# CONTENTS

**Introduction** .......................................................... 5

**Demand Management** .................................................. 6
  - My Take: Let’s Admit Seven Demand Management Mistakes of the Last Decade ........................................... 7
  - Three Lies and a Truth .................................................. 11
  - Seven Sins of Demand Planning ....................................... 16
  - Trading Places .......................................................... 18
  - Revenue Management: Beyond Smoke and Mirrors ................. 21

**Demand Driven** .......................................................... 24
  - Bait And Switch ........................................................ 25
  - Change the Conversation ............................................... 30
  - It Is Just You and Me, Dude. The Secret Is Safe. Promise. ...... 32
  - Good-Bye to a Global Pioneer ......................................... 35

**Demand Sensing** ........................................................ 37
  - Stasis ............................................................................. 38
  - Can You Take the Risk? .................................................. 40
  - How Do I Know If I Am Ready? ........................................ 43
  - Learning to Speak the Language of Demand ....................... 45
  - Things Have Changed. What Do We Do NOW? ...................... 47
  - Another Concorde? ....................................................... 49

**Demand Shaping** .......................................................... 53
  - Wrong People on the Bus? .............................................. 54
  - Turning Up the Heat: A Hot Topic on a Hot Afternoon ............ 56
  - Demand Cacophony ........................................................ 59

**Digital Supply Chain** .................................................... 62
  - Digital Path To Purchase: An Outside-In Opportunity .......... 63
  - What Should Be the Role of the Store? .............................. 65
  - Taming the Supply Chain. Will It Ever Be Social? ............... 69
  - Convergence Is REAL. It Is NOW. .................................... 72
  - More Than Just an F-WORD ............................................ 75
  - Put Your Money Where Your Mouth Is............................. 79

**Supply Chain Insights Training Sessions** .......................... 84

**Supply Chain Insights’ 2014 Global Summit** ....................... 85
Organization are hard-wired for supply. They want to seize demand opportunities, and they have goals to build demand-driven organizations, but they are unable to move forward because it requires a new way of thinking.

Here I share a collection of blog posts on demand. Each is grouped around a specific topic:

- Demand Management
- Concepts of Becoming Demand Driven
- Demand Sensing
- Demand Shaping
- Digital Supply Chain

They should be read like a series of short stories. The articles were written over the last four years of travel to help companies with their supply chain. Many are reflections of the pain that organizations are experiencing around demand.

It does not have to be so hard. We just have to unwire for supply to redefine demand.

Good luck on your journey,

Lora Cecere, a.k.a. the Supply Chain Shaman

Founder of Supply Chain Insights LLC
DEMAND MANAGEMENT
My Take: Let’s Admit Seven Demand Management Mistakes of the Last Decade

Within an organization, the words “Demand Planning” stir emotions. Usually, it is not a mild reaction. Instead, it’s a series of emotions defined by wild extremes including anger, despair, disillusionment, or hopelessness. Seldom do we find a team excited about demand planning. Supply chain leaders want to improve it, but are not optimistic that they can make improvements.

After two decades of process and technology refinement, excellence in demand management still eludes supply chain teams. It is the supply chain planning application with the greatest gap between performance and satisfaction, and is the area with the greatest planned future spending. For most teams, it is a conundrum. It is a true love and hate relationship. They want to improve demand planning, but they remain skeptical that they can ever be successful in improving the process. As shown in Figure 1, demand planning is important to supply chain leaders, but also an area with very large gaps in user satisfaction.

Figure 1.

In our research at Supply Chain Insights, we find that demand planning is the most misunderstood of any supply chain planning application. Companies are the most satisfied with warehouse and transportation management and the least satisfied with demand planning.

Teams are also confused on the process. What drives excellence in demand planning has changed and well-intentioned consultants give bad advice. In this article, we share insights on the current state and give actionable advice that teams can take to make improvements.

Supply Chain Management (SCM) concepts are now 30 years old. The first use of the term supply chain management in the commercial sector was in 1982. Previously, the focus was on a more siloed approach to improving manufacturing, procurement or logistics. When they were lumped together, it gave birth to the concepts of demand planning and integrated supply chain planning.

The first demand planning applications were introduced late in the 1980s. Today, most supply chain professionals believe that the supply chain planning solutions have driven steady progress to reduce costs, improve inventories and speed time to market. What we find is that we have actually moved backwards over the course of the last ten years on growth, operating margin and inventory turns. We have improved days payable, but this has pushed costs and working capital responsibility backwards in the supply chain, moving the costs to the suppliers.

To move forward, we have to admit the mistakes of the past. We need to fail forward. In this journey to sense and shape and use demand information to drive a more profitable response, leaders have to confront a number of mistakes made in the design of demand processes over the course of the last decade. Here we start with the seven that we see the most often:

1) One-Number Forecasting. It Is a Hoax. Well-intentioned consultants tout the concept of one-number forecasting. Eager executives drink the magic elixir. But, they realize too late that this is overhyped and too simplistic. As a result, the concept adds, does not decrease, forecast error. The reason? It is too simplistic. The people who push this concept do not understand demand planning.

A demand plan is hierarchical around products, time, geographies, channels, and attributes. It is a complex set of role-based time-phased data. As a result, a one-number thought process is naïve. An effective demand plan has MANY numbers that are tied together in an effective data model for role-based planning and “what-if” analysis.

A one-number plan is too constraining for the organization. A forecast is a series of time-phased numbers carefully architected in a data model of products, calendars, channels and regions. The numbers within the plans have different importance to different individuals within the organization. So, instead of one number, the focus needs to be a common plan with marketing, sales, financial and supply chain views and agreement on market assumptions. This requires the use of an advanced forecasting technology and the design of the system to visualize role-based views that can only be found in the more advanced forecasting systems.

2) Consensus Planning. In the last ten years, the concept of consensus planning was advanced by the industry with the belief that each organization within the company could add insight to make the demand plan better. The concept is correct; but for most, the implementation was flawed. The issue is that most companies did not hold groups within the organization accountable for bias and error. Each group within the company has a natural bias and error based on incentives, and unless the process has discipline around this reporting, the process of consensus forecasting will distort the forecast and add error despite well-intended efforts to improve the forecasting process.

I have worked with one company that has redesigned their collaborative demand planning processes three times. Each time it was to improve the user interface to make data collection easier by sales. Not once did they ever question the value and
appropriate use of the sales input or apply discipline on the input that was driving a 40% forecast over-bias. I struggle with why more teams do not apply the principles of Lean to consensus planning process through Forecast Value-Add Analysis. This is best described by Mike Gilliland in his book *The Business Forecasting Deal: Exposing Myths, Eliminating Bad Practices, Providing Practical Solutions*.

3) Collaborative Planning Forecasting and Replenishment (CPFR). This process was the most widely adopted in the consumer packaged goods industry. The design of the process was for manufacturers to collaborate with their retail partners on the building of a demand plan for the extended network. This process, termed Collaborative Planning Forecasting and Replenishment (CPFR), was designed to align the manufacturer’s demand plan to the retailer’s and reduce the bullwhip effect. The assumption was that the retailer’s forecast would provide better insights.

The maturity of the retailer forecast was never considered. The issue is that the majority of retailers have poor forecasts, and the process never accounted for the inherent bias and error of the retailer forecast. When a consumer product company measures forecast accuracy and holds retailers accountable for bias and error, there is usually only one retailer that measures up to the test and requirements of CPFR. This retailer is Walmart. For the rest, the process of CPFR has increased demand error. Bad inputs lead to a bad output.

4) Data Model Design. Forecasting What to Make Versus Forecasting the Channel Demands. The traditional technique is to forecast what manufacturing should make. This has changed to modeling what is being sold in the channel. This difference, while it may sound trivial, is a major difference. It requires a step for demand translation. Forecasting channel demand reduces demand latency and gives the organization a more current signal. It also allows the augmentation of the forecast with demand insights to improve the quality of the forecast. For most companies, this requires a re-implementation of the demand planning technologies.

5) Rewarding the Urgent Versus the Important. Time after time, we see companies implement demand planning technologies and improve forecasting processes, but not improve the overall results of the supply chain. The issue is the lack of training on how to “use the better forecast signal.” Most supply-centric teams are not clear. They see it as a set of numbers to be tightly integrated; whereas, the more mature teams see it as probability of demand to be used in their network design and supply planning models. For them, it is not as much about the specific number of demand, it is about the demand pattern and the probability of demand.

6) 80% Is Good Enough. When it comes to a demand planning implementation, the devil is in the details. Seasonality, causal factors, usability, and the depth of predictive analytics are critical. This can only be determined through the use of the software in conference room pilots. Unfortunately, teams rush to implement versus spending time to understand the capabilities of the different packages. The best teams carefully evaluate the pros and cons of forecasting packages through testing in conference room pilots.

7) Focusing on “Sell into” the Channel Versus “Sell through.” Most organizations are only looking at the modeling of “sell-into the channel” versus “sell-through the channel.” By sensing demand at different channel points, and managing the inventories in the channel, manufacturers can avoid returned products and
obsolescence. I was recently speaking at the Institute of Business Forecasting (IBF) conference and a leader of a mature demand-planning process was speaking. His comment stayed with me, “I can always get better on demand planning. We can work on this over time; however, time is of the essence to measure the velocity of product movement of every channel buffer point. If we screw up the management of inventories and the sensing of new product launch, it is the difference between success and failure.” So many times, the concepts of demand planning are seen as passive and detached from the organization. In this case, the supply chain leader took ownership of channel demand through the channel, and has gotten promoted three times since I last heard him speak. The shift is invaluable to the organization.

Looking Forward
So while companies want to move forward, and the desire is to re-implement demand planning, in our opinion, they cannot be successful unless they admit the mistakes of the past.

Would love to know your thoughts. Anything that I have missed?
Three Lies and a Truth

Originally published on October 20, 2012

When new groups come together, the forming process is often awkward. Teams want to know each other, but introductions are strained. So, how can they do it quickly and move on to solving business problems? Ice breakers help. One of my favorites is the game, “Three Truths and a Lie.” In this team activity, people who do not know each other list four statements and ask the group to guess which statement is false. It is usually fun and revealing.

This week, I played a variant of this game with my audience. I spoke at the Kinaxis event (#kinexions12), and I asked companies to answer the question, “Which of the following statements is true?” I played three lies and a truth with the group. Most were surprised at the answer.

Here is the list:

- Supply chain technology implementations have reduced inventory.
- Companies should implement supply chain best practices.
- Companies that have focused on collaboration in the supply chain have built competitive advantage.
- Supply chain excellence matters.

Seemingly, most supply chain leaders that are reading the press, or going to industry conferences, would believe that all four statements are true. However, based on the research for the book Bricks Matter, I now sadly know that only one of these statements is true. Here I share insights on my journey to understand the truth.

The Lies That I Have Told

As a supply chain analyst for the last ten years, I have a passion for writing. I have averaged about 100 articles a year. I love the process of research. For some absurd reason, that I don’t quite understand, I have a passion for supply chain. I believe that it is the lingua franca of the business. Unknowingly, I have told three lies. I have discovered the truth through the research for Bricks Matter. Here they are:

The Lie of Inventory Reduction

Over the course of the last decade, I have carefully recorded and reported presentation after presentation from conference after conference and interview after interview with supply chain leaders. Repeatedly, I heard that supply chain applications have saved costs, reduced inventory and improved customer service. I wanted to believe, and in fact, I do believe that most projects did have short-term impact. However, the results were not sustained and the impact cannot be seen on the balance sheets.

How do I know? I have been fortunate over the last year to work with Abby Mayer (@indexgirl). Abby and Mikey on my team have built a database of financial ratios from publicly available balance sheets from 1995-2012. We have been mining the data to understand the trade-offs between growth, profitability, cycle and complexity ratios. We are trying to understand how supply chain leaders have raised the bar at the intersection of these four sets of metrics on the supply chain effective frontier. The results have been eye-opening.

The problem is that when I examine balance sheets over the last 13 years, as shown in Table 1, I find that few industries have reduced inventories year-over-year. Consumer electronics has done the
best job. The reason? I think that there are many. Many would argue it's because supply chains grew more complex. Some would say that it is because supply chains became longer due to outsourcing. I struggle to think that this is the reason. The consumer electronics industry experienced the blow of both of these business impacts simultaneously. In fact, I believe that if these issues solely drove up inventory that the consumer electronic inventories should have soared higher than other industries. They did not.

Table 1.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive (n=40)</td>
<td>56.7</td>
<td>51.6</td>
<td>45.9</td>
<td>-21%</td>
</tr>
<tr>
<td>Chemical (n=6)</td>
<td>89.7</td>
<td>76.3</td>
<td>81.8</td>
<td>-5%</td>
</tr>
<tr>
<td>Consumer Electronics (n=13)</td>
<td>74.9</td>
<td>59.8</td>
<td>61.8</td>
<td>-30%</td>
</tr>
<tr>
<td>Consumer Packaged Goods (n=13)</td>
<td>90.9</td>
<td>89.5</td>
<td>91.9</td>
<td>-7%</td>
</tr>
<tr>
<td>Pharmaceutical (n=24)</td>
<td>170.6</td>
<td>169.2</td>
<td>153.9</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Supply Chain Insights LLC, Corporate Annual Reports 2000-2012  
Automotive Industry Average comprised of public companies (SIC code 3711) reporting in One Source with 2012 annual sales of $5 billion or greater  
Chemical Industry Average (SIC code 2819 and 2899)  
Consumer Electronics Industry Average (SIC code 3651)  
Consumer Packaged Goods Industry Average (SIC code 2840-2849)  
Pharmaceutical Industry Average (SIC code 2834)

I think that the answer is deeper. I believe that the more insidious reason was that most supply chain projects were implemented as discrete projects and not part of a systemic business transformation. Leaders focused on process after process that was not designed to be part of a larger supply chain strategy. Silos in the organization do not know how they align because over 85% of companies are not clear on supply chain strategy.

I also believe that it is because the organization is not incented to manage cash-to-cash metrics. The strong functional silos focus on their own metrics which seldom include the cycle metrics of inventory turns, working capital or cash-to-cash. When working capital has been reduced, it is usually a story of reducing payables. For many this has increased supply chain risk due to a weakening of the supplier base.

Technologies were implemented as projects. Well-intended projects and process built-in isolation were a major barrier to meeting the goal. There was no accountability. As a result, most of the results were not sustainable over time. For more on the impact of supply chain technologies on inventory, check out the blog post “Why Have We Not Reduced Inventory?”

The Lie of Best Practices

As I have studied the practices of supply chain management, I do not think that we have BEST practices. Instead, I think that they are EVOLVING. I think that any consultant that talks to you about best practices should be nicely escorted to the lobby and shown the curb.

In the last decade, we have moved through the evolution of the efficient supply chain (lowest cost per case) to the reliable supply chain (right product, at the right time at the right cost) to the resilient supply chain. In 2009, the definition of supply chain resiliency was driven by the impact of the Great Recession. In 2011, insurance claims and business continuity amplified the discussion.
Last year, $450 million of profits were lost in the Japanese auto industry and Intel lost $1 billion in revenue due to floods in Thailand and the associated impact on Thai suppliers.

Over and over again, I see that the evolution of supply chain processes is born largely from failure. This heightened awareness on business continuity has increased the emphasis on supplier development and is changing the processes in procurement to focus from squeezing costs and terms to building relationships. But, it does not stop there.

With the rise of corporate social responsibility, and the discussion of natural capital accounting focused on air, water, land and biodiversity, companies are learning that only a tiny fraction of nonrenewable resources are under their direct control (reference Carbon Disclosure Project 2012). This measurement of intertwined, nonrenewable resources will push a new definition of supply chain management. It will force the discussion of supply chains to value networks. Companies will be forced to own their entire supply chain. However, there is more to the story.

As growth flattens and commodity pressures escalate, market-to-market orchestration and the building of outside-in horizontal processes is the next frontier. The momentum to build market-driven value networks with bidirectional orchestration of demand and supply variability is the aspiration. Today’s supply chains were built assuming that manufacturing is the primary constraint and that oil was $10 per barrel. West Texas crude is now selling for 3X the price in the 1990s. Materials and commodities are becoming the new supply chain constraint, and there are few technologies to guide direct procurement visualization and optimization. This was the roots of Kinaxis, and new players like SCA, Signal Demand and Triple Point are entering the fray.

I agree that there are best practices to implement a technology. Industry templates, commonly defined interfaces, and IT standards; but we cannot confuse the implementation of a technology with the definition and implementation of holistic end-to-end value networks. I think we are a LONG way from having supply chain best practices.

Ironically, my observation is that the same thing that got us here will be a barrier for the future. It is the definition of the “supply chain organization.” For many years, the evolution of supply chain practices was slowed by the lack of a supply chain organization. Now, based on the work that I am doing
with companies, I am seeing the inverse. The narrow definition of the supply chain organization has become a barrier. When you say building the “end-to-end value chain” and there is push back that this is not the job of the supply chain, you have problems.

Unfortunately, the supply chain organization has been defined too narrowly. It is frequently named supply chain; but only has control over logistics or distribution. The definitions in Europe are more constraining than those in the US. The irony is that while these teams state that they want to build the global end-to-end value network, that there is no one in the group that is responsible for looking at business decisions end to end. In fact, in most organizations where I am working today, I struggle to find anyone that has an end-to-end focus.

Unfortunately, the door is not swinging both ways. Our drive for supply chain excellence, put the sign over the door. Horizontal processes —Sales and operations planning, revenue management, supplier development and corporate social responsibility— are the pathway forward; but to do this the supply chain organization has to be willing to have the spirit to tackle what they feel that they cannot do. Simply put, it is the building of the processes from the outside-in from the customer’s customer to the supplier’s supplier. They have to be comfortable challenging sales-driven and marketing-driven mindsets to drive higher value through market-driven value networks. Most are not ready. The windowless silos are too strong. While the group will say that these are supply chain processes, they do not feel that it is the role of the supply chain organization to drive them. I find this sad.

Where will the organization get the cross-functional leadership to build these horizontal processes? It will probably happen through failure. If we do not change, it will be driven through a bad score on a carbon footprint audit, a failed product launch, or supplier failure. The supply chain organization now has as deeply entrenched walls as the other silos in the organization. The group has forgotten the charter to connect the silos, reduce latency and improve end-to-end decision-making. For many, sadly, this is not the role of the supply chain organization. This old supply chain gal is shocked, and leaves many organizations shaking her head in disbelief.

For more on this subject, reference the blog post “Reflections.”

The Lie of Collaboration

There is probably not a more overhyped and overused word in supply chain management than the term “collaboration.” It is pervasive in the spoken language of every supply chain executive and absent in the results.

I believe that collaboration is a sustainable win-win value proposition that benefits both parties. And, if this is the case, I believe that you should see the total cost of the supply chain decrease and the days of working capital improve. As I run these analysis and study value chain after value chain, I cannot find one example where supply chain processes have improved total cost and working capital. I really want to believe. I keep on looking.

Instead, what I find is that we have shifted costs and working capital backwards in the supply chain. The waste in the crevices of the supply chain that lies between parties has not declined. The irony is that pushing costs back in the supply chain weakens the supply chain because most suppliers have a higher cost of capital and lower gross margin than their downstream trading partners. One of the ironies of this work has been the discovery that most of the work that we have called “collaboration” has actually put more risk into the supply chain.

My favorite slide on collaboration came from a P&G presentation at an Effective Consumer Response (ECR) conference in Europe. The speaker was sharing his experience on “collaboration.” His belief was P&G in Europe experienced a number of failed attempts at collaboration because there was not a
shared vision, the right skills, aligned incentives, available resources, a common plan and leadership to drive the program. It was only when a company could bring all of these elements together that he believed supply chain leaders had the “right stuff” to drive successful collaboration.

For more on supply chain collaboration, check out the blog post, “Yes, I Am a Contrarian.”

**Why? Why? Why?**

So, why have we perpetuated these myths? I think that it is because we are not holding ourselves accountable to balance sheet deliverables. The data is hard to get. The peer group analysis is even tougher, and most supply chain teams struggle to speak the language of business. My advice is to cast off the four letter acronyms and forget the “geek speak” of IT. Instead, learn to talk the language of financial supply chain ratios and hold yourself and your team accountable.

**The Truth**

The truth is that supply chain excellence matters. You can see it in the resiliency of companies when faced with market shifts or in the ability of companies to make progress on the supply chain effective frontier of trade-offs (reference the Supply Chain Insights report, [Conquering the Supply Chain Effective Frontier](#)).

Let me close with my quote of the week. It comes from Don Gaspari (from NCR) at the Kinaxis Conference. I had worked with NCR for many years and had helped them develop their S&OP processes. He gave a great presentation. I was proud. He closed with “Supply chain is like marriage. It depends on good communication.” I think that this is true. I don’t think that we can clearly communicate unless we can speak the truth, even when it hurts. So, I think that it is time to get honest with ourselves about the progress of supply chain management over the past decade.
Seven Sins of Demand Planning

Originally published on May 18, 2011

On the first afternoon, it could be summed up as, “Oh father, we have sinned. Please forgive all of us sinners.”

This conference in Dallas was a good time for me to reflect on the history of demand planning. IBF celebrated their 30th Anniversary in Dallas without even a party. I give thanks for IBF and for the vendors that support their events. I think that we owe them a debt of thanks for continuing their advancement of demand planning excellence. In my opinion, the greatest sin of all is that we have spent thirty years developing forecasting processes that are largely not used or trusted by the organizations that they serve. Here, in this blog post, I share my reflections on the group’s discussion on sins.

The Seven Sins - The group discussion included these seven deadly sins:

Sin #1. Not Using the Statistical Forecast to Drive Continuous Improvement. I have never worked with a company that could not improve its forecasting through better use of statistics. However, most companies are skeptical. Inherent in the DNA of the firm, there are “experts” that believe that they know the business better than any statistical package ever can. Given that a forecast is always wrong, and the forecasting process is fraught with political issues, companies struggle with how to use and gain acceptance for statistical forecasting.

While benchmarking the forecast is difficult (reference blog post Trading Places), measuring continuous improvement through Forecast Value Added (FVA) analysis is a helpful, and easier method, to drive continuous improvement. In most FVA analysis presentations that I have seen lately, the statistical forecast is improving the naive forecast—forecast made based on prior month’s order history—by 3-5%. Similarly, the lack of control of managerial and discipline in the consensus forecasting process is reducing forecast accuracy by 2-5%. The technique allows companies to measure, improve and better drive forecast accuracy, and gain business alignment and support for the effort by dollarizing the impact of the forecast error. For example, one of the speakers at the conference shared that a 2% improvement in forecast accuracy was worth two headcount in his business. If the forecast could be improved by 2%, he could reduce the time spent on order expediting. Bottom line: Don’t look at forecast accuracy in isolation. (For those of you not familiar with the technique, I think that the white paper written by SAS is very useful. Reference http://www.sas.com/reg/wp/corp/6216).

Sin #2. Only Owning Part of the Forecast. To use a baseball analogy, most demand planning teams are in the “outfield.” They “catch the forecast” from sales and marketing without owning the entire process. They catch and throw the forecast across functions without value-added analysis. Whereas, best in class teams, own the entire forecast. They know the baseline forecast and work on driving root cause analysis to improve demand shaping programs – price, promotions, marketing events, new product launch, and sales incentives. What does the difference look like? For one company that I worked with over the past two years, this change was worth 5 million dollars in the reduction of obsolescence. Bottom line: Move out of the outfield and back to home plate to throw the ball to ensure that the organization can hit homeruns.

Sin #3. Misuse of Downstream Data as an Input. When running out a product—to prevent obsolescence—be careful in the use of downstream data. Realize that you are pushing into the channel and that you do not want to drive replenishment. If you don’t have this discipline, you will recreate the Green Volvo Story. Remember that one? Hau Lee tells the story, “Volvo was awash in chartreuse green cars. Despite trying every option at the distributor to push the cars, the cars were
not selling. So the company decided to price them at a significant reduction to move them and reduce inventory. However, this strategy was not communicated across the organization to demand planning. As a result, when the green Volvos sold, the sales orders triggered a forecast and the forecast consumption logic triggered replenishment and the factory cranked back up the production lines to make green Volvos.”

I was telling this story a couple of years ago to a company that made women’s intimate apparel, and they started laughing incessantly. I finally stopped and asked why? In between uncontrollable laughter, the company shared that their Green Volvos were leopard skin fur thongs. So this sin goes across all industries from cars to lingerie.

When pushing SLOB, turn off the knob to use downstream data, and be careful to not let orders drive replenishment. Likewise, downstream data should be used to trigger the completion of promotional replenishment. Sensing when to end a promotion is also essential to eliminating SLOB (Slow and Obsolete Inventory). Bottom line: Design the forecasting process and the use of the output of the forecasting process from the outside-in. In driving accurate replenishment, there is no substitute for knowing true channel behavior.

Sin #4. A Project, Not a Program. A frequent question that I am asked is “how can I implement demand planning faster?” I will answer the question, but then I will ask, “Aren’t you shooting for the wrong goal? Shouldn’t your goal be to implement demand planning well not fast?” One of the companies that I admire, that has proven year over year to be one of the great leaders in the use of SAP APO DP is General Mills. When I wrote a case study of General Mills implementation as an AMR analyst, many companies pushed back and asked why I picked the General Mills case study to showcase. The reason was simple. They did not implement demand planning the fastest, they did it the best. For them, it was a program. It was valued. They wanted to get it right. It was not a project to quickly implement.

Sin #5. Not All Items Are Created Equally. In the words of one participant in the workshop, “get to know the DNA of your item.” A few years ago, I was working with a company that made baby formula. Their most important and the lowest volume item was samples sent to the hospitals for new mothers. These samples were distributed on maternity wards at the birth of the baby to promote product trial. A successful trial could drive a couple of years of consumption through the life of the child through their years as a baby. So, a forecast error on these products was worth substantially more than a forecast error on turn volume.

Sin #6. Forecast with the End in Mind. This may sound simple, but it is a sin that is frequently made. While many companies have set up their forecasting systems to forecast what manufacturing needs to make when, the greater opportunity is to model what the channel is going to sell and when. The company then translates these demand requirements to internal and external manufacturing locations. It is not as easy as just modeling the selling unit at the retail chain level. This is usually too low of a level to forecast—insufficient data to be significantly relevant—for the forecasting process. Likewise, with this increased need for transportation forecasting visibility, there is a need to forecast transportation requirements; and, to use channel data to determine distribution requirements. It is a proven fact that forecast consumption logic and one number forecasting is not sufficient. Instead, multiple forecasts need to be translated into a demand visibility signal for the corporation.

Sin #7. Arrogance. Not Serving the Organization. At the conference, the SVP of Radio Shack gave a presentation on what makes a great demand planning group. His words of wisdom were “Be humble” and “Serve the organization.” In his experience, when the demand planning groups become arrogant—a “know it all group” that polices the forecast—everyone loses.

What do you think? Do you have any sins of forecasting that you would like to share?
Trading Places

Originally published on February 28, 2011

The storyline is old. This blog post is a new take on an old story.

The storyline was the central theme of the 1983 American comedy titled Trading Places starring Dan Aykroyd and Eddie Murphy. Remember it? It was one of my favorites: a funny movie where an upper class commodities broker and a homeless street hustler switch roles when they are unknowingly made part of an elaborate bet.

It is an ageless one where a less fortunate character trades places with a more fortunate. As a child, I was enthralled as I saw it play out in Mark Twain's Prince and the Pauper and Disney's Parent Trap. While these are fictional, this week I found a story where it happened in supply chain in real life. Some of my favorite supply chain management leaders—organizations that I have worked with over seven years—unknowingly traded places in organizational capabilities to forecast demand. Here I share what made the difference.

Prelude

Before I tell the story, let me share a quick perspective on what I have learned on benchmarking demand metrics. I have been working in this area for seven years. It is one of the hardest areas of the supply chain to benchmark. Of all the supply chain metrics, it is the BAD APPLE; however, for most companies, it is the most leveragable metric making it the BIG APPLE.

While companies eagerly want demand data, and they want to improve their processes, benchmarking forecast accuracy is difficult. Why is it so hard? Let's start with the two major reasons:

Reason #1. It Is Hard to get “Apples to Apples.” It Is a Fruit Basket. Every company does it differently: different hierarchies, different frequencies, and different measurement systems. It is the most inconsistent area in the supply chain to benchmark.

While companies eagerly want demand data, and they want to improve their processes, benchmarking forecast accuracy is difficult. Why is it so hard? Let’s start with the two major reasons:

When doing this type of work, it is essential to have an apple to apples comparison. To do this, you need to look closely at five variables: frequency of the planning, granularity of the planning (e.g., Monthly, weekly or daily planning), the construct of the data model (e.g., what is modeled), the input into the data model (e.g., shipments, orders, channel data), and the drivers of demand forecasting variance (e.g., promotions, seasonal builds, etc.) To get it right, the data must be scrubbed and normalized to ensure an apple to apple comparison. As a result, companies should never accept data from self-reported sources (e.g., APICS, IBF, APQC, SCOR Council, and most industry surveys).

Reason #2. The Apple Doesn’t Fall Far from the Tree. The second reason is that it is hard to get. To be useful, and since market conditions change, the data set needs to represent a like peer group from the same point in time. Since many companies have multiple supply chains, and competitors tend to not want to share data directly with their competitor, getting the data is quite a feat.

Prologue

I ran into Robert Byrne, CEO of Terra Technology this week, and I was excited to find that he had just finished a project to benchmark demand data for consumer products companies that he had worked with in deploying his software solution. Five of the companies were organizations that I had benchmarked in 2003 and worked with over the past five years. While, neither Rob nor I can share the names of the companies, I would like to share my insights on their journey. It is truly a story of trading places.
The Story

While this story may not be as much fun as the original movie Trading Places, it is a real story where a focus on supply chain basics made a difference. In Table 1, I show the relative positions of the companies in the two analyses:

Table 1. Comparison of Five Consumer Products Companies Forecast Accuracy

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>5</td>
<td>SAP APO</td>
<td>Matrix organization with a change in reporting through go-to-market teams</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>2</td>
<td>SAP APO</td>
<td>Centralized with a strong focus on analysis</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
<td>4</td>
<td>JDA/Manugistics</td>
<td>Strong regional focus</td>
</tr>
<tr>
<td>D</td>
<td>4</td>
<td>1</td>
<td>JDA/Manugistics</td>
<td>Matrix organization with global reporting through supply chain</td>
</tr>
<tr>
<td>E</td>
<td>5</td>
<td>3</td>
<td>SAP APO</td>
<td>Centralized with strong IT/line of business partnering</td>
</tr>
</tbody>
</table>

Source: Supply Chain Insights LLC

Has the industry made progress? Yes. Some, but not a great leap forward. For the group of companies that Terra Technology benchmarked, the average monthly Mean Absolute Percentage Error (MAPE) for a one month lag was 31% + 12%. Data eight years ago for the same companies was an average of 36% + 10% MAPE. The result? This group of consumer products leaders has gotten slightly; but not significantly better in demand forecasting. They have weathered the storm of market changes that could have made the forecast FAR worse. While few people in their organizations are giving these leaders pats on the backs (demand planners are used to getting kicked), I expected the results to be FAR worse. The industry has experienced major shocks. The list is long but includes shorter product lifecycles, product proliferation, higher levels of promotions, changes in competitive behavior, and global expansion.


Trading Places. What did not make a difference? The type of software used for tactical forecasting did not make a statistical difference. It is the USE of the software rather than the SELECTION of the software that made the real difference.

Organizational reporting. The company that had the worst performance in Rob’s benchmarking, and the best performance in 2003, introduced a very high forecast bias due to a change in forecast reporting relationships. The company made a decision shortly after the benchmarking in 2003 to have the forecasting group report through sales where there was a pervasive belief in the organization that if the company over-forecasted that sales would be higher. This decision increased bias and cast a cloud over the process. The lack of a “true North” in the organization became a stumbling block to improving forecast accuracy.
Process discipline. Better math? In the new Terra Technology study, the use of statistical modeling software improved the forecast 3% on average (on a MAPE level with a 1 month lag) when compared to a naive forecast (volume planning where the forecast is based on what was shipped last month). For the leaders when they used the math, it made a difference. In the top quartile of customers, the impact was 2X or a 6% improvement in MAPE. What is a 6% improvement in forecast accuracy worth? Based on AMR Research correlations, a 6% forecast improvement could improve the perfect order by 10% and deliver a 10-15% reduction in inventory. The greatest impact is seen in slow moving items on the tail of the supply chain. Unfortunately, most companies let their supply chain tail whip them around.

It doesn’t just happen. It must be data driven. Basics matter. For me, the interesting story underneath the data is the switch in position of the players over the course of the eight years. In this time period, the Best-in-Class company in 2003 became the worst performer, and two low performers propelled themselves forward. These companies focused hard on the basics. This included efforts to clean data, identify an accurate baseline forecast, frequently tune supply chain planning software, a strong corporate demand planning team reporting through supply chain and the use of the statistics.

Thoughts on tactical forecasting. While technology vendors like to brag about the use of their technology making a difference in supply chain leadership, the data here is inconclusive. Instead, what made a difference in relative position was all about process, data and organizational reporting. I know, not the sexy stuff, but when it comes to tactical forecasting, the basics matter. And, while many companies think that they can overcome the deficiencies of a bad forecasting through shorter cycle times, this is shortsighted. The biggest advantages for the great forecasters are in improving tactical decision-making (long range planning usually from 3-18 months) to invest in the right manufacturing asset strategies, sourcing and commodity hedging plans, and long-range planning with carriers. Companies that do not do this well are pushed to always react. They are forced to always be on the “back foot” with a serious impact to costs, customer service and inventory turns.

The data also supports the fact that tactical forecasting by itself is not sufficient. The design of conventional supply chain software where the tactical forecast is consumed through rules-based consumption is deficient. The work by Terra Technology in developing demand sensing capabilities improves the forecast by 15-33% (based on client interviews) to improve supply chain decision making in the operational horizon (weeks in the forecast duration of 3-12 weeks). This is a difference that matters for deployment, inventory and manufacturing planning.

Wrapping It Up
I commend Terra Technology for spending the energy and the manpower to benchmark their client base. This type of commitment to the client base differentiates and creates long-term relationships. I am also excited that Chainalytics is starting a demand planning benchmarking practice. It is my hope that this type of analysis will be able to be part of continuous efforts for supply chain leaders.

I look forward to seeing your insights. What do you think? Did I miss anything?
Improving revenue management—which includes the management of multi-party trade settlement (sometimes dubbed bifurcated trade management)—is an equal opportunity for all supply chains. No matter whether you are in a consumer, high tech, life sciences, or chemical supply chain it is a major source of cost, waste and frustration. Executives often will ask, “Why can’t we get this right?” I laugh and empathize. What seems so simple is very complex.

The revenue management process varies by industry. Each value network shapes demand a bit differently and the contract terms are VERY industry specific. For example, consumer products companies lean heavily on trade promotions, high tech supply chains focus on new product introductions, life sciences on rebates and value-based outcomes and the chemical industry on price. Despite the differences there are commonalities:

**Traditional CRM Is Not the Answer.** The historic footprint of CRM is sales pipeline management, customer service and call center execution and business development. This footprint lacks the data model for either decision support (Revenue Management Optimization (RMO)) or execution (Revenue Management Execution (RME)). This CRM data model is fundamentally flawed—focused on a pipeline data model for sales effectiveness versus a product/services data model that looks at the process workflows of bifurcated trade, the interrelationships of the demand shaping levers (price, promotion, incentives, buzz from the social web, trade and brand marketing and new product launch) and the visibility of a clear baseline forecast. As a result, the industry is forced to nurture and evolve small, industry-specific providers to augment and redefine front-office functionality.

**Complex Workflows with Substantial Opportunity.** For the corporate fiscal year ending in 2010, the size of the prize is large. The average consumer products company spent 22% of revenue on trade promotion management (source Symphony/IRI and AMR Research/Gartner) and for the average life sciences company, rebates represented 18% of revenues (source IMS). For either industry segment this can quickly add up to over a billion dollars annually. Yet, no company that I have interviewed in either industry (over 150 companies) believes that their processes are under control. Uniformly, companies see revenue management as an opportunity, but do not know how to seize the opportunity. There is no easy answer. To understand why, read on.

**Industry-Specific Workflows.** Each industry shapes demand differently, has different contracting processes with their downstream trading partners (buy-side), and uses substantially different language/terminology to describe what they do. (Can you imagine if you substituted the acronym BOGO (Buy One Get One free) from Consumer Products (CPG) sales cycle for Averaged Managed Price (AMP) for life sciences sales cycle?) These processes are VERY industry specific.

This leads to a problem. When buying a solution, where do companies turn? Who can they trust? There is no perfect solution. Why? Traditional Customer Relationship Management (CRM) technologies are insufficient to solve the problem. In sales cycles, the battle lines in sales cycles quickly form. Information Technology departments want one throat to choke and believe that this type of functionality can be sourced from a CRM or ERP provider. Lines of Business leaders believe that they need industry-specific functionality from industry-specific suppliers. They are both right, they are just not good at drawing the battle lines. Companies need traditional CRM functionality for business development and contact management, but industry-specific functionality for predictive analytics, baseline forecasting and bifurcated trade management. The decision on Business Intelligence needs to be based on the total IT portfolio.
Changing Processes. These are not enterprise, but are inter-enterprise workflows, driven largely by the nature of the relationships in the extended value chain. As a result, they need to be designed from the outside-in not the inside-out. It is not easy. The technologies lack an inter-enterprise system of record and standards. Given the recent shifts in power and the increasing compliance/ regulations of these industries, the industry processes are in flux and the need is greater with even more dollars on the table.

Opportunity Abounds in Both Planning and Execution. While revenue management should be a horizontal process focused on demand orchestration, the applications in the market are largely piecemeal serving organizational silos not end-to-end supply chain processes. There are no complete solutions. The choice is fraught with risk, but I have seen greater success when companies chose industry-specific best of breed providers than try to adapt the data model through custom development that is required with an ERP solution. In short, while people want it there is no effective end-to-end solution for any industry for revenue management.

Split the Baby?

It would be great if there was an industry roll-up strategy to consolidate the small vendors that abound in the area of revenue management to deliver an end-to-end solution. The list of names is long: Accenture/CAS Systems, Adesso, Biztech, DemandTec, MEI, Model N, ProMax, Oracle, Symphony/IRI, SAS, Synectics, Vendavo, Zilliant…

I fear that the end-to-end solution is a long way off. Change is slow. Until then, users will have to split the baby by layering industry-specific revenue management software over industry agnostic CRM.

However, last week, there were a series of announcements that I feel are deserving of a mention. The industry is changing, albeit slowly.

Model N with Its Feet on the Ground and Its Head in the Clouds. Last week, as I sat in the packed audience at the Model N user conference, named Rainmaker, you could feel the energy. As a company, Model N is now nine years old with 350 employees and a global presence. It primarily serves two industries: life sciences and high tech. The company has moved to an agile release schedule allowing them to move quickly against the changing requirements of life sciences and high-tech. Last year, they successfully released five major and two minor releases. The good news for me was the successful launch of their cloud service. Buyer preference in revenue management is clearly moving to Software as a Service (SaaS), and Model N can now answer this challenge.

Model N is clearly a company that is beyond Smoke and Mirrors. They have a strong product heritage, and pride themselves in serving their customers. I have wondered on many occasions how more successful Model N could be if they improved their sales and marketing. They lack name recognition, and have not differentiated themselves in the market, although the solution is clearly differentiated and reliable. When the smoke clears, I feel that Model N will still be a player.

M-Factor Acquired by DemandTec. On Thursday last week, DemandTec announced the acquisition of M-Factor. The M-Factor solution was a unique, niche solution that was launched before its time. The solution enabled the optimization of all marketing spend in consumer products—advertising with a multi-year lift and trade promotion spending with single period lift—to determine the right mix of demand shaping activities. The visionary founder died tragically seven months ago, and although the company had raised venture funds in tough market conditions, like many small enterprise software companies, scaling growth is expensive and takes time compared to the consumer plays that Silicon Valley currently favors. Despite the depth of the optimization solution—one of the strongest technologies in the market to determine baseline forecasting—and a good number of tier one customers—the purchase price was a good deal for DemandTec.
While the DemandTec press releases on the acquisition are bullish, and the companies share a common heritage, the merging of these two SaaS offerings does not yield a complete solution for consumer products. While a strong offering for trade promotion management in the sales account teams, the DemandTec solution still lacks the core functionality for headquarters trade promotion management. However, it is a nice complement to an ERP solution like Oracle. The press release was a bit too much of smoke and mirrors for this old analyst gal.

**ProMax: A New Contender.** A new contender in consumer products trade promotions from down under—Australian heritage—entered the North American and European markets in 2010. Last week, they announced selection by Kimberly Clark. ProMax is attacking the CAS (reference blog article [Accenture buys CAS](http://www.supplychainshaman.com/page/4/)) user base. With successful implementations at Biersdorf, Dial and Henkel, the team is inching forward touting a simpler, easier best-of-breed solution. I will keep my eyes on their references to see if they deliver. This is a case of where there is smoke there may be fire. Too early to tell, but promising.

Three announcements in a confused market full of smoke and mirrors. While we are inching down the path, we are still a long way from a perfect end-to-end process solution for revenue management. Next week I will be at SAP Insider and the Logility User Conference. Look for updates from me from Orlando. Also look for my post on the Rise of Social Commerce and the many interactions that I am having with retailers on Monday. Lots of progress in that space....
DEMAND DRIVEN
Bait And Switch
Originally published on April 17, 2013

Bait and switch: A form of fraud. A dishonest marketing tactic where a marketer advertises a very attractive value proposition and then switches the offer to something else after gaining interest by the buyer.

Source Merriam-Webster Dictionary

DDS. DDSC. DDVN. CDSN. The acronyms keep coming. The cadence does not stop. Everyone seems to have a new one. Today, they swirl in the market forming a fog. The term demand driven has become vogue again, but what does it really mean? And, should it be taken one step further to orchestrate bidirectionally market-to-market in market-driven value networks? Or will companies stumble on the path by mistakenly implementing supply-centric processes and calling them demand-driven initiatives?

There are a number of newly anointed experts writing articles about becoming demand driven. They are piling up on my desk. As a writer of research on demand-driven supply chains for over eight years, I find many amusing. I like the idea that this old concept is gaining new steam; but unfortunately, too few people writing the articles really understand the concepts. Instead, I see a behavior that I call bait and switch. The article is written and the story is spun, but the solution offered is a supply-centric solution based on yesterday’s technology. The original principles of a value network that can sense, shape and translate demand with near-zero latency are being lost in the fog.
Why is this happening? The market for large ERP programs is slowing. The gravy train is coming to an end. User satisfaction with planning systems is low. The market shift is towards analytics, but this new market is confusing. It is still early.

Supply chain leaders feel stuck. Their current technologies are inadequate. They are struggling to manage the challenges of simultaneously driving growth, improving profitability, absorbing complexity and reducing cycles. Frustration is mounting. The concepts surrounding demand driven sound right. Companies are interested. As a result, articles are written proclaiming demand-driven results and then the reader is given a solution that is anything but demand driven. Each time that they are published, the Shaman sighs and chuckles in her little apartment in Baltimore.

The first definition of Demand-Driven Supply Chains was pushed into the market by AMR Research (now part of the Gartner Group) in 2004. What the articles that flood the market do not tell you about is:

- **Slow Adoption.** Eight years after the evolution of the concept, there are only a few companies making progress on demand-driven concepts. If asked, I would only cast a vote for the demand-driven work that is happening at Cisco Systems, General Mills, Pfizer, PepsiCo, Procter & Gamble, and Kimberly Clark. Each of these pioneers would tell you that it is hard work. No one company—technology provider or supply chain line of business leader—has figured it out. Most have implemented the concepts in parts of their businesses. The most successful have used best-of-breed solutions.

- **Hard Work.** Many companies that have started demand-driven initiatives have abandoned them. The rewards are high, but the cultural barriers are difficult. They are sometimes insurmountable.

- **Misunderstood.** A frequent reason for failure is a lack of understanding of the basic concepts of demand latency, sensing, shaping and translation. As a result, many well-intentioned companies have mislabeled supply-centric initiatives as demand driven.

- **Demand-Driven Concepts Are Not an Evolution.** They are step change requiring either the redeployment of existing technologies or the purchase of new platforms. Details matter. Data model structures are the difference between success and failure. Today’s architectures are inside-out not outside-in, and to be demand driven, the process focus needs to change. This often means a reimplementation of APS, and a change in focus for the company.

- **Be Careful of the Word “Integrated.”** The promise of the integrated supply chain sounds attractive, but tight integration of the supply chain has reduced agility and made the supply chain response less flexible. Today, due to tight integration, only 10% of companies are satisfied with their “what-if” modeling capabilities, and only 23% can model supply chain profitability. Both are essential. The goal should be synchronized demand and supply with role-based dashboards, workbenches and optimization engines that allow users to work across the supply chain. To accomplish this, demand has to be sensed, shaped and translated.

- **Change Management Issues Are High.** The largest challenges are in the redefinition of process flows from inside-out to outside-in. Demand-driven concepts are expansive they extend from the customer’s customer to the supplier’s supplier, but the areas of sales and procurement are often very resistant to the demand-driven concepts. To do this companies need an end-to-end leader. Only 1% of companies have defined this role.
**Demand-shaping Levers**

<table>
<thead>
<tr>
<th>Levers</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Product Launch</td>
</tr>
<tr>
<td>Marketing</td>
</tr>
<tr>
<td>Sales Incentives</td>
</tr>
<tr>
<td>Trade Promotions</td>
</tr>
<tr>
<td>Distributor Incentives</td>
</tr>
<tr>
<td>Assortment</td>
</tr>
<tr>
<td>Price</td>
</tr>
<tr>
<td>Run-out of Obsolescence or Markdown Strategies</td>
</tr>
</tbody>
</table>

- **Most Have Defined “Demand” Too Narrowly.** Demand in the demand-driven network is about much, much more than forecasting.

- **It Needs to Be About More Than Demand.** Supply is volatile. Shortages abound. It is for this reason that I have defined market-driven value network processes in the book *Bricks Matter*. The definition is: *An adaptive network focused on a value-based outcome that senses and translates market changes (buy- and sell-side markets) bidirectionally with near real-time data latency to align sell, deliver, make and sourcing operations.*

As we move forward, there are no silver bullets. There are no well-defined industry platforms. I coach companies to take the following steps.

- **List All the Forms of Demand Data and Map Its Usage.** This includes unstructured text data (this can include data from social networks, ratings and reviews from blogs and websites, and channel data), weather data, and transactional data. Some supply chains also have inputs from the evolving world of the Internet of Things where machine sensors transmit frequent streams of data. This is the case for heavy equipment, vending machines in the field, and smart shelves.

- **Map the Process Outside-In from the Channel Back.** Start with the channel, and map the requirements of the channel. Evaluate how to reduce latency by using downstream data to sense demand and implementing demand translation technologies to make the downstream data usable. These technologies include the work by Terra Technology and ToolsGroup. (While SAP has purchased SmartOps and is marketing a demand sensing/demand translation offering, I have not been able to validate the solution through references. It is clear that math matters. Neither Oracle or JDA references were able to meet the challenges in the field.)

- **Build “What-If” Analytics.** Technologies like Kinaxis and Steelwedge are frequently undervalued for supply chain visualization and “what-if” analytics. Cloud-based analytics for sourcing and the management of supplier networks are evolving and should be embraced. Consider solutions from GHX, Elemica, E2open and SCA Technologies to improve end-to-end visibility.
• **Design the Network.** Actively design the network with clear push/pull boundaries and right size buffers. The strongest solutions in the market continue to be Llamasoft, Insights and JDA. And, the strongest consulting partner for network design is Chainalytics. I also like the work that is happening at the Demand-Driven Institute on the redesign of manufacturing to be more demand driven.

<table>
<thead>
<tr>
<th>Market-driven Orchestration Levers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price-to-price Orchestration</td>
</tr>
<tr>
<td>Alternate Bill of Materials</td>
</tr>
<tr>
<td>Alternate Sourcing</td>
</tr>
<tr>
<td>Change in Assortment</td>
</tr>
<tr>
<td>Orchestration of Product Mix</td>
</tr>
<tr>
<td>(incent products with less</td>
</tr>
<tr>
<td>commodity variability)</td>
</tr>
<tr>
<td>Changes in Demand Shaping</td>
</tr>
<tr>
<td>Strategies</td>
</tr>
<tr>
<td>Commodity Hedging</td>
</tr>
</tbody>
</table>

• **Focus on End-To-End Orchestration.** Build processes that enable the alignment between demand- and market-shaping levers to orchestrate end-to-end bidirectionally through outside-in horizontal processes. Actively orchestrate demand through shaping, and the supply response through the market-driven levers below. Charter the end-to-end process manager to orchestrate a market-driven value network that connects and orchestrates bidirectionally between markets.

• **Use New Forms of Data. Embrace Digital.** Think long-term on the use of digital signals. Map the use of mobile/social and eCommerce on the future of the digital path to purchase, and the impact of machine-to-machine interfaces in manufacturing on digital manufacturing. It excites me to see the revitalization of manufacturing applications to be more demand driven based on the Internet of Things in process industries and 3D printing in the discrete industries.

• **Experiment with Best-Of-Breed Technologies.** This innovation is not going to come from the large players. It will require large manufacturers to take risks with smaller players like Applied Predictive Technologies, Enterra Solutions, Orchestro, Retail Solutions, and Signal Demand.

• **There Is No Substitute for Leadership.** Success happens when there is an inspired leader that believes that the supply chain needs to own the supply chain from the consumer/user to the supplier’s supplier.

• **Focus on Building Horizontal Processes.** These bridge the gaps between functions. The four main horizontal processes to tackle are revenue management, sales and operations planning, supplier development, and corporate social responsibility.
In summary, progress on supply chain cycles and margins, and balancing the trade-offs of complexity, has stalled. Over the last decade, the only metric that we have improved is revenue/employee. Leaders do not know what to do to power themselves off of this horizontal plateau. The gap between what we have and what we need has widened.
It is Monday morning. As the sun rises, I find myself on the 6:00 AM train drinking coffee. I am giving thanks that I am able to do what I do.

There is nothing like a cup of coffee at this time of morning. As I hold the warm ceramic mug in my hands, the horizon rolls forward with the rhythmic sounds of the train on the track. I love the sounds of the train. I am lost in thought about the client that I am going to spend the day with. It is the end of a long project, and I am excited to share their data. There is such power in being able to pull together quantitative data with financial benchmarking analysis and qualitative interviews to help them see new insights. It is great to pull back the covers and help companies see the new trends and insights on supply chain excellence through research methods.

In work with clients, I find that they have good intentions and they want to be more outside-in and demand driven, but they get caught in traps because they have not changed the conversation. This will be a primary focus of my session today.

Volatility is rising, supply chains are becoming more important and complexity is making resiliency tougher. All are good reasons to have the conversation.

Here are the sticking points that I see:

- **Focus Less on Perfect Numbers. Embrace Demand Error.** Demand volatility is increasing and the technologies to manage demand are maturing. In this transition, it is more critical to learn to use demand data than to make the demand number perfect. As a result, the discussion needs to be less about the “demand forecast number” and more about the probability of demand. Companies need to try to reduce demand error to the extent possible, but realize that demand error is a reality of managing a supply chain. As a result, leaders need to drive the effort to embrace demand error and design the network to drive the same cost, quality and customer service levels given the level of demand error. This requires using new forms of analytics for inventory optimization and network design and doing less on spreadsheets.

- **Help Others to Understand the Impact of Complexity.** Nine out of ten companies are stuck in their ability to make progress on operating margin and inventory turns. To understand this, a good place to start is the measurement of the forecastability of the products in the demand plan and understand how this is changing. Track the impact of rising complexity on forecastability and the impact on the inventory plan.

- **Reduce Bias and Error.** If only companies could sell what they forecast. Most companies have a large, and positive bias. To counteract this, actively use Forecast Value Add techniques (FVA) to reduce bias and error. Communicate progress on a monthly basis. Push to help leaders understand the impact of demand bias on customer service, safety stock and slow and obsolete inventory.

- **Help Others to See the Options. Actively Design the Network.** As you do, focus less on the levels of inventory and more on the trends and right sizing of the forms and function of inventory. (The form of inventory is the state of inventory and includes decisions for raw, semi-finished goods and finished goods. The function of inventory is the role that the inventory plays in driving the right supply chain response. The function of inventory includes cycle stock, in-transit stock, promotional stock, safety stock,
seasonal stock, etc.) Actively model and help peers to understand the impact of rising complexity on the form and function of inventory. As you design the network, build push/pull decoupling points and buffers.

- **Focus Forward.** Finance and accounting use largely backward measurements. Push the executive team to focus forward in the design of measurement systems. Lead teams to focus on forward-looking business flows through the channel. Align the flows to maximize customer service taking ownership for sell through the channel not just sell-into the channel. Don’t stumble and get hung up on only measuring backward-looking measures.

Any others that you would put on the list?
At the end of the presentation today, it happened. At break, after sharing research on the principles of becoming market driven, I was relaxing with my coffee when I heard a person softly say, "I am sorry to be so dumb, but I don't think that I understand the concepts of becoming market driven ... or the differences between market driven and demand driven. It is probably me, and I hate to ask it in the group, and I would certainly hate to APPEAR in your blog tomorrow, but can you explain it ONE more time?"

It is ok. It is just you and me, dude. I will not share your name publicly. Since so many people have the same question, I thought that it would make a good blog post. I have done it in the form of an open letter.

Dear Gnarly Dude:

First of all, there is no such thing as a "dumb question."

It takes courage to ask tough questions, and I appreciate it. These concepts are not easy. In fact, it took me eight years of research. So, please don’t apologize. It is ok.

Let’s start with the difference between market-driven versus marketing-driven processes. In the old-fashioned, conventional organization, functional processes are usually marketing driven. Marketing hones what they think is a brilliant message and broadcasts the message to the crowd through media tactics. The marketing group tightly controls the message to build brand. It is hard to change because the marketing organization driving a marketing-centric program has worked over the last two decades. Change is tough.

Contrast this to a market-driven company, where you are serving the customer by listening, testing and learning. It is not about control. Instead, you understand that the crowd has wisdom to share and you want to listen. You want the supply chain to be designed to drive unique assortments and to reliably respond to changes in demand. To do this, the supply chain is designed to sense, learn and then respond. Today’s conventional supply chains only respond, and the design of the systems usually gives us a “fairly dumb response” based on history.

Additionally, in a marketing-driven company, good news happens fast. When a product is selling and marketing is meeting the business objectives, everyone is quick to grab a beer and do a toast. I am sure you have a lot of T-shirts in your closet from these launches. However, when the sales are not at plan, the news travels slowly in the organization and there is often a lot of denial. As a result, organizations are usually struggling to write off SLOB (slow and obsolete inventory). A discussion with marketing about SLOB is never a good thing.

So, what is the difference between a market-driven and a demand-driven value network? A demand-driven value network senses demand with minimal latency to drive a near real-time response for demand shaping and demand translation. In this network, the bullwhip effect is minimized using channel data. Contrast this with a market-driven network that builds on the demand-driven concepts. It takes it one step further. Being demand-driven is a prerequisite to be market driven. In a market-driven value network, the use of market data is used to orchestrate trade-offs market-to-market (buy- and sell-side markets or channel to supplier trade-offs) through the use of advanced analytics in horizontal processes to orchestrate demand and supply decisions based on analysis of profitability, mix and volume against the business strategy.
Why do we need to change? It comes down to good business. In most companies, growth is stalled. Traditional marketing tactics are not as effective as they used to be. Power has shifted to the shopper. Companies today are unable to drive profitability, and manage inventory cycles, while absorbing the complexity of a rapidly changing product mix. The traditional supply chain is designed to support high volume, predictable items in known markets. When things change, it cannot adapt.

So, if you buy the argument, here are some steps to take. The first step is the building of an architecture to match customer attributes to product attributes. Think about these concepts:

**Building of Listening Posts and Actively Listening and Learning from Consumer Data.** Most of this is unstructured data—Facebook, Twitter, Ratings and Reviews, and Blogs—which requires the deployment of sentiment and text mining applications. These technologies are new, and the process evolution to support the use of the data is evolving. The first step is to set up a cross-functional team to review this data weekly and then start to use the data in conventional processes (e.g. rating and review data into forecasting as a causal factor for new product launch, discussions on true customer sentiment to drive the decision of how much to make on the second production run after launch, or market receptivity to a new promotion, etc.)

**Design of Outside-in Processes.** The use of channel data—point of sale, warehouse withdrawal, basket and retail partner perpetual inventory data—to understand channel flows and improve demand sensing. When companies are market-driven they use channel data to drive a pull-based response while actively designing push/pull decoupling points to maximize flexibility while minimizing costs. This channel data is archived in a system of reference, often termed a Demand Signal Repository, for reuse. Using cognitive reasoning engines and advanced optimization, unique insights radically improve the response.

**Rethinking Planning.** This channel data is then used to drive planning. Demand planning models are based on attribute logic. So, as items change, the new item is forecasted based on profiles of the history of products with like attributes.

**Embrace Test-and-Learn.** Actively design in vitro test-and-learn scenarios based on carefully designed testing based on market data. Use test and control markets to adopt assortment and demand shaping activities. Use new forms of analytics to learn from channel sales. Build a supply chain to support this type of agile response.

**Use New Forms of Analytics to Drive Demand and Supply Orchestration.** Traditional supply chains respond to volume-based pulls based on orders and shipments. The data are stored as an item sold, at a location, based on volume. In market-driven value networks, companies actively use optimization and predictive analytics to match price and demand shaping activities market-to-market. In horizontal processes, like revenue management and Sales and Operations planning (S&OP), new forms of analytics are actively used to make trade-offs of mix, profitability and volume. Commodity markets are too volatile for this to be a passive process. For example, if a product has a high commodity cost, or is difficult to manufacture with unsure reliability, the company would question if this is the right product to promote or market. The orchestration of demand to supply evaluates the price elasticity of market pricing against the commodity risk in sourcing and the reliability of processes to deliver. Let me give you an example. During the recession, there were two competing breakfast cereal companies. Each had the option to promote either cereals with corn or wheat. It was proven that consumer sentiment was equally disposed to either product. Corn was skyrocketing in cost and one cereal company orchestrated demand and supply and decided to promote a line of wheat products. The other company promoted corn-based products based on history. The company that promoted wheat-based products gained market share and managed profitability. The other company reported a serious decline in earnings.
Alignment of Functional to Corporate Metrics. Focus on the Use of New Forms of Analytics in Horizontal Processes. Market-driven companies understand that the most efficient supply chain is not the most effective. They actively design the supply chain based on the probability of demand and the uncertainty of supply. It is clear that the complex trade-offs of the supply chain cannot be made in spreadsheets. As a result, they model the potential of the supply chain by analyzing the trade-offs of growth, profit, cycles and complexity in new forms of analytics that support the horizontal processes of revenue management, Sales and Operations Planning (S&OP), supplier development and corporate social responsibility.

So, gnarly dude, I put you at the head of the class. You listened intently in this morning’s session, and you asked wonderful questions. I wish you well in your market-driven journey. I cannot wait to write your case study.

Sincerely yours,

The Shaman
Good-Bye to a Global Pioneer

Originally published on September 13, 2011

Last week, while I was in Shanghai attending the IBF Forecasting Conference, I learned of the death of Dick Clark. Dick, the Demand Planning Global Process Owner at Procter & Gamble, was always one of my favorite interviews for my reports. Not only was he smart and insightful, but he was also a fighter. He fought for demand planning excellence, and after many years of a heroic fight against brain and lung cancer, Dick slipped away last Sunday following a heart attack. He leaves a network of trained global planners within the Procter & Gamble system that will carry on his legacy.

Remembering a Legacy

Five years ago, in an interview, Dick and I spoke of China and the barriers to building a team of planners in the explosive economy. At that time, I had just returned from Shanghai and was disappointed to not find more planning talent at the supply chain events. Dick had just finished training all of the P&G regions on forecasting and had spent months on the road with his in-country teams.

We shared notes. We talked about what makes good global planning, and how to best use regional observations. It was one of my favorite discussions with Dick, and it was especially poignant as I watched a group of 60 planners register for the IBF certification/conference. (I could not find a planner at a conference five years ago.)

Coming back from China, I wanted to talk to Dick about my observations. I wanted to share that while I could not find planners at conferences five years ago, that I was very impressed with the quality, focus and intent of the planners that came to the IBF conference. I felt that I witnessed a focus on planning that was not possible five years ago. I wanted to thank him for his service to improve the practice of forecasting. Unfortunately, this will not be possible. Instead, I hung my head and spent an hour walking outside thinking about what I learned from Dick Clark.

What I Learned from Dick

Dick was very giving and always prepared for my interviews. He never turned down an opportunity. Here are some of my key takeaways from the many discussions:

A good forecast is used: My first analyst report was “What Makes a Good Forecast”. While other practitioners spoke of numbers, models and technologies, Dick took a much more pragmatic approach. In his opinion, the best forecasts are used. He was working to improve consistency in the data, reliability in reporting and simplicity in data representation.

Organizational change is slow. Be patient: He had been at this for over twenty years. We spoke of bias and error and the need for organizational alignment. His caution was that success comes in inches not miles. He believed that with the consolidation of major manufacturers that the evolution of great demand planning practices required a slow and consistent focus. He believed one of the most important attributes for his team was patience.

Forecasting teams must be trained: Dick was a stickler for training. What I thought should be obvious, Dick explained was not so obvious, especially in emerging economies. He believed that the teams should be trained in region and that it was his role to slowly build the skills. He dedicated his life to this legacy.

Look for new ways to do things: Dick was one of the earliest adopters of Advanced Planning Systems (APS) and he was always scouting for new technologies. He had the courage to push the adoption of what was then a little known technology provider, Terra Technology, and he was
confident to invest in co-development with a small, and emerging technology vendor. He understood that it was harder to do co-development with large technology providers, and was willing to take risks.

**Give back to the practice:** In the years that he fought cancer with radiation and chemotherapy, I frequently ran into Dick on the speaker circuit. While many would have withdrawn to heal, Dick continued to give. I watched him give a speech last December with a disfigured face and slurred speech from radiation. At break, I asked about his treatment, and if he was ok to travel. He commented that he was not ready to die. He fought. He gave, and he believed.

Supply chain management practices are maturing in China. Most of the planners that came to the event were from major corporations that had been mentored by the Dick Clarks of their organization. Thank you, Dick, and all of the other early pioneers that paved the way for global supply chains. I want to say thanks for all that you did.

Dick, may you rest in peace. I will miss you.
DEMAND SENSING
It was 1988. I was involved in early Vendor Managed Inventory (VMI) pilots. In my work at Clorox we were starting to ship to Walmart using Retail Link. We were excited. It seemed like the start of a great thing. In the pilot, we were able to see retailer flows. We talked furiously about the design of the End-to-End Supply Chain (E2E).

At that time, the conference circuit was buzzing. The words collaboration, Efficient Consumer Response (ECR), Vendor Managed Inventory (VMI), and Collaborative Planning, Forecasting and Replenishment (CPFR) filled the air. The promises were thick. The concepts were right, but the execution was flawed. The processes were overhyped and companies rushed head-over-heels to join the throng.

Today, the average Consumer Packaged Goods (CPG) company has eleven VMI relationships and six VMI planners. Based on the research that we are doing, we can see that the programs are not growing. They are not contracting. Instead, they are caught between sales-driven and supply-driven processes. We have stasis.

Figure 1.

While our initial energies were focused on large accounts, today’s VMI programs are getting the best traction in the drug and dollar channels. There are few VMI programs left with Publix, Safeway, Target
and Walmart conspicuously absent. Kroger’s movement to Market6 added to the stasis. Companies are shipping fewer and fewer cases using VMI processes.

The programs operate as on an island. Only one company interviewed is actively working on the building of E2E processes, outside-in, connecting the flows of VMI. Ironically, while it is connected to the outside world, it is not well-connected to the manufacturer’s enterprise systems. Most companies’ demand-planning systems do not allow easy integration of retail data; and the connection to the planning systems requires an unwanted redesign that most companies try to avoid.

Reflections

We are now entering our third decade of managing VMI processes. Most of the programs have been inherited. The teams running them were not part of the overhyped exuberance.

The teams running them are heads-down and in management mode. Most of the VMI processes report through customer service. The technologies are fixed and the processes are tried-and-true. These teams are not actively trying to design end-to-end flows or synchronize the VMI programs with other demand signals. It just is. VMI has become a reliable part of the order flow.

At Supply Chain Insights, we are in the process of completing a study on VMI that will publish in our May Newsletter. (The study is still open. If you would like to participate and compare your results to those of the industry, just access the VMI Study through this link). We currently have 35 responses and are trying to drive the response rate to at least 50.

A Head-Scratcher

In the study, the average company reduced the costs of transportation by 3% and reduced the order cycle time by at least a day. And, as shown in Figure 1, the orders are cleaner and more reliable. Customer service levels improve. So, why if the process reduces costs, improves order cycle times, and order reliability, are we not driving greater adoption? These preliminary results make me scratch my head. Why are we at a stasis? Why are we not taking advantage of VMI more actively? I think the answer lies in the fact that the program is juxtaposed between the opposing forces of sales and supply. When companies become market-driven and understand the differences between a sales-driven approach and a market-driven value chain, the processes take on greater value. The mapping of flows outside-in and horizontally across the company enables greater value.

The more research that I do, the more I scratch my head. The CPG organizations talk more about collaboration than other industries, but they have made less progress than high-tech and electronics or A&D’s work on Performance-based Logistics (PBL). We have had a lot of talk and flurry over initiatives, but we are at a stasis.

What do you think? I would love your thoughts. Why is VMI at a stasis?
Can You Take the Risk?

Originally published on April 11, 2014

“This is not a supply chain process. It is a new way of doing business.”

Financial Leader in Discussions on Demand Sensing

In 2013, 80% of supply chain leaders had a material supply chain disruption. It was not just one. The average company had three. Yet, in a study that we just completed, when asked about business pain, supply chain risk rates low. How come?

It is new. It lacks a consistent definition and set of practices. Companies reward the urgent. Risk management requires a focus on the important. It requires leadership and orchestration. Teams don't know what to do. The companies that are the most mature learned the hard way. They had a disruption.

Defining the Topic

Let's start with a definition. For the purposes of the study that we just completed, we defined supply chain risk management as the proactive identification and resolution of potential risks to the supply chain. The key word in this sentence is proactive. Unfortunately, too many supply chains are reactive. The systems respond, but they do not sense. Performance is measured by indicators, not by performance predictors. The reward systems focus on the urgent, not the important.

In this series of posts, I will be sharing insights from the research from this recent study. This data will also be featured in an upcoming report in our newsletter.

New Insights

When you talk to supply chain leaders about risk management, their answers tend to be hard-wired for supply. Many will wax eloquently about the work that they are doing on “control tower” or “supply chain visibility.” It is not sufficient. We are only dipping our toes into turbulent waters.

I have been working as an analyst in supply chain management for the last decade. In this role, I have done a study on risk management about every five years. I seldom get surprised on study results; but, the answer to the question on risk drivers in this survey surprised me. As you can see in Figure 1, today it is less about supply and more about demand. The largest gap in risk management expected over the next five years will be the management of global operations. For me, these two trends hop off the page:

- **Increasing Complexity of Operations.** With a decade of building global supply chains behind us, companies are feeling the impact. Local regulations, fair labor, variability in shipping lanes, new materials, outsourced manufacturing and faster product development cycles are all contributing to the pain. The financial stability of contract manufacturers and third-party logistics firms is a growing risk. It is not just one factor. We are better at managing regional supply chains than tangled/knotty global ones. The organizational dynamics and politics make regional/global governance difficult.

- **Demand Variability.** The biggest surprise for me in the research is the role of demand uncertainty on risk. The building of demand sensing capabilities requires the automation of market sensing and the use of channel data. The change management issues are high. It is difficult for the supply chain to accomplish this by themselves.
Why? The term “supply chain” is politically charged. It has become a function, not an end-to-end process. Marketing and sales are also functions. The functional approach does not allow us to build demand processes. By and large, marketing and sales are not good at forecasting demand. They introduce bias. To combat this issue, and drive success in demand sensing, many companies have to rename the work stream so that it can truly be an end-to-end focus. For sales-driven and marketing-driven companies, this is a major change management issue.

Figure 1.

![Supply Chain Risk Drivers: Five Years Ago vs. In Five Years](image)

**So, What Should Companies Do?**

**Recognize the Issue. Simplify Operations.** This includes simplification of the product lines and the definition of standard ingredients and/or interchangeable parts. Our research supports that getting this on the product development agenda is a barrier. Mitigating this risk issue requires striking the right balance between global and local governance. There is less variability in the management of regional supply chains. Accountability and priorities are clearer.

**Use Channel Data and Build Demand Sensing Capabilities.** Reduce demand latency and automate the processes of demand. I work with many companies on the differences between marketing-driven and sales-driven processes and the journey to become market driven. When marketing and sales operate as functions, they are not aligned to more holistic end-to-end processes. This is growing as an enterprise risk.
Focus Where It Matters. Yesterday, I hosted a webinar with David Simchi-Levi of MIT. He has defined a Risk Index which analyzes the Time for Recovery and the Financial Impact (FI) to analyze the risk of the supplier base. It is a great technique to use in supplier development and network design. For those interested, check out David’s recent article on Harvard Business Review. His work with Ford is profiled in Figure 2. After the analysis of Ford’s supplier base, David offers recommendations and actions that are shown in figures. However, to use this methodology requires the organization to be proactive. In the Ford example, the greatest risk was with a tier 2 supplier of O-rings that had low spend. David’s methodology is a stark contrast to the conventional work on supplier development and network design. In the conventional approach, companies would look at the suppliers with the greatest spend and miss the impact on the tier 2 suppliers with low spend. David’s point in the webinar is that you have to be focused and deliberate. Ford has 5,000 suppliers. It is not a simple activity. It requires work. However, based on the results of the study, it is worth it.

Figure 2.

The slides from the risk management webinar are now available on SlideShare. Check them out. We will be doing complimentary webinars twice a month in a countdown to the Supply Chain Insights Global Summit. In this event on September 10th-11th, 230 supply chain leaders will gather to focus on the supply chain of the future. With the coalescence of digital manufacturing, new forms of analytics, The Internet of Things, and the collaborative economy, we think that it is time to rethink supply chain practices and imagine what it could be. Today, 45% of the seats are sold. It is limited to 15% technology and consulting attendees. We would love to see you there.
How Do I Know If I Am Ready?

Originally published on March 27, 2014

“How can I move the ball down the field, if I don’t have the ball?”

A Question from My Training Class this Week

“How do I know if I am ready for cool technologies? Especially demand sensing and shaping?”

A Demand Planner for a Large Multinational Pharmaceutical Company

Last week was a blur. It was a series of days on planes, trains and automobiles. Unfortunately, it was one of those weeks with pressing deadlines when nothing goes right. I rescheduled my Monday to meet with a client on a pressing deadline and worked through the night to edit and refine the reports/journals for last week’s newsletter. I also continued to work on the manuscript for the book Metrics That Matter to publish in the fall of 2014. The book is now a very worn manuscript.

At the end of the week, we hosted a networking call of the Shaman’s Circle. This is a networking group that meets by phone once a month. No technologists are invited. It is designed to be business leaders talking to business leaders. Each session has a topic. This week’s topic was cool technologies. In preparation for the call, I had given the group a list of emerging technologies that I am watching and I asked each person to come to the call ready to talk about technologies that they are working with. I wanted it to be a discussion about cool technologies, but we quickly got into the subject of adoption.

During the call I got asked a question that made me stop and think. The question was, “Lora, we are a late adopter. We are not comfortable being on the bleeding edge. How do I know if I am ready for these new technologies? Especially demand sensing?” I thought that this was an excellent question. It is frequently asked. So, I am going to focus here and share my answer:

Demand sensing is the application of analytic technologies to detect short-term patterns in channel data and translate it into distribution requirements. It replaces rules-based consumption in demand planning, and will improve short-term forecasting by 30-35%. The data can be structured or unstructured.

It makes a difference. The average client that has implemented demand sensing technologies has reduced inventory by 11%. So, you might ask, why is this not a no-brainer? The answer might surprise you. Here goes:

Sales Wants to Manipulate the Data. When sales is incented to move product into the channel, they want to touch the forecast and expedite shipments to make bonus incentives. They are uncomfortable trusting their fate to a black box.

What do you do about it? Find an advocate within sales to help sponsor the project. Help to educate the sales force and consider modifying sales incentives for the first three quarters to let the shipments even out to a pull-based signal. The short-term impact for one to two quarters can be a reduction in shipments even though case fill and end-level consumption will rise. Make sure that this is not a surprise.

Break Paradigms. Traditional Processes Encourage Bias and Managerial Overrides. The implementation of demand sensing puts the fate of the company in the hands of an optimization tool. It will drive a better answer than managerial overrides; but, for companies that have encouraged managerial overrides and consensus forecasting without the discipline of forecast value-add, expect for it to be a battle.
The answer? Take it slow. Prove that it works and educate the team on how the “touching of demand data” actually reduces demand accuracy. Be deliberate. Communicate often. Understand that people will be uncomfortable.

**It Is All About Influence Management.** Be very clear on the goal and work to increase advocacy in finance and sales. Make the project a win-win. Yes, it may decrease short-term sales, but in the longer-term it will increase customer service, reduce inventory and improve the execution of new product launch and trade promotions. Who doesn’t want this?

The answer might surprise you. When I was asked the question this week of “**How can I move the ball down the field if I don’t have the ball?**” My answer was for the team to help the other teams understand the rules of the game and work to move the ball down the field together. Not everyone understands supply chain; and for many, a discussion of demand sensing will sound like gobbledygook.

The success rate is highly influenced by this pre-work. Sell the project internally and find an advocate. And, yes, many companies fail before they succeed. Does this mean the technology is bad? No. It just means that the company didn’t take the right steps to get ready. Remember, many organizations do not understand the basics of demand management. Don’t take it for granted.

Would love to hear your thoughts. I will be landing soon in Philadelphia. Spending the weekend writing and then off to New York to work with a client and then speaking later in the week at a conference. I hope to see you in my travels!
Learning to Speak the Language of Demand

Originally published on January 21, 2014

New shoes feel awkward. Blisters appear. Feet hurt. The shoes are worn for short periods. Often we shelve them to allow our feet to recover. However, over time, they slowly feel comfortable. They become a part of our wardrobe.

Learning to speak a new language is similar. Conversations are strained. Mistakes are made. Pauses are awkward. Confusion reigns. Communication is stilted. It takes time. Slowly the words take definition in everyday speech.

Nine out of ten supply chains are stuck. Growth has slowed. Complexity has increased. Companies are stuck at the intersection of inventory turns and operating margin. They are unable to drive improvements in both. The secret to unsticking the supply chain is to redesign processes to be outside-in. The supply chain processes need to be designed from the market back.

This a step change, not an evolution. Why? Most companies have designed supply-centric processes from the inside-out. The first step to making the shift is learning a new language.

**Step Up and Learn the Language of Demand**

In companies, there is no standard model for demand processes. It is evolving. New forms of analytics make new capabilities possible. In the traditional organization, some demand processes are sales-driven. Others are marketing-driven. However, sales-driven and marketing-driven processes are quite different from market-driven processes. *(In fact, so much so that I wrote a book about it.)*

Unfortunately, companies have invested money in traditional forecasting processes believing that if they make the forecast better that corporate performance will improve. Improving forecasting is not sufficient. It is about much more than conventional forecasting. While we need forecasting and we need to improve the processes, we also need to teach teams how to use new forms of demand data and adopt demand processes.

Why is this important? Supply chain leaders are fluent in the language of supply. They don’t know the language of demand. To become demand driven (or market driven), they need to learn how to speak a new language. In this process, they slowly learn that the customer order is a poor representation of demand.

Tonight, I am stuck at a New York airport in a snow storm. I have been with a client for the last two days helping them to make this transition. So tonight, instead of making snow angels, I thought I would help readers to get started in speaking the language of demand.

**New Terms to Know**

The concepts of demand driven are now vogue. Many supply chain consultants will quickly rattle off case studies and proof points, but the smart supply chain leader will ground the discussion with clear definitions. Let’s start with these:

**Demand Sensing.** The reduction of time to sense purchase and channel takeaway. Demand sensing is a process, automated by technology, that reduces demand latency.

**Demand Latency.** The latency of demand signal due to demand translation of a customer purchase through the supply chain to an order for a trading partner. The time is different in each supply chain based on product sales velocity and the technologies used. For example, in a hospital, it is the translation of usage in a procedure to hospital order to a distributor and the translation of that usage...
to an order for a manufacturer. This time lapse varies by product and by channel. For the purchase of Tide at Walmart to translate to an order at P&G, the time is 5-7 days. For the translation of a purchase of Aleve at a retail outlet store to Bayer, the manufacturer, is 60 days. As the long tail (small orders shipped with low-frequency) of the supply chain grows, demand latency increases and there is a greater need for demand sensing technologies.

**Independent Demand.** The purchase of a product by a customer in the channel.

**Dependent Demand.** The translation of this demand signal from a channel demand signal to a manufacturer or a distributor through a bill of material or a transportation or manufacturing routing.

**Demand Translation.** The translation of demand by role within the organization. Each role—customer service, sales, procurement, manufacturing—has a different need/definition for the demand signal.

**Demand Shaping.** The use of demand tactics—price, sales incentives, marketing programs, new product launch, promotions, and assortment—to increase baseline forecasting.

**Demand Shifting.** The shifting of demand from one period to another (examples include pre-shipments at the end of the quarter, stuffing the channel to get rid of stock, or shipping early) increases supply chain costs and distorts the demand signal. Try to minimize demand shifting and maximize the value of demand shaping. Get clear on the difference.

**Forecastability.** The mathematical determination of ease of forecasting (the determination of the probability of demand). Many technologies include this in the base software package.

**Forecast Value-Add (FVA):** A methodology for continuous improvement of the demand plan where steps of the process are evaluated and the question is asked, “Did this change improve the forecast (bias and error) as compared to the naive forecast?” (For more on this topic check out the book, *The Business Forecasting Deal*.)

**Naive Forecast.** The historic forecast using prior month shipments.

**Downstream Data.** Use of channel data (Point of Sale (POS) and Warehouse Withdrawal) to sense channel demand.

**Demand Synchronization.** The demand signal must be connected from node to node in the supply chain and then synchronized and mapped. The most frequently mapped data elements are product hierarchies, time/calendars, and locations. In this mapping, the data granularity and frequency must be harmonized.

**Demand Visibility.** The translation of demand by role across the organization and across tiers and nodes of the supply chain.

**Demand Consumption.** The translation of the demand signal across planning horizons. In early planning products this was accomplished through rules-based consumption. New and more advanced technologies are using optimization and cognitive learning techniques to consume the forecast across planning horizons.

**Integration.** Close coupling of the data elements to use the data into software. Integration without synchronization and harmonization does little for the demand signal.

**Harmonization.** Data harmonization enables data of differing granularity and data structures to be harmonized into a common database.

Did I miss any? Just let me know. And, please let me know if you have any great tips to share for the application of these concepts.
Things Have Changed. What Do We Do NOW?

Originally published on November 10, 2013

This week I interviewed Robert Byrne, Founder of Terra Technology, on the results of their fourth benchmarking study on forecasting excellence. For those that do not follow this work, let me give a preamble. The work done by Terra Technology, in my opinion, is one of two accurate sources of benchmark data on forecasting in the industry. The other is Chainalytics demand benchmarking.

There are many forecast benchmark studies in the industry, but most have a tragic flaw. The issue with most forecasting benchmarking is that the data is self-reported. Demand planning processes lack standardization and self-reported data is suspect.

Background on the Study

Eleven multinational consumer products companies participated in the study. They are large and significant, representing a total of $230 billion in annual sales.

Complexity Escalates. Companies want to grow. Success in new product launch and trade promotions is critical to accomplish this goal. However, the increase in new products and trade promotions makes the task of forecasting tougher than it was four years ago. In the study, new products represent 17% of total cases shipped. New product shipments increased 10% over the last three years. This was coupled by an increase in seasonality and promoted items. Traditional forecasting processes support the forecasting of turn volume, or baseline products, well, but are not well-suited for new, seasonal and promoted products. New products and promoted items had 4-5X the bias of turn volume. Products in the long tail of the supply chain have an average error of 70% MAPE and a 15% bias.

Tougher in Europe. Both bias and error are higher in European supply chains. The average MAPE for North America was 36% while the European average MAPE was 45%. The average bias of European forecasts versus North America had 2% more bias.

Process Excellence Helps. Forecast Value Add (FVA) analysis has increased in popularity. The use of this continuous improvement process had a significant major impact on the bias and error of leaders. The average MAPE for top performers in the study is 46% and the use of FVA and other techniques reduced bias from 7% to 2%.
Technologies Need to Change. In addition, the use of statistics to replace rules-based consumption (often termed “demand sensing”) reduced demand error of the forecast at the warehouse level by 33% as shown in Figure 1.

My Take:
If growth is important to your business, you cannot manage demand planning processes like you did ten years ago. My recommendation is to:

Use FVA: Aggressively implement Forecast Value-Add (FVA) processes.

Focus Outside-In. Get serious about demand modeling. Many of the forecasting systems in the market just do not have the depth to do the type of modeling that is required in the face of this complexity. Reimplement traditional forecasting systems to model “what is to be sold” using attribute-based modeling. Aggressively integrate multiple demand streams (downstream data, warehouse withdrawal data, and market intelligence).

Flexibly Manage Attributes to Help Modeling. Manage history based on market attributes and aggressively move from “SKU-based modeling” to an “attribute-based model” based on attribute-based views of history. Synchronize and harmonize downstream data using an attribute-based model.

Build Global Excellence. Carefully define the role of the region and the role of the global team in the reduction of bias and error. Actively use FVA to improve and align global modeling.

Implement Demand Sensing. Companies that have successfully implemented demand sensing to improve the forecast at the warehouse DC have reduced inventory on the balance sheet by 10% within two years. I do not see the same results from the multitier inventory projects.

I look forward to getting your thoughts.
Another Concorde?

Originally published on September 2, 2012

In high school, my favorite teacher was Wanda Hughes. She taught history. Her class was both loved and feared. This was one class where there was no messing around. It was strictly business. She made us read the Wall Street Journal and New York Times daily. We debated the potential outcome of headlines: the Vietnam War, the rise of the Beatles, and the fall of the Nixon administration. We learned that current events quickly become history. In the process, I learned that there were patterns: people make the same mistakes over and over again. It is hard to learn from history.

A Look Back

Let’s fast forward. When I was 28, I worked for General Foods (now a division of Kraft). I was a divisional engineer responsible for the purchase of $42 million of equipment for a national launch. It was a big responsibility for a young kid.

The equipment vendor was in Denmark, and I flew trans-Atlantic flights frequently to check on progress. In those days, the corporate policy was to book trans-Atlantic travel as a first class ticket. (Ah yes, sadly these days are gone forever.) So, as a young kid, I had the enviable choice to either fly SAS First Class directly to Copenhagen or book to Paris on the Concorde and take a commuter to Denmark. The total time difference was two hours. The cost for the Concorde aircraft was slightly higher than a first class seat on SAS. For me, the choice was easy. The Concorde was not as pleasant of a ride. The seats were smaller and the food was not as good.

Today, there are no Concorde flights. It was canceled in 2003. After 27 years of flight, it died a slow death. The price/value equation for the average traveler to fly the Concorde was just not there.

Learning from History

Every year, computer speeds get faster and memory costs are cheaper. Currently, I am working with several supply chain technology vendors that are attempting to place these new forms of analytics underneath traditional supply chain planning platforms. My caution is that this is analogous to the Concorde. My question is, “Should we invest to make current supply chain planning systems faster or take advantage of new technologies to redefine them?”

I was speaking to a leader at a supply chain planning company last week, and his words hang in my mind as I write this:

“Lora, you are pulling us along. It is hard for us to do things differently. Our business users ask us for refinements not a rewrite of supply chain planning. The momentum in the company is not to do things differently. There is no incentive to adopt new enabling technologies.”

In my opinion, there is just not enough value in speeding up traditional supply chain planning footprints to make it worth our time. I want technology vendors to start over and “Paint Outside the Lines” and
recreate supply chain planning. I want them to deliver more value for the supply chain leader. However, I am convinced that it will only happen if it is pushed by the supply chain leader. If supply chain leaders do not push, I fear that we will have the 1995 version of supply chain planning in-memory. In my opinion, this would be another Concorde. Here is my logic:

**The Definition of Supply Chain Planning Is Inadequate.** Supply chain planning applications rate lower in user satisfaction than supply chain execution (warehouse and transportation management) software systems. In Figure 1, based on a recent supply chain survey of 60 supply chain leaders, you can see the current satisfaction levels of supply chain software.

**Figure 1. User Satisfaction with Current Supply Chain Software**

<table>
<thead>
<tr>
<th>IT System</th>
<th>Satisfaction (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse Management</td>
<td>38%</td>
</tr>
<tr>
<td>Order Management</td>
<td>35%</td>
</tr>
<tr>
<td>Demand Planning</td>
<td>30%</td>
</tr>
<tr>
<td>Enterprise Resource Planning</td>
<td>24%</td>
</tr>
<tr>
<td>Tactical Supply Planning</td>
<td>20%</td>
</tr>
<tr>
<td>Production Planning</td>
<td>15%</td>
</tr>
</tbody>
</table>

The traditional definitions of planning were based on computer capabilities from the 1990s. They were the best that we could do then; but they are inadequate today. There has not been a substantial redefinition of planning platforms since 1995.

**Time to Paint Outside the Traditional Lines.** I would love to see us put these new forms of analytics to use in building the End-to-End value network. I would like for us to redefine versus making the old, inadequate definitions faster. I am passionate about using new technologies to redefine business outcomes.

The possibilities to improve supply chain planning are numerous—deeper optimization, in-memory processing, mobility, pattern recognition, rules-based ontologies, simulation, text mining and visualization—and offer great promise. However, the adoption of these new technologies to supply
chain planning platforms has been slow. I find that most line-of-business users do not even know of some of these possibilities.

Figure 2. Potential Supply Chain Planning Platform Using New Technologies

<table>
<thead>
<tr>
<th>Sell</th>
<th>Deliver</th>
<th>Make</th>
<th>Source</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Network Design</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue Management</td>
<td>Sales &amp; Operations Planning</td>
<td>Supplier Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand Translation and Demand Orchestration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price and Promotion Management</td>
<td></td>
<td>Material Requirements Planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Execution</td>
<td>Demand Execution and Forecast Value Added Analysis</td>
<td>Deployment Planning</td>
<td>Production Planning</td>
<td>Materials Management</td>
</tr>
<tr>
<td>Demand Sensing and Demand Execution</td>
<td></td>
<td>Transportation Planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supply Sensing and Supply Execution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-to-Promise (ATP) Functionality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand Visibility</td>
<td>Order Management</td>
<td>Warehouse Management</td>
<td>Digital Manufacturing</td>
<td>Supply Visibility</td>
</tr>
<tr>
<td>Channel Partner Network Collaboration</td>
<td>Transportation Execution</td>
<td>Manufacturing Execution</td>
<td>Supplier Network Collaboration</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These new advances in business analytics can allow the Line of Business User to sense channel demand from the customer back, to test and learn in real-time, and map multiple ifs to multiple thens to orchestrate demand and supply. We are moving into the world of Big Data Supply Chains and Outside-in Processes. Here are some examples:

**Digital Manufacturing.** The use of mobility in manufacturing is defining digital manufacturing. In digital manufacturing, sensing real-time equipment status and scheduling based on actual conditions, allows companies to move from a near real-time to a real-time response for manufacturing planning. No longer does maintenance need to be based on mean-time failure. Instead it can be based on actual operating conditions of real equipment outputs—pumps, conveyor motors and filler heads—to improve the certainty of manufacturing output.

**Orchestrating Demand and Supply.** We know that a customer is not a customer and an order is not an order, but there is no way to orchestrate this; and once determined, in today’s systems there is no way to manage a rule-set to ensure that the highest priority customers get the highest priority for inventory. Or for companies to manage operations to ensure that the lowest cost operations are used to fill the customer order. These new forms of analytics enable new sets of trade-offs horizontally. I would love to see supply chain planning vendors embed the combination of Enterra Solutions and Signal Demand to orchestrate demand and supply.
Channel Sensing and the Redefinition of Order Management. Similarly, I would love to see the roll-up of demand vendors— a demand signal repository vendor like Relational Solutions, Retail Solutions, Vision Chain with a demand sensing vendor like Terra Technology to translate demand from the channel to the enterprise and drive priorities in order fulfillment.

Network Design and Supply Chain Visualization. It is good to see the Llamasoft solution for network design being applied more widely. This more advanced capability for optimization and simulation can be used for operational and tactical decision-making. Today’s solutions lack sufficient visibility for teams to quickly make cross-functional decisions.

Can We Avoid Another Concorde?
Mrs. Hughes died in July 2010 after 42 years of teaching. The Concorde is now legacy. It is my hope that I can apply what I have learned to help supply chain leaders redefine supply chain systems. I am excited about the potential.

What do you think? Do you agree? Do you think that we can now declare traditional supply chain systems legacy and start again?

Or, do you disagree? Do you think that there is enough value to putting new in-memory forms of business intelligence under the traditional platforms and running them faster?

I look forward to an engaging debate.
DEMAND SHAPING
Wrong People on the Bus?

Originally published on June 10, 2012

“Most people assume that great bus drivers (read: business leaders) immediately start the journey by announcing to the people on the bus where they're going—by setting a new direction or by articulating a fresh corporate vision.

In fact, leaders of companies that go from good to great start not with “where” but with “who.” They start by getting the right people on the bus, the wrong people off the bus, and the right people in the right seats.”

Excerpt from the book Good to Great by Jim Collins

My feet still have the blisters from walking the streets of New York. They are red and cracked. They were glad to feel the soft lambskin of my slippers waiting for me at home.

Last week, I attended the Consumer Goods Technology (CGT) event at the Roosevelt Hotel and took the opportunity to see clients. The rain, President Obama's visit, and a couple of wacky parades made the city a mess.

So, I took to the streets. I love to walk, and it gave me some great time to think. As my heels clicked on the pavement, and I dodged a myriad of mud puddles, I thought about the conference. While there is some movement on the use of downstream data, my take is that the Consumer Products (CP) industry is not making progress on Trade Promotion Management (TPM). In my view, we are stalled ... at a standstill.

It is frustrating and I am not patient. Trade spend is significant, and the opportunities are great; but the discussions are the same ones that I heard back in 2002. Yes, I have now been studying the Trade Promotion Management (TPM) market for a decade, and I feel that we are circling the drain. It is painful to listen to the same discussions, see the same mistakes and hear the same vendor pitches over and over again, year after year. Over the week, it became a quest of mine to determine “How can we break the cycle?”

I count the people that I consider TPM experts on one hand; and last week, many of them were in attendance at the CGT event. So, I pulled up a chair and asked their opinions. No one disagreed.

Over drinks we discussed why the industry had not made more progress on improving trade practices. One person commented that they thought that we had the wrong people on the bus. The general opinion was that the wheels were going round-and-round and the heads were going up-and-down, but that they were all on the wrong bus going nowhere. I laughed; but as I walked, I thought about the bus, and decided that the thought had some merit. Let me ask the advice of my readers.

Most of the attendees at the conference were marketing trade managers or directors of IT. I feel that they are just in the right positions to drive the bus to drive change. Here are some direct quotes that I heard at the conference along with my take:

• “Trade promotion optimization is like teenage sex. Everyone talks about it; but it is just that, talk.” This was funny, but true. It came from a strait-laced guy that I have coached over the course of the last year. I got him involved in the CGT Trade Promotion Share Group. His opinion was that he heard the same thing this year as last. Net/Net: While the technologies for optimization have improved, I only know of two companies that are doing true optimization of trade spend. The companies were not at the conference.
“Picking a trade promotion management vendor is like selecting who to marry in a family of ugly sisters.” Let’s face it, there is no perfect solution for TPM. While most solution providers take competing postures, most of the solutions are complementary, and no solution is complete. The acquisition of CAS by Accenture, DemandTec by IBM and ProMax by Wipro makes the decision more complicated. None of the three system integrators do TPM well; yet they have bought a solution. Net/Net: The selection of a solution is one of the most difficult that I give advice on. It is messy.

“While people are talking about the issues with trade, I am shifting my money to digital.” Some have just given up. With the advancements in Digital Path to Purchase, I found two manufacturers that are shifting their focus elsewhere.

So, What If You Are the Bus Driver?

If you are a project leader for a TPM project, you should first accept that the industry is a mess. Secondly, you should reach out to the few people in the industry that understand the space. (If you are a Fortune 1000 company, my short list includes Hans Van Delden from Booz & Co., Rich Essigs from Genpact, Nick Handrinos from Deloitte, Linda Peel from Oracle, and Rob Hand from SAP. If you are a smaller company, my shortlist is slightly different. (If you want more details, shoot me an email.)) At this time, if you benchmark and network, you need to accept the industry for what it is.

So, my advice? Put the right people on your bus, and determine where to head. Start with strategy and then determine process and then follow with technology. And, as you put on your seat belt to start the bus, I would start out in first gear. It will be a bumpy road with a steep incline.

So, what do you think? Do you think that we are going nowhere? Do you think that we need to try new approaches with a new set of leaders to attack the problem a different way? Please let me know your insights.
Turning Up the Heat: A Hot Topic on a Hot Afternoon

Originally published on August 31, 2010

“I have given up that I will ever find an ideal trade promotion solution, “ J&J presentation, Consumer Goods Technology Event, June 2010

They crowded together in stifling heat at the Roosevelt Hotel. A group of 42 consumer product executives gathered to discuss Trade Promotion Management (TPM) in the Consumer Goods Technology (CGT) Share Group. It is a hot topic that become hotter as the day progressed.

Turning Up the Heat

Procter & Gamble (P&G) kicked off the session sharing insights on their global TPM project. The goal is to consolidate over 50 applications for 30 countries. The project streamlines, and improves global processes. The project genesis? It started when multiple regions for P&G could not meet the internal Sarbanes Oxley assessment. The focus of the presentation at the session was project management: project ownership, decision making, and global process deliverables.

P&G is operating at a different level than the industry. When the room was asked how many companies are currently working on the implementation of a global TPM project, no hands were raised. It is proof that for most companies, TPM is still a VERY regional process with multiple systems.

What was boiling?

To prepare for the session, the group was given a list of potential topics. When push came to shove, the group wanted to discuss three topics:

1) IT Architecture: Is There a Preferred System for TPM? The answer is no. In this discussion, the room came to life. Energy radiated as the group shared stories, anger and frustration.

In the industry, TPM deployments are all over the map. Companies have multiple systems, many implementations and cannot identify a clear technology leader. Traditional Customer Relationship Management (CRM) approaches under-served the market in consumer products. When asked what systems were currently deployed? The most widely deployed system is Oracle followed by SAP. (There were eight
companies with Oracle architectures, five using SAP-based infrastructure, four using CAS TPM, and one with Microsoft-based custom solution.)

Oracle and SAP users agreed on similarities between the two vendors: slowdown of innovation, fragmented direction without consistent leadership, and the lack of an acceptable user interface. Both sets of users discussed the need to build a front-end to overlay over the architecture to improve ease of use. Then they laughed and raised a question. "Why should they have to build an overlay architecture to improve ease of use?

Both SAP and Oracle customers expressed frustration on how to spur development and provide leadership to improve the situation. The group agreed that the Oracle and SAP stories had amazing similarities with no ideal solution for the industry for a global deployment. Companies using best-of-breed solutions expressed similar frustrations.

2) Not a Lot of O in TPM. While the subject of optimization in TPM had the highest interest for the group, fifteen years after market introduction, less than 10% of companies in the room use optimization techniques in trade promotion management. The issues include the lack of manpower, expectations (the recognition that the output is directional versus absolute), ownership and the lack of process clarity.

There is no clear technology winner. The solutions deployed for optimization are also all over the board.

3) Few Use Shopper Insights. Of the group, less than 8% are using shopper insights to make decisions. Of this group, eight are looking at shelf virtualization, three are optimizing based on store clusters and one company is using test and learn techniques. In short, very little is currently being done by the group to tie shopper insights to TPM decisions.

My Take:

The market is still largely a Trade Promotion Management (TPM)—as opposed to a Trade Promotion Optimization (TPO)—market. What seems so simple is still a long way away. Companies desperately want a better user interface to improve trade coordination. They are equally frustrated by Oracle and SAP. The lack of success in bringing this to market has stalled the adoption for new technologies. They are disappointed that no platform vendor has brought a usable solution to market that easily combines TPM and TPO.

However, there are several trends that will transform this market. Retailers are pushing consumer products companies to change their processes from the outside-in. The greatest change is happening in the account team structures where retailers are asking for price and trade deals together. This pressure from retailers to the sales teams will gradually change the processes within consumer products companies, but the adoption of systems using shopper insights and predictive analytics will happen slowly.

They will evolve and Software as a Service (SaaS) will continue to grow:

A Bake-Off Is Coming. There will be a race between Oracle and SAP to right the ship and improve TPM usability. Oracle will defend the front office using its surround ERP message, and SAP will push an integration value proposition. Companies are frustrated with both vendors. Advancement will only happen if these two large vendors have large ears and small mouths. Current groups like ASUG for SAP and the Oracle Customer Advisory Group have been largely ineffective because of structure,
membership and vendor commitment. Now is the time to reframe the discussion, to actively listen and leave the quota carrying sales person at the office.

**Predictive Analytics That Use Downstream Data and Shopper Insights Will Happen.**

The techniques by Software as a Service (SAAS) vendors like **Applied Predictive Technologies, M-Factor** and **DemandTec** to use external data within test & learn scenarios will gain receptivity as more and more companies use gain ROI. This will be forced because the rate of adoption of these techniques by retailers using Software as a Service technologies like **APT, DemandTec, Predictix, and Revionics** is gaining steam in retail. The battle lines are being drawn.

**Redefinition of Forecasting:** There will be a traffic cop emerge to own baseline forecasting. This is a pain point for every company that I speak to. The redefinition of these processes is not as easy as data integration. It requires a steward or overlay organization to model demand shaping factors together, share baseline demand and provide insight into the organization on where they are getting true value from demand shaping activities. The group thought that this role could be played by finance or supply chain; but not by marketing or sales. Increasingly I see inquiries on how to improve baseline forecasting. The most progress against this goal is happening with companies deploying **IRI, M-Factor, SAS Demand-driven Forecasting** or **Terra Technology MDS**. Four very different solutions deployed by four different groups with the same goal.

**Time to Condense?**

It is time for the consumer products company to ask themselves some hard questions:

Why do they not know baseline demand? Why do they overpredict trade deals? Why are they not better at pricing? Why are they not using shopper insights? Why are they not taking advantage of test and learn capabilities? Can they afford to not be good at these processes when it represents 14-22% of revenue?

I think not. The answers lie in change management and restructuring reward systems. They need to be enabled by technologies, but it is not a technology project. It starts with an internal audit. The sales teams are incented on sales volume. Marketing is driven by market share. Supply chain is driven by production volume. Who is looking after the customer? And, serving as the check and balance on the systems? According to the group, the answer is no one. 90% of the group responded that they would like to see an organization that crosses sales, marketing and supply chain to serve as the traffic cop: the single point of truth.

Sales teams are getting the most pressure from retail for deals. The retail pressure will get greater. Retailers are better at pricing and using shopper insights than consumer products manufacturers. The gap is growing. The sales teams are trying to keep up. They are using the most advanced tools, but there is no check and balance. Companies struggle with how to tie this work to corporate demand planning. It requires a rethinking of the process from the outside-in and challenging traditional paradigms and reward systems.

All these issues contributed to the group getting lathered up to talk TPM. But, before we **throw the baby out with the bath water** and scald the technology vendors, I think that it is important to hold up a mirror and ask how do we organize to help technology companies better serve the true need. How do we forge a bond to help consumer products companies redefine their processes to be more responsive and accurate for customers? It may take a hot New York minute to hit the flash point to drive change; but it is clear, it is an industry issue.
Demand Cacophony

Originally published on July 12, 2011

The promise was harmony. The delivery is dissonance.

It was to be a unified signal spanning customer’s customer to supplier’s supplier to join, align, and guide the supply chain response. For most, it has failed.

Let me start with some perspective. I have followed the evolution of supply chain practices for 30 years. I am an old gal. Yes, it has been over 30 years. (My birthday this week is a stark reminder of just HOW long I have been following this evolution.) As a business practitioner, I built demand planning systems on spreadsheets to help me plan inventory. As a technologist, I implemented demand management systems for a major supply chain planning company. I rode the hype of supply chain planning technology cycle with vigor and projected high hopes for supply chain planning. As an analyst, I have followed the evolution of demand planning processes. I have written about what they are, where they are at, and what they could be. This blog post is my point of view. I feel that we have let demand planning systems evolve. As technologies have changed, I do not believe that we have rethought the processes to take advantage of new demand signals, better sensing in global markets, or actively shaping demand based on what customers want to buy. We have not challenged the vendors. I feel that there is a need to re-architect these processes to seize new opportunities and to deliver on the original promise.

The synonyms for cacophony are jarring, grating, uproar, and clamor. I find that these words aptly describe the environment of most of my demand planning clients. Here are the disconnects that I see driving the dissonance.

**What is the goal? What is demand?** Companies believe they purchased and implemented processes to project demand. They did. However, the goal line has changed. Most have not accepted this reality. Their internal definition of demand has migrated, and their systems and processes have not. What does this mean? The systems that were implemented in the go-go days of supply chain planning, forecast what manufacturing should make using order history. It is not what the market wants to buy using market signals. It is far from it. The devil is in the details. The two goals are not equal. The demand signals in most organizations are “supply-driven” not “market-driven”, and most companies do not realize the difference.

**Where do we go from here? How can demand planning systems grow up?** The number of potential signals has proliferated. They have less latency. They better reflect true demand. In my work, no one argues that use of social signals, sentiment analysis, distributor data, or point of sale data can improve the timeliness and accuracy of the forecast. The issue is how to use it. In traditional architectures, there is nowhere to put it. The models were not designed to use it. Instead of being able to embrace these new, and varied signals, they are forming a cacophony surrounding traditional demand forecast processes. People ask the question, “How do I use these new forms of demand data?” However, when they hear the answer—rethink your demand planning architectures—they are unwilling to take the next step. This redefinition is still early.

**Confusion. Are we shaping or shifting demand?** The cacophony is propelled by a corporate reward system. Let me explain. Sales is incented on growth. Supply chain teams are rewarded for costs. Demand processes struggle to get ownership across marketing and sales because many teams do not want the discipline or the transparency of a market-driven approach. As a result, many companies shift demand versus shaping demand. This is major. What is the difference? Shifting demand is the use of demand shaping levers (e.g., changing price, promotional tactics or new product launch strategies) to move demand from one period to another. Why? There is an organizational
struggle. While it may help a sales executive get a bonus, it increases waste in the value chain and is a barrier for building strong collaborative relationships. On the other hand, shaping demand—using the demand shaping levers of price, promotion, new product launch, and sales incentives—to increase baseline lift, grow market share and build new markets requires discipline, teamwork, and market knowledge. Most sales and marketing organizations are not ready to be market-driven. They are focused on inside-out metrics, not outside-in processes. Typically the focus is on meeting internal metrics versus maximizing market potential.

**Sidebar:** Before I continue, I want to be sure that we are clear on terms. I believe that supply chains need to be market-driven. In my research, I see that the strongest supply chains are connected by horizontal processes from sell-side to buy-side and bidirectionally define go-to-market strategies. I was a visionary in the writing of demand-driven supply chains, but I believe that the demand driven definition is not sufficient. Why? The definition of demand driven is to sense, shape and drive a demand response with near real-time latency of data. While I believe that sensing, shaping and architecting the demand response is critical, I do not think that is sufficient. It is missing the bidirectional trade-offs between buy and sell-side market strategies to balance risk and opportunity. Supply chains are becoming more constrained by supply-side decisions. Goods at retail are forecasted to increase in price by 20% this year due to transportation constraints, demand has outstripped supply in agribusinesses for the past four years, and raw material prices are a boardroom issue. As a result, the connection of demand signals horizontally to drive market-driven processes is growing in importance. There are no market-driven supply chain solutions at this point in time in the market.

**What to Do? Five Steps to Take:**

**Acceptance.** Remember the serenity prayer? Recognize that conventional demand planning systems are nearing end-of-life. Accept it. Respect them for what they are, and maximize their use. Don’t try to use them for something that they were not designed to do. Accept that you will be living in a demand cacophony for many years. Learn how to tune into different channels and manually connect the dots. Or alternatively, redeploy demand planning to be a demand-side application and translate what you are going to sell into what you are going to make.

**Get good at sensing.** New systems for demand management will evolve overtime. However, to get ready to use them, get better at using demand signals. Get good at demand sensing. Evaluate new technologies like Terra Technology demand sensing, Signal Demand for demand orchestration, Enterra Solutions for natural language processing, sentiment analysis from SAS, aggregated review data from Bazaarvoice, and build a demand signal repository from a cadre of vendors (Relational Solutions, Retail Solutions, Teradata, and Vision Chain.) However, in project planning, realize that this new data does not fit into conventional demand planning processes. We are not ready for direct integration. The systems lack the data model, scale and scope to accommodate these signals. Today, you can only use them to simulate test and learn environments.

**Be a realist.** Recognize today that there is no planning architecture that allows you to use social data, sentiment analysis, downstream data, distributor data, and sales account team input well. Follow the evolution of technologies in this area and invest in early pilots knowing that the answer is not going to be quick.

**Build your core.** Build strong horizontal processes—revenue management, sales and operations planning, supplier development, innovation and new product launch processes—to support supply chain strategies. Build demand management discipline into these processes. (e.g., In your
revenue management processes did you shift or shape demand? What was the bias and error from management input in the S&OP process? How effectively did we forecast new product launch?)

**Develop a market-driven strategy.** Prepare. Ask yourself three questions. “What is the role of the demand signal in connecting sales-side strategies to buy-side strategies to mitigate risk and maximize opportunity? Why is this important for my business?” And, what is our roadmap to get there?”

Would love to know your thoughts. Please share.

This week, I am off to SAP Industry Analyst Bootcamp. Look for my tweets and insights from the conference. I am trying to understand how columnar store through the SAP Sybase acquisition can help us create better supply chains. I look forward to getting your comments.
DIGITAL SUPPLY CHAIN
Growth has slowed. Complexity has increased. At least this is the story for consumer packaged goods (CPG) companies in North America. The complexity of changing product portfolios and the increase in demand-shaping programs (price and promotion) have distorted demand signals and made supply chain planning more complex.

As outlined in my recent Forbes article, the cost to bring a new product to market has increased four-fold in the last five years. The supply chain capabilities to sense market requirements and support new product launch successfully is a gap. There is just too much latency in the traditional order signal to effectively respond at the market cadence. What to do?

Today, 63% of consumer manufacturing organizations have a digital path to purchase initiative. This is a wonderful opportunity to design outside-in processes. Here are three steps to take:

1) Read Promotion and Price Effectiveness with Minimal Latency. Today, it takes 30 days for the consumer products organization to read the impact of a promotion. This might be sufficient for sales and marketing processes, but for the activities of replenishment, 30 days is too long. Use downstream data (retailer Point of Sale and warehouse withdrawal data) to build outside-in processes to sense short-term demand requirements and translate them to the supply chain. This is the combination of demand sensing technologies in combination with channel data. Build these processes outside-in. Focus on data synchronization and harmonization.
2) **Use New Forms of Analytics to Uncover Unlikely Inferences.** Answer the questions that you do not know to ask. Text mining and sentiment analysis can be used to build listening posts to help companies listen to the voice of supply chain. Likewise, cognitive learning engines that use unstructured and structured data can listen and learn from multiple data types to better understand the right assortment in each market, and the reasons driving customer acceptance. (Many of which can be changed with the product launch.) Information from ratings-and-review data can help align the organization to better serve the shopper. Actively work on these initiatives to use the power of analytics to serve the shopper.

3) **Test and Learn.** Today, consumer products companies can sell in e-commerce channels directly to the shopper. Use these emerging channels to test and learn about the relationship of product attributes to customer attributes. Use test-and-learn strategies (either cross-channel or in vitro market testing) to better serve the shopper. The days of spray and pray are gone. The secret is to carefully design the test-and-learn strategies and to be careful in the execution to accurately read the market.

To do this, companies cannot operate in functions and the processes need to be designed outside-in. Supply chain leaders need to partner with commercial teams to drive a market-driven, not a marketing-driven, response. The key is listening, sensing and adapting to market signals with little latency. This cannot happen with the old inside-out processes. Use these new initiatives to build innovation at the edge and test new forms of analytics and use new forms of data.

For me, this is exciting. It is a wonderful opportunity to build outside-in processes to serve the shopper. What do you think? What do you see as the barriers?

All the best in your journey! Let me know your thoughts.
What Should Be the Role of the Store?

Originally published on July 24, 2013

I love retail research. While some gals would call it retail therapy, I actively converge my days of shopping with supply chain research. Let me give you an example.

Recently, I needed new bowls for French onion soup. So I placed the same order on Amazon, Macy’s and JC Penney’s websites. I had some trepidation. The reviews on Amazon listed “in-transit breakage” as a problem, but I shrugged my shoulders and decided to give it a go. Macy’s had been bragging at conferences about their work on cross-channel fulfillment with progress made in using their stores to ship directly to customers. Penney’s was in a major transformation. When the bowls arrived, I got three different outcomes:

Amazon Shipment: The bowls were neatly packed and there was no damage. Amazon had fixed the issues with damage in shipment.

Macy’s Shipment: When the bowls arrived, 60% were broken. The wrapping and packing were poor. I called customer service and complained. Macy’s requested that I ship the damaged bowls back. The box had a return label. It was a mechanical transaction. I received a credit in two weeks. No one said that they were sorry. There were no attempts to improve my brand loyalty.

Penney’s Shipment: When I received the JC Penney’s shipment, all the bowls were broken. I called customer service. They requested that I give them some times during the day to enable the UPS delivery man to visit my apartment to inspect the damage. Again, it was a very mechanical transaction. The customer service representative uttered no words of “I am sorry.” I will never order a breakable item online again from Penney’s.

Retail is about people. It is about relationships. It is about seamless and flawless execution. In the case above, Amazon clearly wins. And, while many retailers brag about cross-channel fulfillment and tout their progress on Omni-channel, many retailers are stuck. They are not able to operate effectively cross-channel.

As shown in Table 1, productivity of bricks and mortar retailers is stalled. More and more companies are struggling to make progress in operating margin and inventory cycles.

Table 1.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel Retail</td>
<td>331</td>
<td>440</td>
<td>365</td>
<td>332</td>
</tr>
<tr>
<td>Grocery Retail</td>
<td>206</td>
<td>240</td>
<td>269</td>
<td>269</td>
</tr>
<tr>
<td>Mass Retail</td>
<td>392</td>
<td>332</td>
<td>401</td>
<td>444</td>
</tr>
<tr>
<td>Pharmaceutical (Drug) Retail</td>
<td>364</td>
<td>394</td>
<td>424</td>
<td>483</td>
</tr>
</tbody>
</table>

Source: Supply Chain Insights LLC, Corporate Annual Reports from One Source 2000-2012
Apparel Retail: Express, Inc., Limited Brands Inc., lululemon athletica inc., The Buckle, Inc.
Grocery Retail: Carrefour SA, Delhaize Group, Safeway Inc., Supervalu Inc.
Mass Retail: Costco Wholesale Corporation, Fred’s, Inc., Target Corporation, Wal-Mart Stores, Inc.
Pharmaceutical (Drug) Retail: CVS Caremark Corporation, GNC Holdings Inc, Rite Aid Corporation, Walgreen Company
Current State - Let’s look more closely to understand the story:

E-commerce Is a More Profitable Channel Than Traditional Bricks and Mortar Sales.

E-commerce is a disruptive business model. There is growth in e-commerce pure plays (e.g., eBay, GiantNerd.com, Zappos) and stagnation in sales in most conventional bricks and mortar retail formats.

Amazon Effect. No one questions that Amazon has had a pervasive impact on retail. Ten years ago, Amazon was an online book retailer, yet today a family can buy a wide variety of items, including groceries with next day delivery. With the introduction of Amazon Prime with free shipping, why do customers need to enter a physical store? To understand the pervasive nature of this change, consider Amazon’s 2012 announcement:

“We now have more than 15 million items in Amazon Prime, this is up 15x since we launched in 2005. Prime Instant Video selection tripled in just over a year to more than 38,000 movies and TV episodes. The Kindle Owners’ Lending Library has also more than tripled to over 300,000 books, including an investment of millions of dollars to make the entire Harry Potter series available as part of that selection”. Amazon 2012 Annual Report

Improving Store Operations Is a Major Imperative. As companies face the squeeze from e-commerce models, retailers are attempting to evolve new store formats. They are trying to fight back. To do this, they need to answer the question of “What should be the role of the store in the future?” We recently completed a survey of over 90 retailers to understand this dilemma. As shown in Figure 1, all retail formats—grocery, mass merchant and specialty—are struggling with consistency in retail operations.

Figure 1.

<table>
<thead>
<tr>
<th>Top 3 Challenges Regarding Physical Store Performance</th>
<th>Grocery</th>
<th>Mass Merchant</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consistency in store operations</td>
<td>59%</td>
<td>55%</td>
<td>39%</td>
</tr>
<tr>
<td>Rising cost of store labor and turnover of employees</td>
<td>50%</td>
<td>61%</td>
<td>45%</td>
</tr>
<tr>
<td>Price management</td>
<td><strong>66%</strong></td>
<td>36%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Doing different better: a unique banner strategy that can be executed effectively against a targeted demographic

<table>
<thead>
<tr>
<th>Doing different better: a unique banner strategy that can be executed effectively against a targeted demographic</th>
<th>Grocery</th>
<th>Mass Merchant</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>38%</td>
<td>30%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Show-rooming: consumers coming to the store to compare prices and see items but not buying

<table>
<thead>
<tr>
<th>Show-rooming: consumers coming to the store to compare prices and see items but not buying</th>
<th>Grocery</th>
<th>Mass Merchant</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3%</td>
<td><strong>24%</strong></td>
<td>33%</td>
</tr>
</tbody>
</table>

The changing needs of store format requirements based on cross-channel competition

<table>
<thead>
<tr>
<th>The changing needs of store format requirements based on cross-channel competition</th>
<th>Grocery</th>
<th>Mass Merchant</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19%</td>
<td>30%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Defining the right store formats based on demand insight data

<table>
<thead>
<tr>
<th>Defining the right store formats based on demand insight data</th>
<th>Grocery</th>
<th>Mass Merchant</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13%</td>
<td>21%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Changing trip types and the design of the store to meet these changing needs

<table>
<thead>
<tr>
<th>Changing trip types and the design of the store to meet these changing needs</th>
<th>Grocery</th>
<th>Mass Merchant</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13%</td>
<td>9%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Determining the right metrics for the store based on channel convergence

<table>
<thead>
<tr>
<th>Determining the right metrics for the store based on channel convergence</th>
<th>Grocery</th>
<th>Mass Merchant</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13%</td>
<td>18%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Supply Chain Insights LLC, Role of the Store Study (Aug 2012 - May 2013)
Base: Retailers and have physical stores and know how many – Grocery (n=32), Mass Merchants (n=33), Specialty (n=33)
NOTE: Base too small to show “Other” industries.
Q15. What are your company’s top 3 challenges when it comes to physical store performance? Please select no more than 3.
☐ Higher than other group(s) at 90% or higher level of confidence
Talent issues, supply chain strategy and organizational alignment are also issues for the respondents (as shown in Figure 2). Retailers are struggling with the use of data and making demand insights actionable to store performance. It is clear that supply chain matters, but progress on operating margins and cycles are stalled. Based on our research the exceptions are Costco, lululemon, Walmart, and Zara.

Figure 2.

### Top 3 Elements of Supply Chain Pain for Respondent

<table>
<thead>
<tr>
<th>Top 3</th>
<th>Grocery</th>
<th>Mass Merchant</th>
<th>Specialty</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent issues (shortage, skills, training, etc.)</td>
<td>46%</td>
<td>42%</td>
<td>21%</td>
<td>37%</td>
</tr>
<tr>
<td>Demand and supply volatility</td>
<td>24%</td>
<td>36%</td>
<td>23%</td>
<td>37%</td>
</tr>
<tr>
<td>Management of value network relationships (suppliers, clients, customers, etc.)</td>
<td>30%</td>
<td>25%</td>
<td>26%</td>
<td>15%</td>
</tr>
<tr>
<td>Organizational alignment</td>
<td>32%</td>
<td>28%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Increasing speed of business</td>
<td>24%</td>
<td>33%</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>Clarity of supply chain strategy</td>
<td>22%</td>
<td>19%</td>
<td>15%</td>
<td>26%</td>
</tr>
<tr>
<td>Increasing regulations and compliance</td>
<td>22%</td>
<td>22%</td>
<td>13%</td>
<td>19%</td>
</tr>
<tr>
<td>Ability to use data (access to data, dirty data, etc.)</td>
<td>22%</td>
<td>28%</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>Software usability</td>
<td>5%</td>
<td>8%</td>
<td>21%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Supply Chain Insights LLC, Role of the Store Study (Aug 2012 - May 2013)
Base: Retailers – Grocery (n=37), Mass Merchants (n=37), Specialty (n=41), Other (Convenience, Drug, Dollar Store, e-Commerce) (n=28) *CAUTION: Small base size 025A When it comes to supply chain management, which of the following are the top 3 elements of business pain for you personally? Please select no more than three.
* Higher than other group(s) at 90% or higher level of confidence

### What Should Retailers DO?

**Embrace Showrooming as an Opportunity.** Despite the pressures on store performance, very few companies are looking at a redesign to improve the customer experience. Most see showrooming as a problem versus an opportunity. Recently, I hosted a panel of retail experts to discuss turning showrooming into an opportunity. A couple discussed how they are using technologies like RetailNext to look at the differences between traffic and conversion. The heated discussion was on the use of store displays and experiences to convert shoppers in the store to buy. It is hard for the retailer to embrace the showrooming trip type as an opportunity.

**Design the Experience from the Customer Back Considering the Role of Each Channel.** Retailers are siloed. While there is talk about omnichannel, we are far away from making it a reality. Most retailers run the channels as distinctly different businesses and profit centers. As a result, companies are unable to operate seamlessly across channels to improve the customer experience.

The traditional metrics within each silo are a barrier. For example, one retailer spoke on the management of returns. The Omnichannel approach that they are implementing encourages shoppers to execute returns at the store; however, the metrics within the store discourages returns. Social and mobile programs are the most closely associated with e-commerce and digital marketing and demand insights are a gap.
To improve the experience, retailers have to focus on changing siloed metrics to cross-functional metrics, and designing the store based on shopper insights and in-store monitoring to better understand and shape conversion.

**Make the Store a Destination.** In one panel that I recently hosted, a representative from Godiva discussed how they were redefining the role of the store. As their chocolate sales have increased online, they have struggled to improve in-store sales. As a result, they installed a “dipping station” in their stores to allow shoppers to dip fresh fruit into chocolate as part of the in-store experience. The impact on sales was dramatic. So, whether it is an in-store clinic within a drug store, or a pet groomers in a pet store, or a cooking class within a grocery store, retailers are smart to use their store formats to enhance the experience on the use of their product. The goal is to give the shopper a reason to enter the store; and when they do, make the shopping experience seamless so that they will come back.

This is also an opportunity for suppliers. Many do not realize that retailers have a need to make the store a destination. By offering specialized services—make-up specialists in the store, return services for ink cartridges, custom ordering—the supplier can help the retailer redefine the role of the store.

**Ensure Excellence in all Forms of Fulfillment.** Social and mobile commerce require more customization and single unit shipments. These packages and shipping do not fit well into the traditional warehouse environment, and most store clerks are not trained to handle the packing of shipments within the store. Redesign fulfillment with the goal in mind. Don’t try to force-fit fulfillment processes into situations where they are not a good fit.

**Summary**

The traditional retailer defined store formats before the world of e-commerce, mobile and social sales. Shoppers want to shop anytime and anywhere, but the retailer has designed their processes to serve the customer within a channel. There is an opportunity to redefine the role of the store to welcome showrooming, improving the experience and making the store a destination. However, as companies move forward, they must first guarantee execution. I still have the memories of my call with JC Penney. It makes a great story on stage.
The supply chain is knotted. It is unruly. It is complex. Will it ever be tamed through social?

Yesterday, @DamarqueViews asked me a question on twitter: “What do you think are the greatest barriers in the adoption of social technology in the supply chain?” I laughed. Such a deep question on twitter. I tried and tried to figure out how I could answer this question in 140 characters on Twitter. I could not. It was preposterous to try. So, I thought that I would write a blog to answer what seems like a simple question.

For many readers that know my background, they know how deeply I have thought about the topic. I find the evolution of social technologies, and the promise of social, exciting for the supply chain. So much so that in 2010, I believed that the convergence of social and traditional enterprise applications would happen quickly. It is one of the reasons that I went from working at AMR Research to being a partner at the Altimeter Group. It is also why I launched the Rise of Social Commerce Event at Altimeter. It is why I bought a license for Jive and built the Supply Chain Insights Community.

My writing in this area was very early. I quickly found that the two topics were worlds apart. I had to learn a new language, a new set of vendors and connect with a new group of users. It was earlier than even supply chain innovators. What I found when I tried to help supply chain leaders connect the dots was:


I find that the social work is usually being done by the digital marketing team that is worlds apart from the main marketing team; and that the marketing group is worlds apart from the supply chain team. To use an astronomy metaphor, it is like a person on earth trying to talk to a person on one of Jupiter’s 67 moons, and then connecting with an array of stars in the Milky Way. Yes; someday it will happen, but not any time soon.

A marketing-driven organization is one that is good at marketing. They excel in the four Ps of marketing. These organizations often have a digital marketing group residing within the organization that is aggressively working the convergence of e-commerce, social, and mobility. I see the value. I get it. However, most supply chain professionals do not know these individuals. The digital marketing group is often siloed. I found that I was often introducing the two organizations to each other for an awkward conversation.

In contrast, a market-driven organization connects bidirectionally market-to-market to orchestrate the signals to shape demand and mitigate risk (buy-side to sell-side and back). They price and position based on marketing swings. They understand how to shape demand to maximize profit. These organizations listen for market opportunities and translate them to their suppliers. They are proactive through demand, design and supply networks.

Traditional marketing is about yelling a message. Companies have rewarded marketing departments for many years to have the same message yelled rhythmically into the market. The supply chain team’s role has been to take these orders and fulfill them. The concepts of social—listening, testing and learning—are revolutionary, even for marketing. They are just now becoming a topic for the VERY EARLY adopter in supply chain management. Yes, you see Dell with their social listening organization; and yes, you see weekly meetings at Whirlpool to discuss twitter feedback; but this is the exception, not the rule. The idea of marketing talking cross-functionally to supply chain, quality, and customer service teams to discuss even customer quality feedback weekly is in itself a new concept.
It will not happen through social CRM. Customer Relationship Management (CRM) technologies create a more efficient marketing and sales team, but they are not good listening posts for customer data. Salesforce.com will only help in the automation of the sales group, it is not the answer for the supply chain. Sentiment Analysis and Text Mining Tools offer promise, but the typical social listening tools used in digital marketing like Coremetrics and Radian6 are grossly inadequate. Why? These tools only answer the questions that we know to ask. They do not answer the questions that we do not know to ask. For example, would Toyota have thought to ask the question, “Are my brakes failing?” Or Kellogg the question, “Do the liners in my packaging stink?” The social signals for both companies were in the twitter feeds for months before they picked up product quality problems. In January 2010, Toyota had a very messy recall for 9,000,000 vehicles globally. In 2010, Kellogg had a problem with an odor in waxy resins found in the package liner. Total charges were $46 million with a $.09 impact on earnings per diluted share. Would social listening have helped? Absolutely! Are the organizations ready to do it now? Sadly not.

The ends of the supply chain—both in customer and procurement—are fragile. We have built transactional buying relationships. True relationships in the supply chain are few and far between.

Is there promise? YES! Would I like to see adoption? Absolutely! Will it happen soon? No. What would companies do if they wanted to accelerate the progress? They would take the steps to be market driven. To do this, they would map the customer signals back to their supply chain through value-based mapping. They would ask how social can impact their supply chain source, make and deliver processes. Which would lead them to implement text mining/sentiment analysis as a core project for 2013 into their business intelligence systems. Are supply chain organizations doing this? Sadly no. Instead, the supply chain organizations are investing in bigger, better and faster ERP systems and they let the digital marketing organization continue their work in isolation.

**Enterprise and Social Technologies Are Like Oil and Water.**

Last month, I was at a chemical manufacturer, and the Chief Supply Chain Officer walked me to the elevator. He said, “Lora, you write a lot about social technologies. We use Yammer. I don’t get it. I just don’t understand the value proposition. All of these conversations are out there in a disconnected way, what value is this to my organization?” This conversation typifies the discussion. For most leaders in supply chain and manufacturing, this is a new world, and not one that is well-understood or valued.

When you make a salad dressing with oil and water, you need an emulsifier. A substance to suspend one liquid in the other. I think that this is an appropriate metaphor. Supply chain systems are based on transactional data. These technologies are VERY structured with well-defined data models. Social technologies are unstructured and random. By definition, the tagging and categorization gives a flat architecture.

On one of your blogs you take the popular view that Enterprise Social Networking is a growth market. You support it with the statement that Forrester estimates that the market will be worth around $6.4 billion in 2016. This is a ten-fold jump. In 2010 the value of this market was $600 million. I am an old gal. I am suspicious. In 2001, Forrester and Gartner had also promised that the B2B supply chain exchange (marketplace) organizations would also transform the supply chain about the time of the ecommerce bust in B2B. The promise was that 35% of Supply Chain transactions would happen in B2B exchanges. That they would grow ten-fold by 2010. It did not happen. Remember the promises of Transora, Covisint and Commerce One? For those that don’t remember these names, let’s just say that the analysts got it wrong. It did not happen. As an analyst that has done this type of prediction for many years, I just find this hard to believe.

The month that I left Altimeter I had a deep and heated discussion with Charlene Li, founder of Altimeter Group, on this same topic. Charlene wrote the report [http://www.altimetergroup.com/](http://www.altimetergroup.com/).
Charlene was arguing that social networking would be a separate and distinct technology market. I just cannot see that it will happen this way. I see enterprise social networking as a technology that will be consumed by larger platforms. I believe that it will become part of the existing processes of order-to-cash and procure-to-pay. We can already see this in the launch of SAP’s Streamworks and INFORs Infor10 ION Workspace. I believe that Microsoft’s acquisition of Yammer and VMware’s purchase of SocialCast are also steps in this direction. I believe that **Jive** and **Lithium** will get purchased by the enterprise players and embedded. They will help, but the assimilation will not be fast.

I believe that social technologies will be suspended in the Enterprise Resource Planning (ERP) technologies as they mature. I believe that we will soon see Microsoft include enterprise social networking in Microsoft Dynamics and AX.

So in closing, **“What do I think are the greatest barriers in the adoption of social technology in the supply chain?”** The biggest barrier is us. The supply chain leader will have to first learn about social technologies to apply them, and the digital marketing person will have to learn about supply chain before he can have the discussion. Is there value? Absolutely! I believe that the greatest value lies in reducing signal latency in the extended supply chain. It can improve new product launch. It could redefine quality systems. It could be used to connect the value network collaboratively. I could go on and on. There are lots of possibilities.

Today, data latency in the supply chain is too long. However, to use social data to improve signal latency, organizations will have to first learn to listen before they can create an organization to use social data. They will have to take the challenge to map the processes from the outside-in versus relying on conventional data that is inside-out. Unfortunately, in my opinion, it will take a material event, like the one above for Toyota or Kellogg, to understand why it matters.

Let me know how I did answering your question. And, for all of those following the blog, please join in the discussion. Have a great week! It is a beautiful day in Baltimore. I think that I will go for a run.
Convergence Is REAL. It Is NOW.

Originally published on June 23, 2012

This morning I am sitting at my kitchen table, sipping coffee, writing a report. The coffee is good, the sunflowers are blooming on the deck and the words are flowing from my fingers. The results of the Supply Chain Insights retail mobility study are compiled, and I am excited to report on the data. I think that it is compelling.

Tomorrow, I will roll my suitcase onto yet another airplane to present the findings at the RetailConnections Mobile Impact Summit in Dallas (check out the PowerPoint presentation on SlideShare). For me, it is the last conference before I can take some time off for the summer. I badly need a break. Starting a new company, writing a book, and keeping up a frenetic pace on the road with clients has been grueling. Marc Millstein’s events (@retailconnect on twitter) are always good ones. At the event, I look forward to sharing the insights from the study with some of my favorite retailers. (Look for my tweets from the event using hashtag #RSSummit.) Here, in this blog post, I share my current thoughts on the study and the key points of my upcoming presentation:

**Convergence.** The focus for retailers from the study is clearly convergence. Mobility is important to retailers, but it is not mobility for the sake of mobility. Instead, the focus is convergence of e-Commerce, mobility and social. And despite the doomsayers on the concepts of social commerce, the study results show that the greatest increase in the intended use of mobile is to fuel efforts in social commerce. When I use the term social commerce, I am not speaking of slapping an e-Commerce presence on Facebook. For me, and I hope for my readers, it is much more than the “F-WORD.” Social commerce is the use of social technologies to drive commerce through brand engagement and improvement of the path to purchase. Retailers have 1/3 more sites on Facebook than e-Commerce and they now have a strong presence on Twitter. The focus on mobile applications and mobility throughout the supply chain is a means to an end of serving customers better and driving brand differentiation.

![Mobile & Social Presence](image)

Source: Supply Chain Insights LLC – Retail Mobility (May-June 2012)
Base: Retail industry executives (n=40)
Q21. How many mobile applications, if any, does your company currently maintain for communication to customers? Q22. How many Facebook sites, if any, does your company currently have? Q23. How many e-commerce sites, if any, does your company maintain? Q24. Does your company use Twitter for customer service?
In the study, the average retail company has 1.6 mobile applications, they have been working on a mobile strategy for a little over a year, and their biggest challenge is getting the right talent. It is a fundamental shift from two years ago when the primary focus was mobile for the sake of mobile. We are slowly starting to see the shift from social marketing to social business. For me this is EXCITING! I look forward to sharing my thoughts from the conference on this topic on twitter and on the blog.

**My advice:** 35% of retailers have a dedicated team focused on mobility. Make sure that it is cross-functional. Use this as an opportunity to be market-driven not marketing-driven. Use it as an opportunity to redefine the organization outside-in from the shopper back.

**Fundamental Shift.** So, you might be asking why an old supply chain gal like the Shaman is writing about mobility and social in retail. The answer is simple. I believe that these technologies offer the opportunity for us to build the extended supply chain from the customer’s customer to the supplier’s supplier for all industries. I also believe that the increased use of mobility in consumer interactions will change the fundamental rhythms and cycles of the supply chain. The pace will change. It will be quicker. We will have new data sources, new forms of demand insights and increased expectations from consumers. We will be forced to redefine old paradigms, and that is the stuff that gets the Shaman’s blood going!

---

![Technology Importance: Today vs. One Year Ago](image)

*Source: Supply Chain Insights LLC – Retail Mobility (May-June 2012)*

**Q13.** How important is each of the following technology trends to your company today? SCALE: 7=Extremely important – 1=Not at all important

**Q14.** How important were each of these same technology trends to your company a year ago? SAME SCALE

---

I think that it is a new opportunity for ALL parties in the consumer value chain to drive differentiation. I am currently working with several companies that are forging exciting new frontiers on the Digital Path to Purchase (Follow the action at #DP2P on twitter.) Slowly, consumer products and retail leaders are redefining four moments of truth in the shopping experience—the list, the basket, the purchase, and usage—through digital insights. The list is becoming more automated, the basket is becoming the focus for retail/consumer products collaboration, and social technologies are allowing us to gain new insights about usage.
The shift from near real-time to real-time data is not trivial. Downstream data and demand signal repositories will be the foundation and big data techniques will eclipse our traditional transactional thinking. The building of outside-in processes will become increasingly important. It is my hope that the supply chain will become less about US and more about the shopper.

My advice: Take a piece of butcher paper and paste it on the wall. Using the principles of mobile, social and e-commerce convergence, facilitate a cross-functional group of leaders to map what an outside-in process could look like for your company.

Disintermediation. This shift offers new horizons for the consumer value chain. Let me explain. Last week, as I flew back from a client, I placed an order from Amazon on my mobile application on an airplane somewhere over Ohio for delivery of pantry items to my apartment in Baltimore. It was one click away. The package was waiting for me when I got home. Whoever thought that we would be ordering flour, sugar and paper towels from Amazon? And that the landed price would be less than Walmart?

Retail grocers are under attack. Amazon wants to own “the center of the store.” This is happening at a time when retail grocers are struggling with store profitability and attempting to squeeze suppliers for every dollar. Year-over-year consumer products companies have talked about “collaboration with retailers,” but the reality is that we have steadily moved costs backwards in the supply chain from the retailer to the supplier to the supplier›s supplier. This is an opportunity to change the equation. The power is shifting to the shopper. The traditional retailer is losing power.

This is the time to think about disintermediation. Is Amazon the new Walmart? Does the store become a place for excitement and fresh items? And, as such, is there an opportunity to move traditional trade funds into digital programs to improve the shopper’s experience? Is there an opportunity to drive new types of purchase through third-party applications (e.g. like recipe sites for food manufacturers) in social commerce? I believe that consumer products companies have a new opportunity to move trade funds into digital demand shaping programs with Amazon and change grocery retailing forever. I also believe that Digital Path to Purchase programs are a form of the convergence that will permeate and permanently transform the supply chain.

As channels change, the supply chains behind them morph. Bricks matter. Behind every pretty application on a handheld device is a manufacturing plant, a distribution center and a truck. They will all feel this impact.

Let’s face it. Why do shoppers need to go to the traditional grocery store for a pantry-loading trip when they can order items through their mobile device and have free shipping? Why do shoppers need a piece of paper anymore—or paper coupons —when they can go to a recipe site, plan their meals for the week, pull a digital list and place it on Amazon for delivery? Or, alternatively, cross-shop it digitally across retailers, combining mobile offers, for the best price?

So, in summary, I believe the time for convergence is now. Few are ready, but all should be. Slowly, day-by-day, power is shifting to the shopper. The paradigm of what is a retailer and what is a supplier is changing. New business models are opening up, but they will only be captured by those that are truly market driven. It will not be seized by those that rely on marketing-driven initiatives. I look forward to sharing more when I get back from the conference. Please let me know your thoughts.
More Than Just an F-WORD
Originally published on June 13, 2011

I think that we are in a new bubble. It will grow and pop like the ones before. However, for a short minute, it will be dazzling. Like bubbles rising from a child softly blowing on their new toy, I think that we are seeing multiple bubbles beginning to rise. It will be a new horizon filled with color, uncertainty and rising expectations. It is more than an F-Word. Here I explain.

Managing the Bubble
I like to blow bubbles. There is nothing quite like it on a hot summer day: splashing through a fountain in flip flops with soap suds on a spoon with a child in hand. As you blow them, they take on a wonderful array of colors. The bubble then pauses for a brief second on your spoon. As if it is asking, “Is it time to take flight?” And, then abruptly, the bubble succumbs to the power of the air, and is swept into the sky. As you watch the bubbles rise, you feel a short exhilaration, but only for a minute. They dance on the horizon, and then they are gone.

Tech bubbles are analogous. For many of us, that have lived through them before, we are skeptics. We watch them form and skeptically view the horizon as the press fills it with names and concepts that are new. There will be hype, technology pitches/marketing with overinflated expectations, brilliant early adopters that will flash with brilliance and then fade, shortly followed by the hangover or period of disillusionment. However, as these bubbles form on this new horizon, I would like for you to be like a child in a fountain first discovering soap suds. Why? I believe, that this bubble offers supply chain leaders great promise if we can look past the hype, sidestep the early missteps, and shape the promise. Here I share some insights...

More Than Hot Air
This bubble is social technology. It is not to be confused with social media (as an end state). It is ready to take flight. While the press strongly touts it, I strongly believe that here is more to it than just an “F-word” (Facebook). I believe that it can be the redefinition networks, a new way of defining demand processes from the outside-in, offering new possibilities to listen and have dialogue with the customer’s customer, and to sense market changes with less latency. It is about a new type of technology: networks that can connect the socialgraph with personalized interests to actively communicate with microsegments of the market. It is about dialogue. The definition of the network is fundamentally different in reach than eCommerce. It provides a unique opportunity to forge relationships and influence buying behaviors based on friends of friends. Think about what is possible. We have never had the ability to listen in near real-time. Supply chain networks have never been based on relationships. Instead, we have depended on order to cash transactions fraught with days and weeks of latency. How could we redefine supply chains if we had technologies that could operate in a different context based on relationships with near zero-latency of information.

Why is this different than eCommerce? While some might argue that social is an extension of eCommerce, I disagree. The network is fundamentally different. The technology possibilities are different. While there are similarities, we cannot stop there. For example, while eCommerce exploded our access to data, improved access to data and improved data latency, communication was pushed to us through search words, it also spawned new technologies and capabilities. Remember the early days of technologies of Search Engine Optimization (SEO), electronic catalogues, Online Shopping (B2C), eProcurement, Electronic Requests for Proposals(eRFP)? I was a Gartner analyst then postulating which business-to-business networks would transform supply chains. As a new analyst, I took a hard stance—and a subsequent beating by their founders—against Agentrics, Covisint, CommerceOne and Transora. (Wow, I feel old just typing these names.)
In those days, I believed that there was not enough there in those supposedly cool eCommerce offerings to improve the value network. In contrast, I openly supported **E2open, Exostar and GS1** as offering something to supply chain networks beyond hype. While not 100% accurate in my predictions, I do believe that the basics of this decision carry-over today to our discussion of social commerce. As we look at this rising bubble, we need to ask ourselves three questions:

- Which are hype and which have real promise?
- Given the promise, how can I use these new data sources and improved latency to my advantage?
- Are there new ways to define technologies in networks to drive new levels of value?

Today, as I postulate the possibilities with a different set of technologies like **Zynga** (gaming), **Digital Portfolio** (electronic list management), **Groupon** (social couponing), **Spiceworks** (sales of IT Technology through a community for the B2B audience), **Bazaarvoice** (content/review aggregation), **ExpoTV** (video reviews), I am convinced that this social bubble is growing an infrastructure that, like a bubble, takes many forms and colors before it takes flight. These disparate technologies will rise in their own separate bubbles before the coalesce.

**Why Should You Care?**

For supply chain leaders, I believe that the social bubble has the potential to fuel more than a Facebook phenomenon. Here I share why supply chain executives should look more broadly at this technology than social media, and how to steer supply chain leadership teams through the hype cycle.

**The What**

Groupon announced intentions to place an IPO last week. The market is buzzing. Zynga (think gaming software like Mafia Wars and Farmville) is an IPO coming soon, and we feel that Facebook will not be far behind.

In May, LinkedIn successfully completed their Initial Public Offering (IPO) offering 7.8 Million shares in the market at $32-35 a share. When the shares topped $120.00 a market hungry for tech startups came alive.

Mobile Internet is growing at 8X the rate of the web browser when Netscape launched in 1994. In 2010, there were 8.2 billion mobile applications downloaded. Kleiner Perkins forecasts that mobile traffic will grow 26X over the next five years. Mobile applications are an accelerant for social dialogue.

Social commerce, nascent when Altimeter launched the Rise of Social Commerce last year, is now a market. On average 65% of consumer brands have more Facebook traffic than website traffic. Buying directly from Facebook or through Twitter is an accepted practice and virtual currency and reward systems are gaining ground.

The use of social technologies to improve customer service is also blossoming. When it comes to defining customer service, both Facebook and Twitter have some unique advantages, and new customer service models are taking form.

Technology vendors—that have no direct connection to social commerce—in the supply chain space are jumping on the bandwagon. Confusion abounds. At two traditional supply chain technologies conferences that I attended in May, the CEO’s presented their message in a social wrapper that was completely disconnected from what they do. Supply chain technology leaders are jumping on the bandwagon trying to be “cool” even though their applications and their users have not embraced the potential of the social graph. (Buyers beware...)
The “So What?”
As we think about the supply chain as the flow of goods and services with minimal information latency that maximizes our cash opportunities, this wave offers new hope to redefine the supply chain to drive a step change. However, this can only happen if we avoid the potholes:

Social Networks Are Not an Extension of eCommerce. While many companies have entrusted their social strategies to the eCommerce team, I don’t believe that social commerce is an extension of e-commerce. The fundamentals are different. Social commerce is a new channel. I believe that companies that see social technologies as an extension of e-commerce will fail to reach full potential.

Inside-Out Versus Outside-In I also don’t believe that social should be owned by marketing. In fact, I think that the hype caused by social media for social’s sake in marketing will give a premature death to many well-intended initiatives. Buyers just don’t want to be YELLED at anymore.

Instead, I believe that social is a way for us to truly get to know our customers, our shoppers, our buyers. You may use your favorite term—customer-centric, demand-driven, market-driven—but I believe that the real difference happens when the design of the supply chain starts from the outside in. Leaders will learn how to listen to their customers, will redesign processes to use near real-time feedback, and the ideation cycle can be redefined to better source and use consumer insights. Instead of a blind, unintelligent, costly response called supply chain today; companies will build sensing mechanisms and learn near real-time through test and learn systems. Seems simple enough, but while the promise is large, the answer is in the future. The concepts are vastly different than traditional supply chain management, and social technologies offer us some important technologies.

Disintermediation Will Become Easier Why? Manufacturers are trying to gain power to have more muscle with retailers and improve global presence. Mergers and acquisitions (M&A) have redefined the landscape with Kraft/Cadbury and Unilever/Alberto Culver as recent notable announcements. So how does a mid-market company compete? The rise of social commerce gives mid-market companies a new opportunity to build a relationship directly with the shopper and better manage the long tail of the supply chain more easily. There is less channel friction for a manufacturer to sell directly to the customer than we saw in the evolution of eCommerce.

The “Now What!”
As you think about what this means for your business, I offer five words of wisdom:

Social Must Come Before Commerce. Social commerce—the use of social technologies to enhance and define the shopping experience—is a new channel. it is also an exciting new way to build a direct relationship with the shopper. However, it is only successful if social precedes commerce and the manufacturer builds a relationship with the shopper. It should not be seen as an extension of advertising or e-commerce. It is about building a relationship that can be enhanced by commerce. It is too important to leave in the hands of marketing.

Be Where the Action Is. For a company to be successful, carefully craft your presence in four social media: Twitter (customer service and listening), Facebook (direct connection with fans), YouTube (product advocacy and usage tips) and LinkedIn (for Human Resource purposes). This is important to business and defining new business processes. Forge a cross-functional group to think about how social, mobile and tags can be used to redefine supply chain, customer service, human resource processes, innovation and sourcing processes.

Giving Starts at Home. For many companies, the start of this journey has a tough hurdle. Just as President Reagan stood in 1987 in front of the Brandenburg Gate and challenged, “Mr. Gorbachev tear down this wall!” President Obama would be well served to tell American companies to tear down
their firewalls, and free their employees to be social in a meaningful way. I am embarrassed when I visit promising companies and see employees interacting on social networks for business purposes off of their personal mobile devices. Supply chain is business. Social is a new way to redefine this business process. Mr. CEO, tear down that wall! Train your employees on your social policy and begin the building of new supply chain processes from the outside in. The race is on.

Put More “There” There. While it is easy to get caught up in the technology (so many cool and promising offerings), at the end of the day, it is about building and enhancing the relationship to improve value in the value chain. It is not about technology for technology sake. It is not about cool toys for cool boys and girls. Likewise, don’t hamstring your teams initially with Return on Investment (ROI) goals, instead invest in social technology projects when there is a promise to improve the relationship, reduce data latency and improve the context of information. Don’t get caught up in the hype, ask the three simple questions in this blog and fund experimental projects to listen, engage in meaningful customer dialogue, better sense market changes, test and learn based on customer preferences, improve demand insights and drive an intelligent respond.

Don’t Get Caught-Up in the Hype. Let’s face it. Traditional supply chain management technology has lost its coolness factor. As a result, many well-intending supply chain vendors will attempt to improve their coolness factor on the back of this market trend. However, don’t believe it. A fox in sheep’s clothing is still a fox. Learn about the new technologies and invest in learning the differences. Smart technology companies will evaluate how this new technology can enrich and redefine the old. They will encourage environments which enable experimentation with the new approaches, and spur thoughts about the power of network redefinition based on relationships, and the potential to redefine faceless enterprise applications from the outside-in.

Tear Down Those Walls!

I strongly believe that we as supply chain leaders need to tear down our walls. If we are to build value networks from the customers’ customer to the supplier’s supplier, this is too important of a technology shift to ignore or to leave in the hands of marketing. The other day, I was having coffee with the SVP of supply chain at one of the largest consumer companies, an unquestioned leader in social marketing, and I was discussing the possibilities. As we stirred our coffee, and discussed the supply chain possibilities, he exclaimed that his marketing department had this all figured out. I pushed back. I had just talked to his marketing department. Their interest in social was for the sake of social, i.e. social technologies to improve marketing messages and branding. They have no interest in improving the value networks on the back of social technologies. He pushed back. We wrestled the topic for an hour. At the end of the discussion, he agreed it was up to him to tear down the walls, to build the vision, and start to redefine business processes from the outside in. Are you willing to take the challenge? I hope so; because for me, this bubble is more than an F-word. It has the potential to allow us to really collaborate, build value networks and sense and learn. It will not happen tomorrow; in fact, I think that it will take at least five years. The most successful will navigate this hype cycle. For more on this topic, listen to my recent video with Foundatino for Strategic Sourcing (F4SS) at http://vimeo.com/24129190.

What do you think? Please share your thoughts with the audience of this blog. It is now read by over 2000 readers/week in 62 countries. I look forward to hearing from you.
Put Your Money Where Your Mouth Is...

No matter how far you’ve gone on a wrong road, turn back. — Turkish Proverb

They keep coming in.

Each week, I get a new PowerPoint deck to review.

Eight out of ten aspire to build a customer-centric supply chain.

Companies really want to be customer-centric, but they are on the WRONG path. Like the Turkish proverb, it is time to turn back.

Today’s supply chain is blind to the customer. The technologies being installed—APS, BI, CRM, ERP, SRM—do not help. They are like the Legos in this picture. Applications are strewn across the enterprise with no clear plan on how to listen, test, serve, and deliver a customer-centric response.

So, take the challenge.

Put your money where your mouth is.

Design and deliver a TRUE customer-centric supply chain.

In this article, I share insights based on discussions with over 100 companies.

Let me start with a disclaimer. The answer to this challenge is industry-specific. It also requires a complete revamp of the front office, and a redesign of the supply chain. Since, the answer is VERY industry specific, I will tackle each value chain in separate articles. Here I will focus on one value chain: the redesign of consumer products value chain. Next month, I will focus on high tech and pharmaceutical value chains. In July, I will share insights on retail.

Align

The biggest barrier to a customer-centric strategy is organizational alignment. As long as sales incentives are tied to volume, marketing is rewarded on market share, and operations on cost, companies will never achieve a customer-centric response. However, for two out of five US consumer companies, there is a new sheriff in town. This new role—Chief Customer Officer—must tackle this obstacle as JOB #1.

In this shift, companies must not confuse customer-centric with a customer-first strategy. In a customer-first strategy, companies respond to whatever a customer requests. In a customer-centric strategy, the value chain makes choices on how to serve and respond to the customer based on cost-to-serve, channel and value chain strategies. This organization has BIG ears with active listening,
and strong horizontal processes to shape and orchestrate demand. The key is to orchestrate cross-functional alignment with an outside-in focus.

Starting on the Right Foot

Being customer-centric is dependent on the organization’s ability to listen, test, design and respond based on shopper insights.

**Shopper Insights.** The goal is to effectively influence the shopper throughout the lifecycle: before they buy, product on the shelf to enable the purchase and delighting the consumer in usage. Traditionally, consumer products companies focused on consumer insights (product usage feedback and panel preferences) versus shopper insights (focus on the consumer through the purchase process: before, during and after consumption). This is a major change. And, shopper and customer insights need to be used cross-functionally. Most are locked behind the walls of the marketing organization.

Companies used to have the luxury to broad brush the market response. The broad-brush approach meant having all products on all shelves, offering the same trade promotion program for all retailers, and a zealous focus on lift. This luxury is over. Today, there is a shift to micro-segmentation focused on retailer buying persona’s, category management differing by store cluster, a focus on market basket behavior and personalization of the shopping experience through mobility in the store.

It is about choice. It may mean less. Target is testing stores with 50% fewer items. At a recent IRI conference, Grant LaMontagne, Chief Customer Officer of Clorox presented that they found that they increased volume by 8% by selling fewer items. Sara Lee reported that they grew the category through careful selection of the number of servings/package.

Based on IRI data, today, 55% of shoppers shop 10 or more stores, and 60% will go elsewhere for a better price. This is a sharp difference from two years ago when 35% of shoppers cross-shopped 10 or more formats. Bricks are merging with clicks as shoppers focus on lists, routes and trips. Social commerce is helping to streamline this process for Millennials representing a $50 billion market opportunity.

e-Commerce grows in importance to fill the gaps between bricks and clicks. 90% of Best Buy shoppers start online before they go to the store. There is now a marketplace at Sears where suppliers can directly market an online presence. Alice.com—offering direct links to consumers with free shipping—predicts that it will ship nearly one million boxes in 2010. The endless aisles of e-commerce enables commerce options for tier 2 and 3 brands that are being squeezed from the shelf.
Listen. Last week, I was talking to a company actively monitoring the voices of the customer at 143 listening posts. What is a listening post? It is a point in the value chain of customer communication. They take different forms. It includes unstructured text comments in order management, distributor survey form feedback in Direct Store Delivery (DSD), consumer complaints to the call center, blog reviews and comments on the Internet, return and damage information, etc. The list goes on and on.

How well do you listen? Most of this data is unstructured text. The good news is that the technologies to help you listen—sentiment analysis from providers like Clarabridge, Lexalytics and SAS Institute—have come a long way in the past five years. Sentiment analysis, and the design of listening posts, is a consideration in any customer-centric design. Companies with a focus on listening posts understand that the most powerful force in demand shaping is word of mouth.

Test. With the evolution of micro-segmentation, store clusters, and specialized offers, market testing with active test and learn strategies grows in importance. The secret is the design of the test, access to clean data, and discovery tools for analysis. To help, Applied Predictive Analytics (APT) continues to make progress to systematize test and learn processes.

Design. We speak to the shopper in many different ways. With the rise of social commerce—the use of social technologies to drive commerce—power in the value chain is shifting from the retail to the shopper. The choices and interrelationships between tactics are more complex.

Retailers are trying to shift spending to increase trade, media proliferation is changing the nature of advertising, category management is becoming more targeted and social commerce is a new frontier. Companies struggle with how to make the right choices.

The good news is that there are now “hooks” to use shopper insights in solutions from DemandTec, M-Factor, Nielsen, and Symphony/IRI. These solutions are on a fast track to change. Shopper insights need to be central to cross-functional response.
**Respond.** Demand sensing and active/aligned processes for demand shaping (price, trade promotion, new product launch, and incentives) are core to the customer-centric response.

We got our R’s all wrong. Supply chains, as currently designed, cannot sense. They have a blind response. For the past decade, supply chain leaders have pushed a vision of RFID—but, to no avail—to improve sensing. The tags are still too expensive for most use cases.

QR codes—a two-dimensional tag—was invented in Japan in 1994 to enable high-speed scanning. Today, these codes are read by cameras in mobile phones and off of mobile phones to scanners in the store. These codes are PACKED with information about the shopper. This could be a game changer. For decades, consumers have used coupons. Now the supply chain has the ability to use the data about the consumer that uses coupons.

For example, a retailer, like Best Buy, can make a personal connection to its Facebook fans or to their loyal shoppers through their loyalty program online. A unique customer ID is embedded in the QR tag. When it is used, Best Buy can track the usage back to either the customer’s behavior online (what they searched versus what they bought) and offer new coupons to shape demand. These programs are evolving, but new forms of predictive analytics are right around the corner.

QR tags also enable direct communication to the consumer on the safe and secure supply chain. It can answer questions like:

- Is this product safe to eat?
- What is the carbon footprint of this product?
- Where was this product produced?

The problem is that the back office processes are not able to provide information to communicate this type of direct information to the consumer. This is changing. The bar is rising. Will your processes be able to keep up?

Similarly, listening posts need to be tied to manufacturing quality, warranty, and return systems. What is the latency in your process to get true customer feedback?

**Put Your Money Where Your Mouth Is...**

Today’s value chains are designed for efficient delivery of a broad-brush response. This needs to change. I am glad to see a new sheriff in town to deliver the TRUE customer-centric response. How do we help this new role and define customer-centric processes for the Chief Customer Officer? What do you see at the greatest challenges? How do you like the model? How do supply chains need to change?

*Many thanks to help from IRI, Accenture Innovation Center in Milan, and my fellow colleagues at Altimeter Group for help on this article.*
Two-Day Training in Two Cities
Designed for Supply Chain Directors and Managers
Who Are Ready to Think Differently
Lead Instructor: Lora Cecere, Founder and CEO of Supply Chain Insights

August 6-7, 2014 in Philadelphia, Pennsylvania USA
November 5-6, 2014 in Dallas, Texas USA

What You Get in Two Full Days of Training:

- A full understanding of how to build the supply chain outside-in to actualize demand-driven and market-driven opportunities.
- Gain insights on what defines supply chain excellence.
- Gain unique insights by analyzing your financial benchmarking of supply chain financial ratios.
- Better understand the supply chain as a complex system to improve corporate performance, balance and resiliency.
- Move from cost to value. Accelerate the understanding of value networks through the redefinition of relationships.
- Gain insights on what has worked and what has not over the last decade.
- Link the supply chain end-to-end through the building of successful horizontal processes to improve agility and alignment.

Sort through the evolution of new technologies to understand current maturity and the impact on future success.

Our classes are small in nature and are hands-on. Everyone will have a chance to build upon their concept of supply chain excellence and take home knowledge they can immediately implement back at the office. Register Today! at the Supply Chain Insights Training page.

http://supplychaininsights.com/services/training/
The Supply Chain Insights Global Summit is designed for the line-of-business leader including Supply Chain Leaders, Chief Financial Officers, and Corporate Social Responsibility Leaders.

Attendance will be limited to 15% vendor/sponsor representation.

Summit highlights include:

- Supply Chain Leaders' Vision For the Future
- Six 30-minute presentations by senior supply chain leaders
- Five hard-hitting panel discussions that combine the recent research on supply chain talent, corporate social responsibility, technology and analytics, and risk management into a spirited dialogue
- Launch of a new method of rewarding companies for supply chain excellence based on performance on the Supply Chain Effective Frontier


For the Preliminary Agenda and to Register Visit our Supply Chain Insights Global Summit site.

Summit site: http://supplychaininsightsglobalsummit.com/

Agenda: http://supplychaininsightsglobalsummit.com/2014-agenda/

Registration: http://supplychaininsightsglobalsummit.com/2014-register/