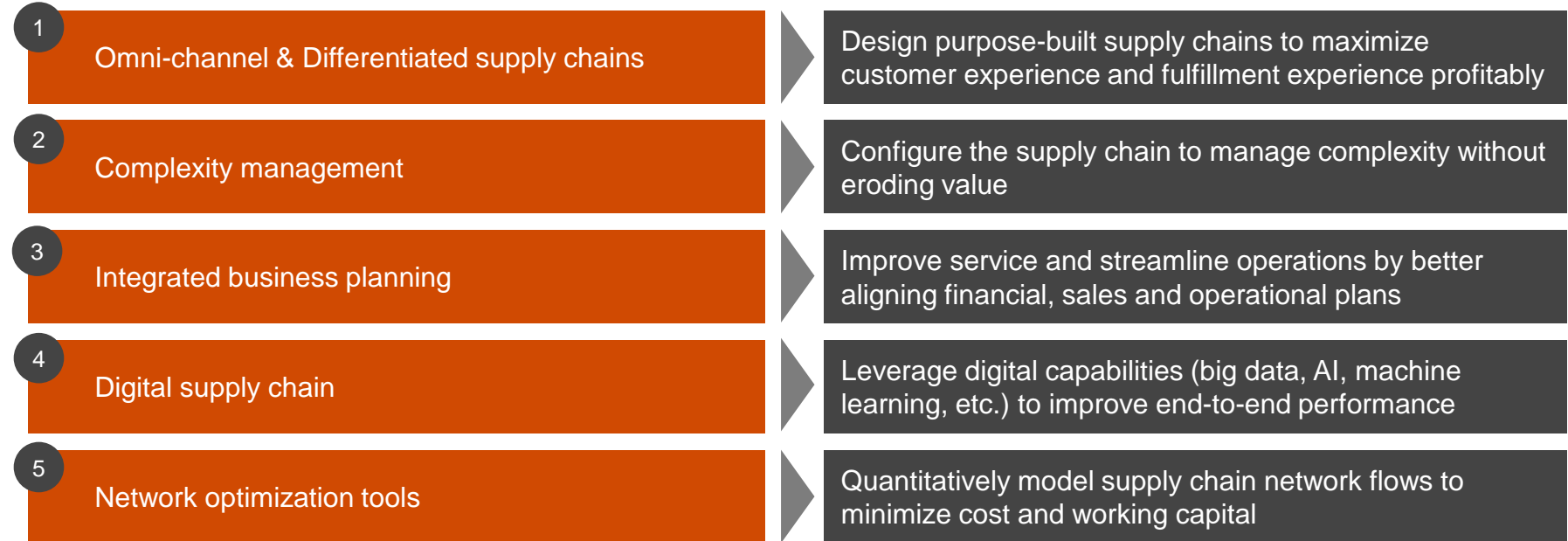


Economic outlook

- End of bull market predictions
- Lower CEO confidence
- Politics & global trade conflicts (China trade war & Brexit)

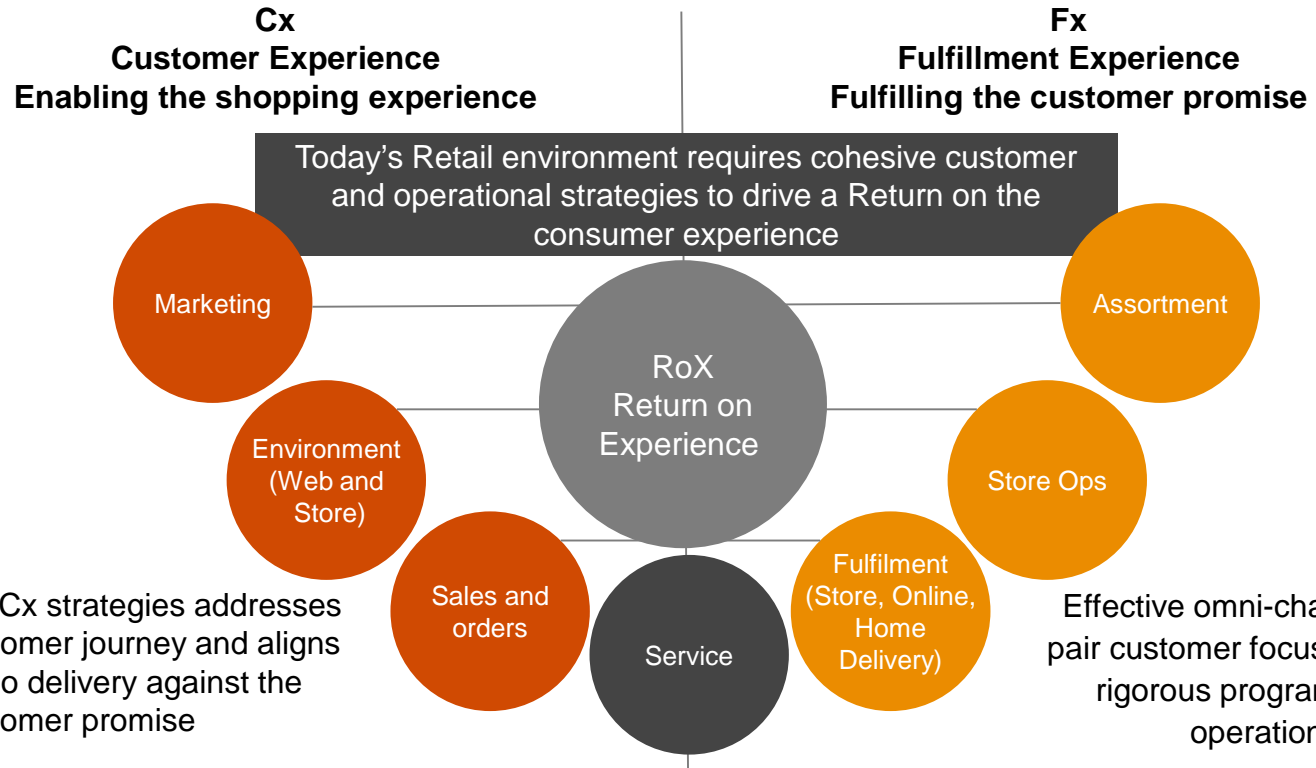
# However supply chain practices and capabilities continue to evolve to meet these challenges and drive both customer and shareholder value

## Supply chain optimization strategies





# Successful Omni-channel strategies consider both the Customer Experience (Cx) and the Fulfillment Experience (Fx)



Leading class Cx strategies addresses the whole customer journey and aligns operations to delivery against the customer promise

Effective omni-channels operations pair customer focused strategies with rigorous programs to minimize operational costs

# Omni-channel client case – Building differentiated supply chains to enable improved Fx without eroding margins

## Client situation

A leading big box retailer was experiencing margin erosion and customer satisfaction challenges resulting from immature Omni-Channel supply chain capabilities

## Solution

Develop a set of differentiated supply chains purpose built to serve the needs of each channel at the optimal cost

In-store

Optimize store replenishment frequency to minimize excess inventory

BOPUS

Develop solutions to enable store to operate as fulfillment warehouse

Home Delivery

Enable dedicated delivery network infrastructure to free up store capacity and increase last mile efficiencies

Parcel

Stand up automated direct fulfillment centers to increase service consistency and minimize cost

# As assortments and SKUs under management increase, companies must leverage complexity management to maintain margins

## SKU Rationalization & Liquidation

Remove low-turning and unproductive SKUs from the assortment

### Pros:

- ✓ Often considered 'quick fix' to capacity or working capital challenges from SKU 'long tail'

### Cons:

- ✗ Risk unhappy customers
- ✗ Potential inventory write off
- ✗ Root causes may not be addressed

## Network Configuration

Configure the supply chain network to support 'C' SKUs at higher levels of productivity

### Pros:

- ✓ Maintains availability of specialized items at reduced cost

### Cons:

- ✗ Network changes may take time to implement

## Product Lifecycle

Enable processes to proactively assess SKU productivity throughout lifecycle

### Pros:

- ✓ Begins to address and manage root cause

### Cons:

- ✗ Change hurdle can be significant

# Complexity Management Client Case – Centralizing ‘C’ SKUs to minimize footprint, inventory and labor cost

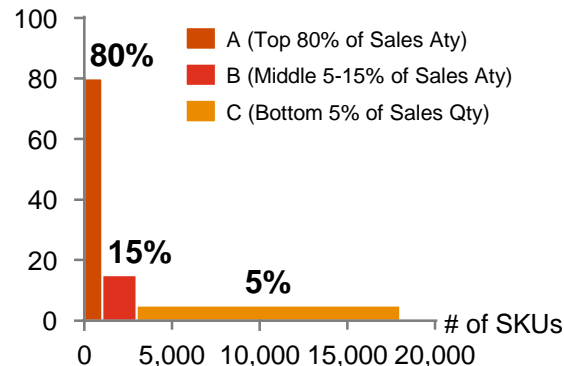
## Client Situation

A large consumer-focused distributor maintained an assortment of roughly 18k SKUs stocked in 13 facilities nationwide. Though most SKUs were low productivity ‘C’ SKUs driving excess working capital, facility and labor cost

## Situation

Leverage multiple complexity management strategies to reduce working capital, labor and facility cost

### % of Sales Quantity



### SKU Rationalization & Consolidation

Cull the very bottom 2k SKUs that sell less than one item per month and at less than \$50 per item

### Network Configuration

Centralize C SKUs in one facility to reduce facility cost and working capital & add focused automation for A vs. C SKU operations

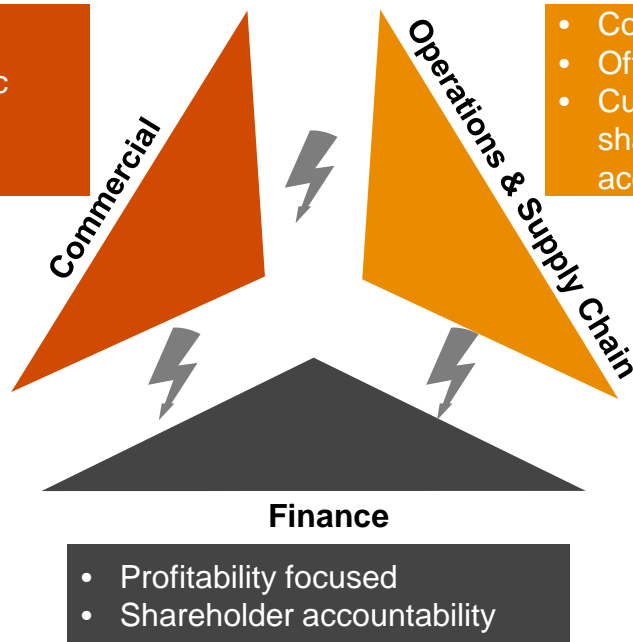
### Product Lifecycle

Create regular reviews of portfolio and define ‘hurdle’ conditions to assess SKU productivity

# Finance, commercial and operational plans are often misaligned, driving margin erosion from missed service and increased cost & working capital

## Planning constituents

- Sales focused
- Often optimistic
- Customer accountability



- Cost focused
- Often constrained
- Customer and shareholder accountable

- Profitability focused
- Shareholder accountability

## Typical misalignment & resulting impacts

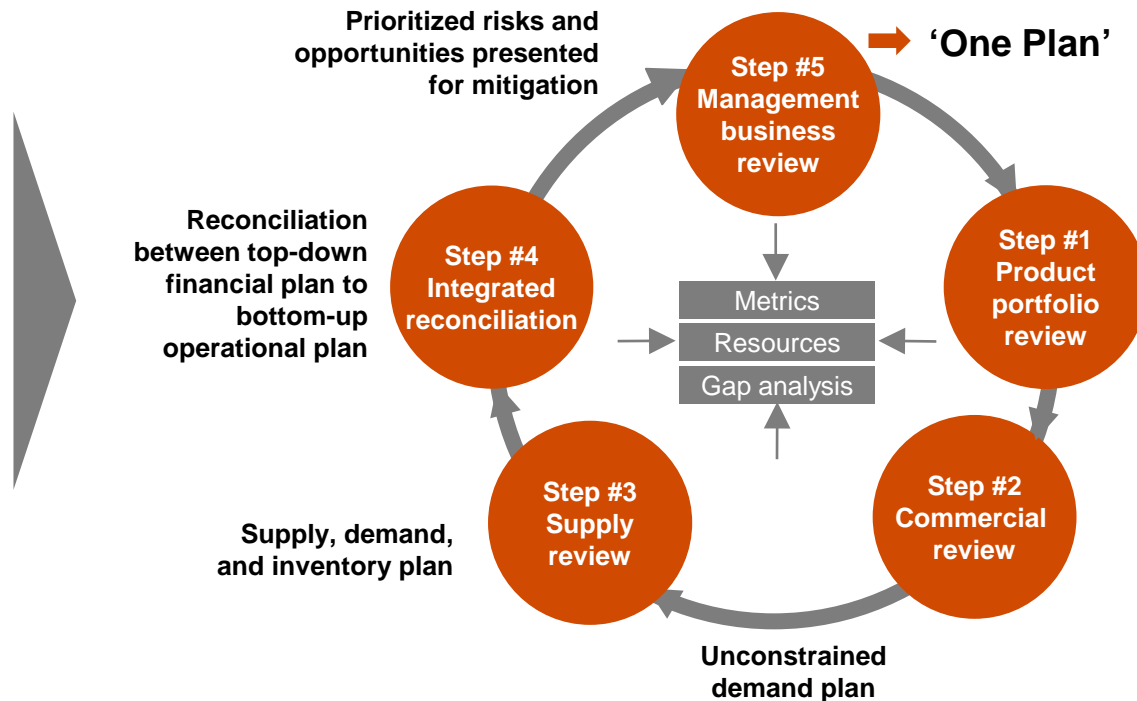
- ⚡ Sales and operational plans not linked to financial plans
- ⚡ Forecast or promotion changes within lead times
- ⚡ Lack of information to make the 'right' trade-off decisions

- Not enough product
- Too much product (inventory)
- Expensive corrective actions (e.g., expedited logistics)

# Integrated Business Planning helps coordinate the enterprise to align on the 'one plan' that best balances customer and shareholder value

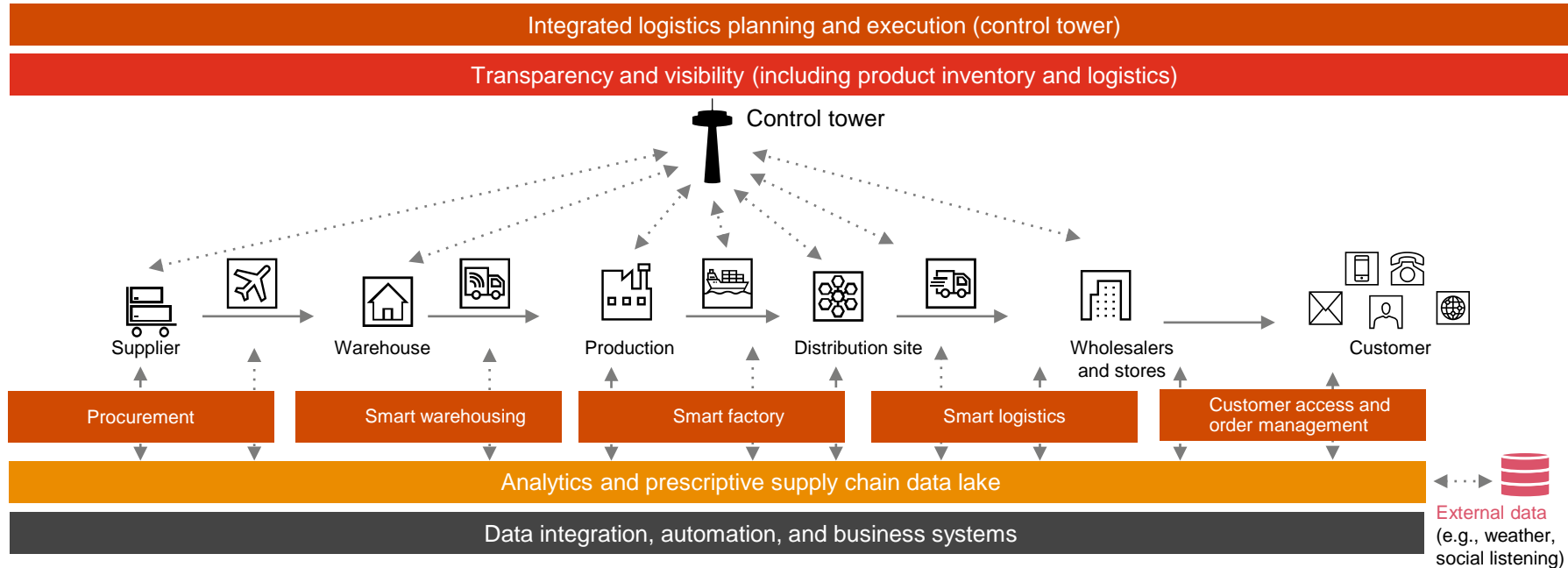
## 5 Step IBP Process cycle

- 1 Review and define any changes to product portfolio
- 2 Commercial teams inform the 'Unconstrained' demand plan
- 3 Supply Chain teams inform supply positions and potential constraints
- 4 Combined teams reconcile demand with supply
- 5 Any significant trade-offs or other decisions resolved by C-suite



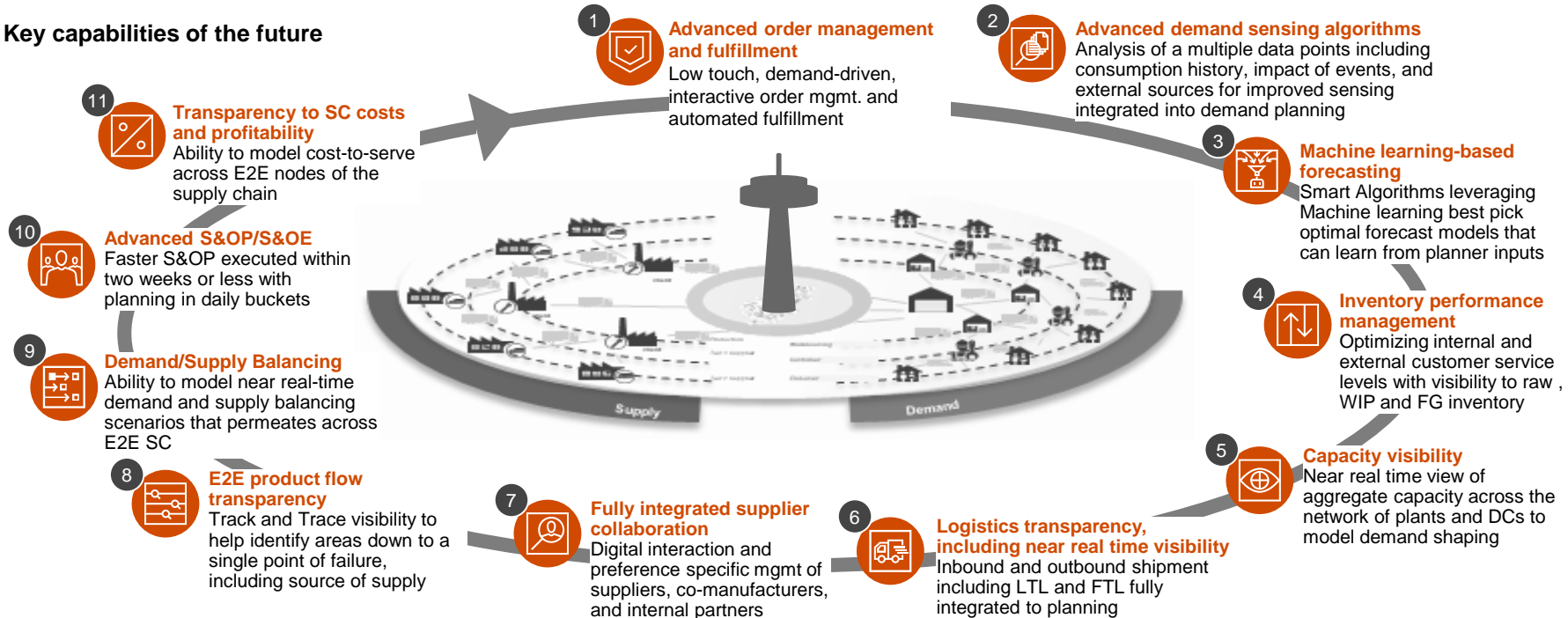
# The future supply chain will be digitally connected to enable greater visibility, efficiency and responsiveness

## Digital supply chain framework



# Digital capabilities are rapidly expanding, enabling the connected supply chain of the future

## Key capabilities of the future

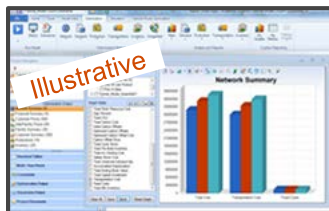
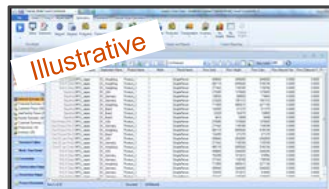




# Supply chain network optimization tools can inform current network inefficiencies and enable long term infrastructure planning

## Supply chain network modelling overview & Applications

Supply Chain network modeling uses powerful software & analytical tools to create a virtual view of the supply chain



### Visualize current state network

- Data visualization will highlight key opportunities for improvement, such as lane redundancies, service area coverage gaps, and at risk markets

### Scenario modeling

- Run various scenarios to assess tradeoffs between strategically defined levers
- Enables sensitivity analysis to project network capacity based on growth projections

### Inventory optimization

- Model target inventory levels across the network by facility and product type based on key parameters and constraints
- Understand regulatory effects on the inventory levels of key product types

# Network Optimization Client Case – Network optimization to improve network and transportation efficiency

## Client situation

Within a four-year period, the client experienced a 45 percent increase in transportation and distribution costs. Its distribution network was large and inefficient with inadequate supply chain processes

## Situation

Leverage network modeling and logistics benchmarking to define the optimal network footprint and target cost model

## Network modeling

**Approach:** Modeled the client's 29 distribution centers and ran scenarios to identify optimal locations considering demand, operating efficiency, and cost

**Result:** Reduced DC footprint by half while maintaining service levels

## Benchmarking

**Approach:** Benchmarked transportation rates and contracts, determining opportunities were not commercially driven but network, process, and organizationally driven

**Result:** Resourced transportation and imposed compliance policies

## Baseline network



## Optimized network solution



# Wrap up – Key takeaways from today

Supply chains are under pressure from **multiple angles**, putting customer and shareholder **value at risk**

**Optimization strategies** can be leveraged to address these challenges, enabling the supply chain to **improve cost, working capital** and **service performance**

Every supply chain is different and optimization strategies must be applied considering **key enterprise factors** such as maturity, ability to change, investment resources and urgency

**Digitization** and **data** are enabling greater **planning, visibility** and **connectedness**, allowing for more effective supply chain management



What questions do you have about supply chain optimization?

# Thank you

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