CUSTOMER-CENTRIC SUPPLY CHAIN

OMNICHANNEL LEADERS PLAN TO WIDEN THE GAP

SCM World
Shaping the Future of Supply Chain

Author

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Matt is a Six Sigma black belt, a lean change agent and SCOR model expert. He spent six years as a board member for the Supply Chain Council where he helped to drive SCOR strategy and development. He has a supply chain degree from Penn State University and an MBA from the University of Texas. He currently assists in Penn State's development of the future workforce by serving as a Faculty Affiliate.

CONTENTS

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EXECUTIVE SUMMARY

Supply chain delivers customer value. Any debate on the matter is long settled.

2016 marks a sprint towards 2020, where supply chain now sits as an equal at the business strategy table in identifying sources of value and setting up plans to create it. Today's leaders are organisations that didn't just commit to customer-centric supply chain, they actually made progress.

Much of the progress has been made by improving demand sensing and planning capabilities. Now over 10 years into the customer-centricity journey, some very familiar issues still plague today's supply chain executives.

- Overall, 74% say that access to insight on what customers desire and would pay for is highly valuable but difficult to access.

- 62% say that they have no valuable data from indirect customers, with 34% stating that they have no data whatsoever.

- On the flipside, 78% say that they have data from direct customers that is less than a week old and valuable. 34% say this access is real-time.

Better demand sensing creates clarity on value, but is meaningless without a response. It's here where supply chain organisations have advanced customer-centric processes with improved planning, omnichannel fulfilment, customer segmentation and customer profitability analysis.

Opinions vary, however, on supply chain's role in these activities:

- 16% of respondents do not view customer segmentation as a supply chain responsibility. More than a quarter feel the same about customer profitability analysis.

- Nearly 60% of first movers on customer segmentation say they have real-time visibility into direct customer data. 100% say the data they capture is valuable.

- 70% of first movers on customer profitability analysis say they have real-time direct customer data that is highly valuable.

Discussions on these two areas across the SCM World community have highlighted an interesting connective thread: supply chain organisations that were early movers on segmentation and cost to serve tend to be more advanced in their omnichannel approaches.

One thing stands out clearly from this research: omnichannel leaders are planning even further investments to widen the gap between their capabilities and that of those with weak process and/or weak technology. The range in capability is glaring:

- One third say they have both weak processes and weak technology for omnichannel sales and delivery. The percentage jumps to 55% for omnichannel returns.

- Companies with weak omnichannel processes and technology are five times more likely to have no planned investments in omnichannel.

- Conversely, omnichannel leaders, who have good technology and good processes, are planning heavy investments over the next three years at five times the percentage rate of the laggard group.

There is a direct correlation between good omnichannel processes and demand sensing. Leaders say that the value of data from direct and indirect customers is significantly better than their peers. This correlation holds true for omnichannel sales, delivery, returns, inventory visibility and integrated planning.

In 2013, many supply chain organisations were still debating the difference between multichannel and omnichannel, and what role supply chain should play in an omnichannel strategy.

A mere three years later, the conversation has shifted to initiatives like one-hour deliveries, individualised products and the sharing economy. As this research shows, omnichannel leaders only plan to widen the gap on the rest of the field.

CUSTOMER INSIGHT...
IF ONLY IT WERE EASIER

The days of debating whether supply chain has a role in customer loyalty are long gone. The challenge for today's supply chain executive is how to access valuable data and insight on customers.

For most supply chain organisations, this insight comes across multiple tiers of customers in the demand chain. As this research will share, the value of information is better the closer in the chain it comes from. Direct customers represent the next link in the chain while indirect customers take a jump forwards to the customer of your customer.
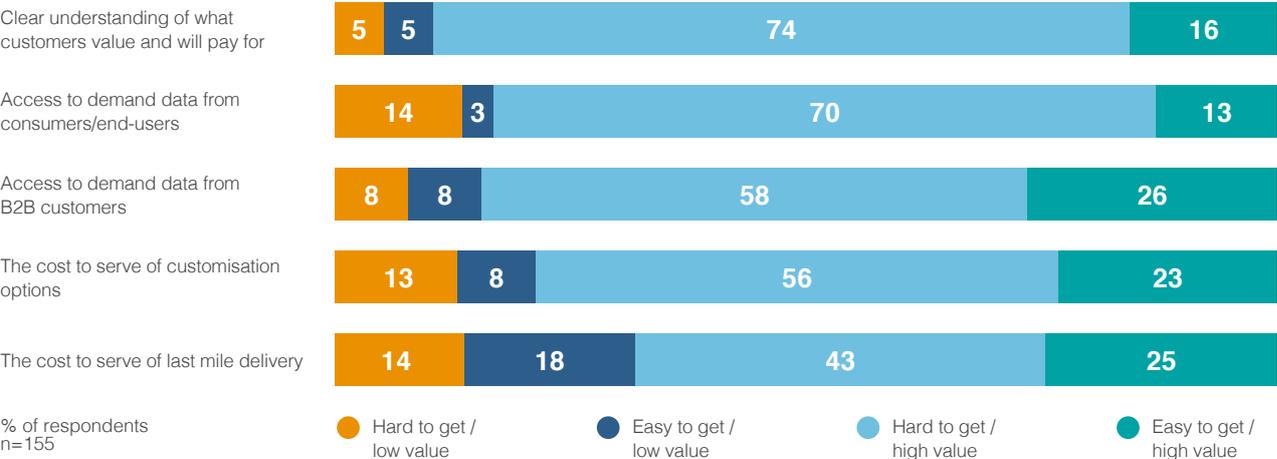
The SCM World community is ripe with examples of customer centricity efforts, both for direct and for indirect customers. Indirect customer activity tends to be defined as a product's ultimate end-user (consumers, patients and farmers, etc are common examples).

At the most basic level, customer-centricity efforts across the supply chain community tend to follow a five-step cycle:

1. Collect data from direct and indirect customers.

2. Translate data from customers into actionable supply chain insight.

3. Design new capabilities and pilot with specific customer groups.

4. Quantify the value generated and cost to serve of new capabilities.

5. Extend profitable, value-creating capabilities to additional customers.

The first two steps tend to be the most difficult for many supply chain organisations – the majority say that customer insight is hard to get. Figure 1 shares perspectives on the five prevalent aspects of customer insight accessibility.

1 | The majority find customer insight valuable but difficult to access

	Hard to get / low value	Easy to get / low value	Hard to get / high value	Easy to get / high value
Clear understanding of what customers value and will pay for	5	5	74	16
Access to demand data from consumers/end-users	14	3	70	13
Access to demand data from B2B customers	8	8	58	26
The cost to serve of customisation options	13	8	56	23
The cost to serve of last mile delivery	14	18	43	25

% of respondents
n=155

● Hard to get / low value   ● Easy to get / low value   ● Hard to get / high value   ● Easy to get / high value

2 | The value of demand channel data diminishes across tiers

	No data / no value	Data >1 week old and not valuable	Data <1 week old but not valuable	Data <1 week old and valuable	Real-time data that is highly valuable
My internal operations	1	8	4	43	44
Direct customers	6	11	4	44	35
Indirect customers	34	22	6	29	9

% of respondents
n=155

● No data / no value ● Data >1 week old and not valuable ● Data <1 week old but not valuable ● Data <1 week old and valuable ● Real-time data that is highly valuable

The mass consensus is that both B2B and consumer/end-user demand data is highly valuable. So, what separates the group that finds this information easy to get from those who think it's hard?

To start to understand the drivers behind this difference, let's first review the current state of demand channel visibility. Figure 2 shows the frequency and value of data being accessed from internal operations, direct customers and indirect customers.

As you might expect, data within internal operations is both accessed more frequently and is viewed as more valuable. Both the quality and frequency then degrade at each step forward into the demand channel.

The fundamental challenge is how to improve ease of access to what nearly everyone says is valuable demand information.

NOT A SUPPLY CHAIN RESPONSIBILITY?

In 2011, Schneider Electric launched a massive transformation effort called Tailored Supply Chain. In less than five years, the supply chain organisation is now generating more than €340 million of contribution to company performance – an 8% gain on previous performance.
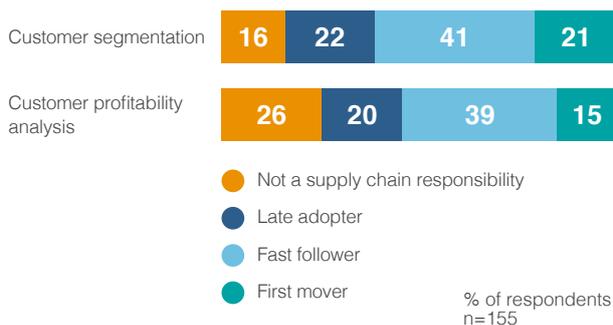
When asked what made the transformation effort succeed, Schneider's Chief Supply Chain Officer, Annette Clayton, replied quite simply: "We made the customer first in every discussion".

Annette was highlighting that customer centricity can't just be a buzzword; it has to be clearly embedded in and overlaid on strategic initiatives. For Schneider, putting the customer first involved extensive work on customer segmentation and customer profitability analysis.

Across every industry, strategists are working on analytics and process improvements related to segmentation and cost to serve. Figure 3 shows how supply chain organisations rate their strategic approaches to these two initiatives.

In Figure 3, respondents identified how they view their organisations based on four profiles: first mover, fast follower, late adopter or not a supply chain responsibility. This self-identification provides a realistic view on strategy across industries, companies and geographies.

16% say customer segmentation is not a supply chain responsibility and 26% say the same for customer profitability analysis. Now, certainly this could be a matter of semantics on the definitions of these terms, but this is not exclusively the issue.

Customer segmentation and profitability analysis are new capabilities for many, especially those in functions further back along the demand channel, such as manufacturing and sourcing.

These viewpoints also vary related to seniority. SVP/EVPs tend to be more likely to think of customer segmentation and profitability analysis as a supply chain responsibility, while senior management tends to view them as not.

As Annette and many other executives in our supply chain community have demonstrated, there's absolutely value in both initiatives.

CUSTOMER SEGMENTATION

Customer segmentation has multiple applications within supply chain. The three most common forms of customer segmentation are:

1. Segmenting customers based on value proposition (cost, speed, service level, customisation, etc) to make strategic decisions for supply chain segmentation and cost to serve.

2. Segmenting customers into tiers to align available services, value-added capabilities and priority for decisions such as inventory allocations.

3. Segmenting customers by constraints – urban versus rural, for example – to determine the right-fit service model.

3 | Strategic approaches to customer centricity

	Not a supply chain responsibility	Late adopter	Fast follower	First mover
Customer segmentation	16	22	41	21
Customer profitability analysis	26	20	39	15

● Not a supply chain responsibility
● Late adopter
● Fast follower
● First mover

% of respondents
n=155

4 | First movers on customer segmentation say they have better data

	First movers	Fast followers	Late adopters	Not part of supply chain
Internal operations	35 / 65	6 / 7 / 44 / 43	2 / 14 9 / 46 / 29	13 9 / 43 / 35
Direct customers	41 / 59	4 3 / 10 / 49 / 34	11 23 11 / 40 / 15	13 13 / 44 / 30
Indirect customers	19 10 7 / 45 / 19	23 32 8 / 32 / 5	44 27 18 8 / 3	65 9 / 17 / 5 4

- ● No data / no value
- ● Data >1 week old and not valuable
- ● Data <1 week old but not valuable
- ● Data <1 week old and valuable
- ● Real-time data that is highly valuable

% of respondents
n=155

The Schneider Electric example above combines all three approaches, but focuses primarily on value-based segmentation. For the majority of the SCM World community, this approach seems to be the most promising new innovation. First movers may have an advantage here.

Figure 4 takes the demand channel visibility data from Figure 2 and drops it into the four respondent profiles on customer segmentation strategy from Figure 3 (first movers, fast followers, late adopters and not part of supply chain responses).
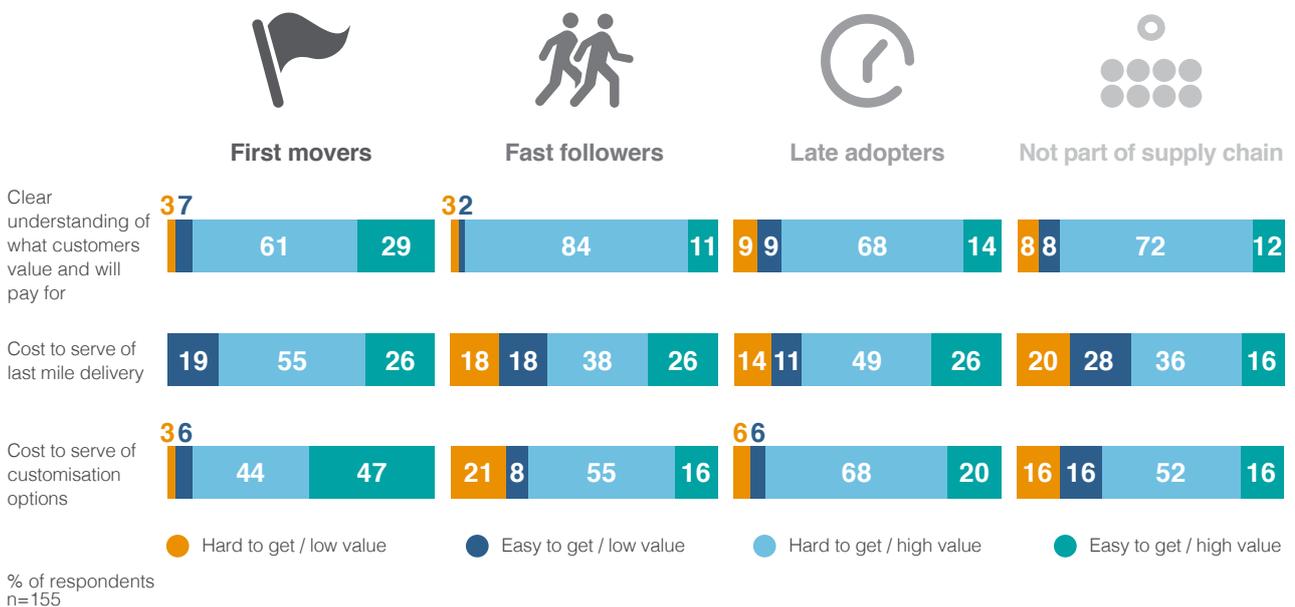
Those organisations more aggressive on customer segmentation say that they have fresher and more valuable data, both from direct and from indirect customers. 100% of first movers say the data from direct customers is both less than a week old and valuable.

So, do first movers find that accessing this data is drastically easier than for the other three profiles? The answer is no, not really.

Figure 5 retains the same four respondent profiles, but this time drops in data from Figure 1 on ease of access and value of customer insight.

5 | First movers on customer segmentation say some customer insight is easier to get

	First movers	Fast followers	Late adopters	Not part of supply chain
Clear understanding of what customers value and will pay for	3 7 / 61 / 29	3 2 / 84 / 11	9 9 / 68 / 14	8 8 / 72 / 12
Cost to serve of last mile delivery	19 / 55 / 26	18 18 / 38 / 26	14 11 / 49 / 26	20 28 / 36 / 16
Cost to serve of customisation options	3 6 / 44 / 47	21 8 / 55 / 16	6 6 / 68 / 20	16 16 / 52 / 16

- ● Hard to get / low value
- ● Easy to get / low value
- ● Hard to get / high value
- ● Easy to get / high value

% of respondents
n=155

First movers do share a pretty big advantage on the ease of getting cost-to-serve information on customisation options. Other than this area, though, less than a third see the data as easy to get.

The net result of Figures 4 and 5 is the message that first movers, and to some degree fast followers, are getting more valuable customer insight from segmentation even though it's hard work.

One first mover on customer segmentation is Campbell's. Its customer segmentation analysis extends beyond the direct channel customer all the way to the consumer. Campbell's Consumer Insights organisation is tasked with collecting data on consumer value expectations such as convenience, speed, quality and freshness.

As part of this work, Campbell's has segmented consumers into six, value-based clusters.

• Multicultural, mixed race: 33 million households;

• Single parent: 12 million households;

• Adult only: 63 million households;

• Multigenerational: seven million households;

• LGBT, same sex: 17 million people; and

• Modern male: 90 million people.

Following the five-step customer-centric process described above, the Consumer Insights group works with the supply chain organisation to contextualise the data into insight. Examples of innovation on the back end of this analysis include supply chain segmentation initiatives, packaging redesign and investments in organics and non-GMOs.

Customer segmentation will provide clarity on what customers value. While this insight is valuable, without corresponding profitability analysis, the necessary trade-offs to deliver this value in a profitable way will remain a mystery.

CUSTOMER PROFITABILITY ANALYSIS

Customer profitability analysis goes by a number of pseudonyms including cost to serve, buy behaviour analysis and even customer segmentation in some instances.

Unilever carries out buy behaviour analysis of its retailers semi-regularly as part of its segmentation efforts. Buy behaviour analysis captures data on order frequency, order quantity and order channels from B2B customers and the resulting cost-to-serve impacts in distribution.

Consider two hypothetical customers: customer A places an order once a week at a full pallet quantity via an EDI connection. The resulting supply chain response to this order pattern can be quite efficient. Inventory might be pulled in full pallet quantities and loaded onto fully utilised trucks with no operational overhead for a call centre.

Customer B places orders several times a day at varying order quantities via the phone. The supply chain response here is very different. Pallets have to be broken down and restaged. Orders may be shipped out less-than-truck-load or via courier. People resources at the call centre are used. The cost to support this buy behaviour is demonstrably different than that of customer A.
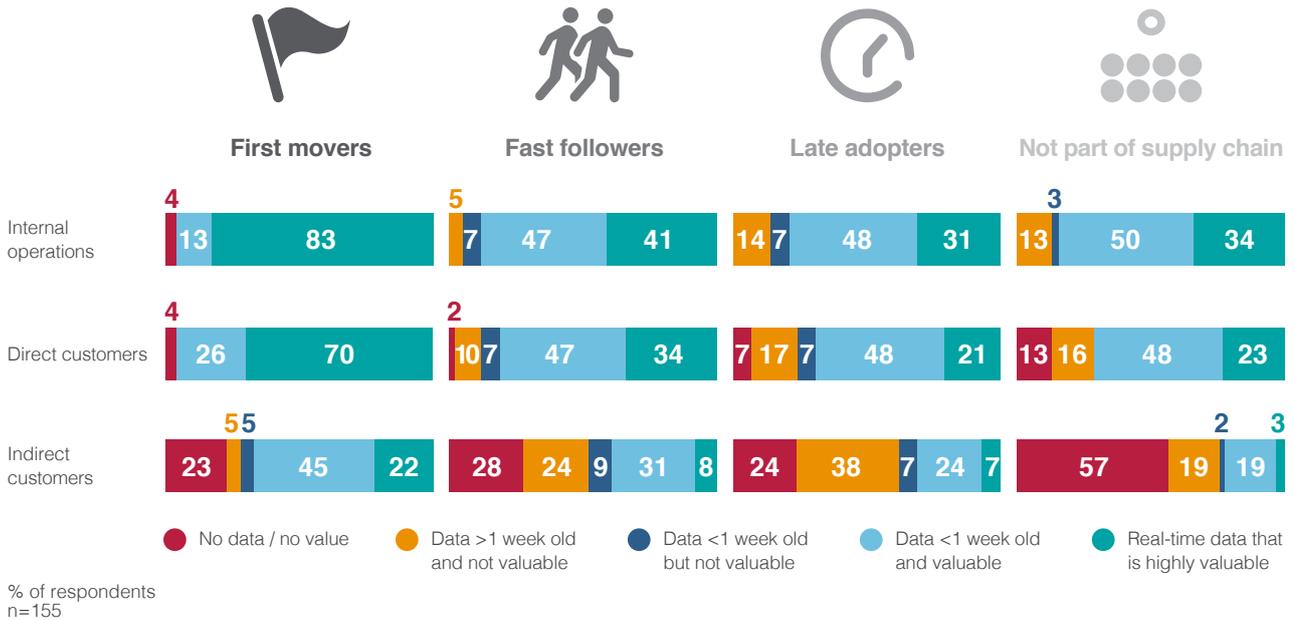
This analysis does not mean customer B is a 'bad' customer. There could be very good reasons for its buy behaviour; for example, perhaps it's a small store in an urban location that doesn't have space for inventory.

The key here is that customer profitability is understood so that you as a supply chain organisation can make informed trade-off decisions. As some in the SCM World community have stated, this analysis can enable the 'right-fit service model'.
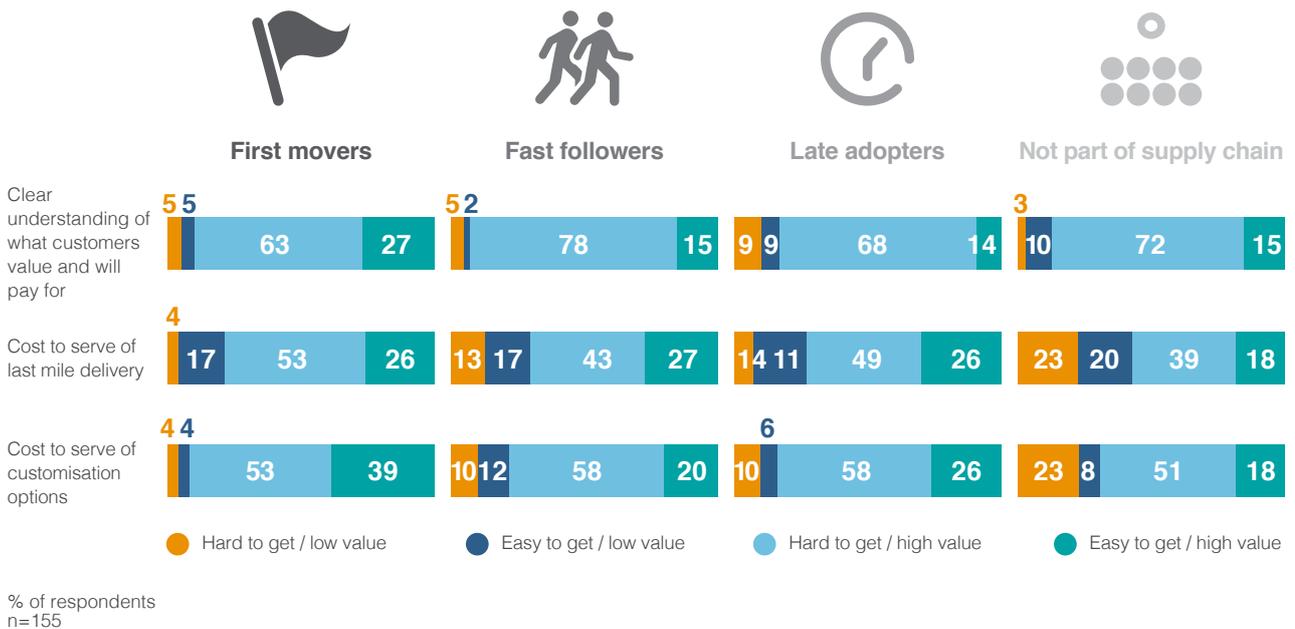
Figures 6 and 7 repeat the analysis of data value and ease of access for the four customer profitability analysis respondent profiles (first movers, fast followers, late adopters and not part of supply chain responses).

6 | First movers on customer profitability analysis say they have better data

	First movers	Fast followers	Late adopters	Not part of supply chain
Internal operations	4 / 13 / 83	5 / 7 / 47 / 41	14 / 7 / 48 / 31	3 / 13 / 50 / 34
Direct customers	4 / 26 / 70	2 / 10 / 7 / 47 / 34	7 / 17 / 7 / 48 / 21	13 / 16 / 48 / 23
Indirect customers	23 / 5 / 5 / 45 / 22	28 / 24 / 9 / 31 / 8	24 / 38 / 7 / 24 / 7	57 / 19 / 2 / 19 / 3

Legend:
- ● No data / no value
- ● Data >1 week old and not valuable
- ● Data <1 week old but not valuable
- ● Data <1 week old and valuable
- ● Real-time data that is highly valuable

% of respondents
n=155

7 | First movers on customer profitability analysis say customer insight is somewhat easier to access

	First movers	Fast followers	Late adopters	Not part of supply chain
Clear understanding of what customers value and will pay for	5 / 5 / 63 / 27	5 / 2 / 78 / 15	9 / 9 / 68 / 14	3 / 10 / 72 / 15
Cost to serve of last mile delivery	4 / 17 / 53 / 26	13 / 17 / 43 / 27	14 / 11 / 49 / 26	23 / 20 / 39 / 18
Cost to serve of customisation options	4 / 4 / 53 / 39	10 / 12 / 58 / 20	6 / 10 / 58 / 26	23 / 8 / 51 / 18

Legend:
- ● Hard to get / low value
- ● Easy to get / low value
- ● Hard to get / high value
- ● Easy to get / high value

% of respondents
n=155

An extremely similar pattern to that seen in the customer segmentation analysis emerges. The net takeaway is that first movers and fast followers on customer initiatives say they have more valuable data, even though they don't see the data as drastically easier to get.

The next wave of customer-centric innovation is playing out live in investments related to omnichannel – not just e-commerce, but truly omnichannel operations.

All industries are facing similar challenges around customisation, agility and fragmenting demand. Customer centricity initiatives have brought this challenge to the forefront. Early indicators are that much of this challenge will get solved, or at a minimum addressed, as part of omnichannel capability development.

OMNICHANNEL LEADERS PLAN TO WIDEN THE GAP

We launched our first set of SCM World omnichannel networking groups in 2012. For the first two years, active participation was pretty much limited to those in the consumer value chain: retailers, consumer goods manufacturers and their suppliers.

Since 2014, cross-industry participation has exploded. For B2B supply chain executives in industrial, hi-tech and healthcare manufacturing, for example, omnichannel is an old nemesis. It just has a new name.

The ability to tap into demand across multiple channels and deliver in varying order quantities across those channels while managing inventory with integrated demand and supply planning is a cross-industry challenge. In many ways, Dell's configure-to-order, direct delivery model was a massive omnichannel supply chain before the term even existed.

The survey that has generated the data featured throughout this report was designed to test a simple hypothesis: regardless of industry, organisations that have better omnichannel processes and/or technology will also have more valuable customer insight.

Spoiler alert: it turns out the hypothesis was correct. The remainder of this report will share the results of this test.
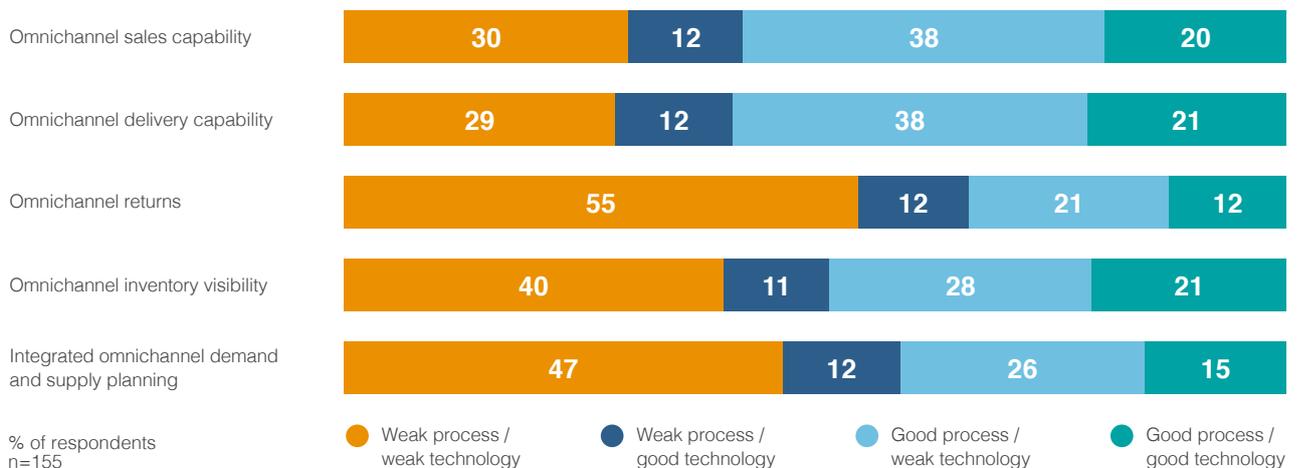
Figure 8 shares a self-evaluation from each of our respondents on current omnichannel process and technology capabilities.

Across the board, a third say they have both weak processes and weak technology. For omnichannel sales and delivery, over a third of companies have been able to advance process capabilities despite poor technology capability.
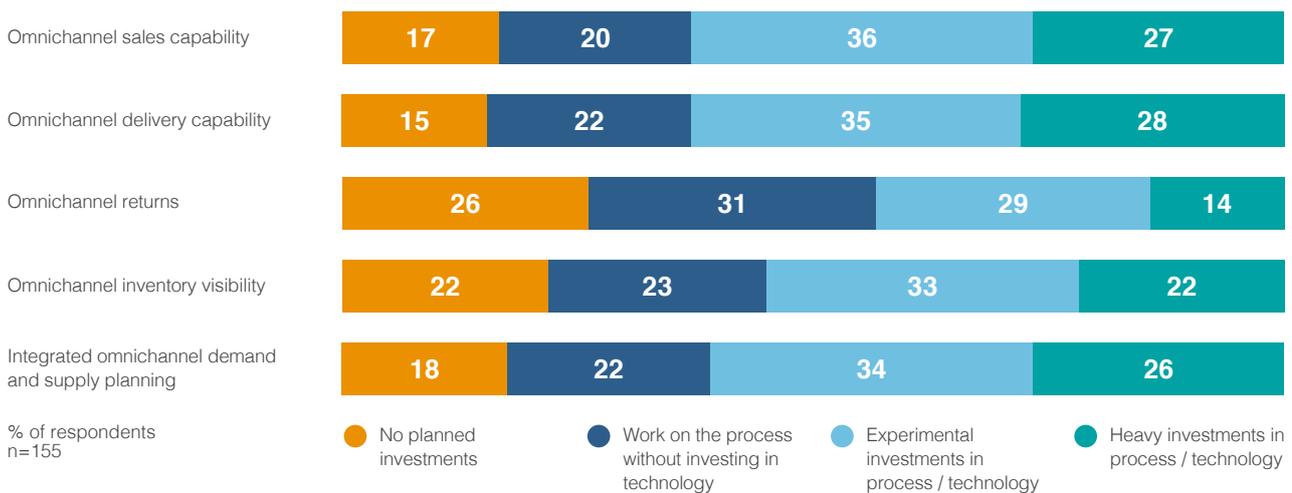
Figure 9 builds on issues with process and technology by showing the percentages of planned investments over the next three years.

On the surface, Figure 9 appears to show that most have planned omnichannel investments and, with the exception of omnichannel returns, more than 50% are planning technology investments at some level.

8 | Landscape of current omnichannel capabilities

	Weak process / weak technology	Weak process / good technology	Good process / weak technology	Good process / good technology
Omnichannel sales capability	30	12	38	20
Omnichannel delivery capability	29	12	38	21
Omnichannel returns	55	12	21	12
Omnichannel inventory visibility	40	11	28	21
Integrated omnichannel demand and supply planning	47	12	26	15

% of respondents
n=155

Omnichannel sales capability	17	20	36	27
Omnichannel delivery capability	15	22	35	28
Omnichannel returns	26	31	29	14
Omnichannel inventory visibility	22	23	33	22
Integrated omnichannel demand and supply planning	18	22	34	26

% of respondents
n=155

- No planned investments
- Work on the process without investing in technology
- Experimental investments in process / technology
- Heavy investments in process / technology

A detailed analysis of this data, however, reveals a fairly shocking trend. For the core omnichannel processes of sales, delivery and returns, organisations with both weak process and weak technology are at least five times less likely to have any planned investments.

Conversely, companies who identify both their process and technology as good, are at a minimum twice as likely than any other profile to have heavy investments planned. As our data will come to show, omnichannel leaders are planning to grow their lead and their access to valuable customer data.

OMNICHANNEL SALES CAPABILITY

Omnichannel sales requires collaboration across sales, marketing, product, finance and supply chain. Changes to the sales process have a direct impact on demand, both in total volume and in volume per channel.

While not typically in the primary remit of the supply chain organisation, involvement in establishing core omnichannel sales processes and technology is increasing. At a minimum, involvement in inventory and channel strategy is likely now seen as a responsibility in most supply chain strategy teams.

In Figures 11-21, data on omnichannel capability is being presented in a different view. This quadrant approach establishes four unique profiles (Figure 10):

1. **Laggards.** Companies with weak process and weak technology (lower left);

2. **Process leaders.** Companies with good process and weak technology (lower right);

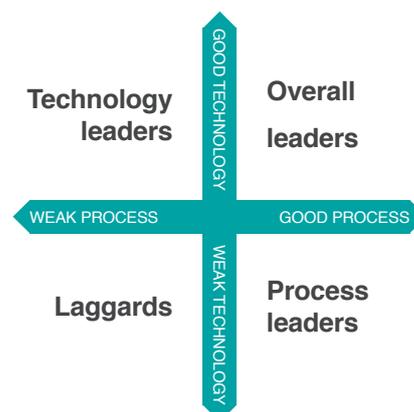3. **Technology leaders.** Companies with weak process and good technology (upper left); and

4. **Overall leaders.** Companies with good process and good technology (upper right).

As Figure 10 shows, the selections of respondents indicate their strategic priorities and investments. Leaders are identified as those who say they have good capability, whether in process, in technology or in both.
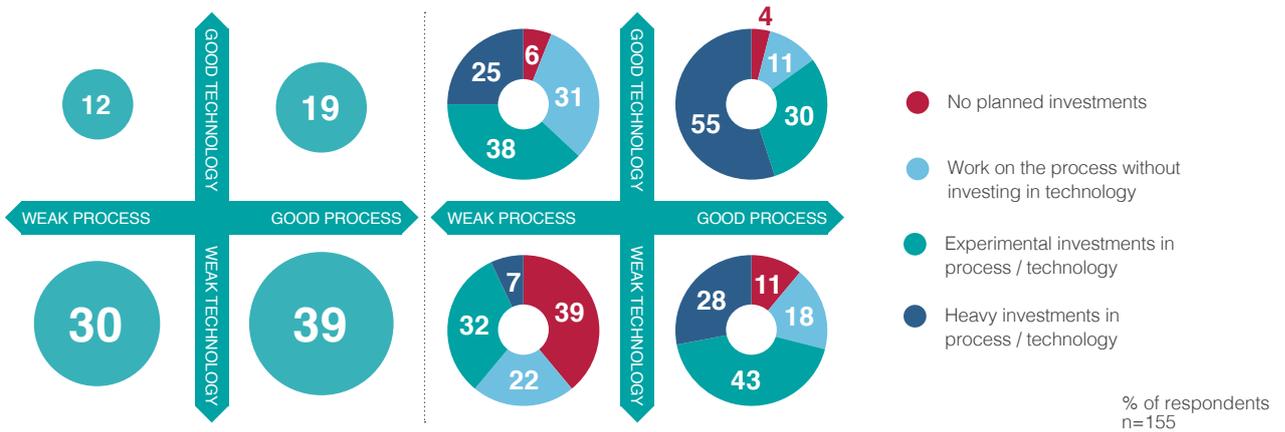
These four profiles are used extensively throughout this report to demonstrate differences in capability, investment strategy and access to customer insight.

In Figure 11, there are four quadrants that share data just for the omnichannel sales process. The percentage and size of the bubble on the left side

10 | Omnichannel sales leaders have more valuable direct customer data

11 | Omnichannel sales capability and planned investments

Legend:
- No planned investments
- Work on the process without investing in technology
- Experimental investments in process / technology
- Heavy investments in process / technology

% of respondents
n=155

of the figure represent the population of our survey base corresponding to that quadrant's process and technology capabilities.

The quadrant on the left side of Figure 11 shows current omnichannel sales capability.

The bottom half of that quadrant shows that 69% have weak technology. The right side, however, demonstrates that 58% have good process capability. Of some comfort, perhaps, a mere 19% say they have both good process and good technology.

The right side of Figure 11 shares the varying investment priorities over the next three years for each of the four company profiles. Note the massive disparity between the profile of companies with weak process and technology versus that of companies with good process and technology.

Companies with weak process and technology are 10x more likely to have no planned omnichannel sales investments. More than half (55%) of the

companies in the opposite quadrant with good process and good technology have plans to make heavy investments in both.
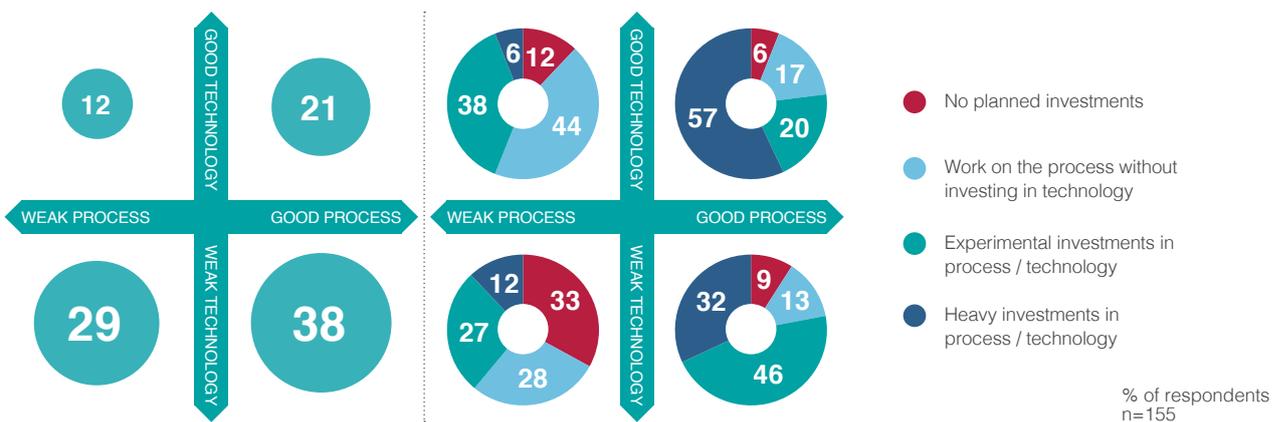
Note finally that the 12% with good technology but weak processes in the upper left quadrant seem to recognise that very constraint, with a third saying they plan to work on the process without investing further in technology.

OMNICHANNEL DELIVERY CAPABILITY

A supply chain audience likely feels more at home with omnichannel delivery. While supply chain may have a greater role in owning strategy in this area, it is yet another place where collaboration with sales, marketing and product organisations is essential.

Roughly the same percentages exist in each of the four quadrants for omnichannel delivery as for omnichannel sales.

12 | Omnichannel delivery capability and planned investments

Legend:
- No planned investments
- Work on the process without investing in technology
- Experimental investments in process / technology
- Heavy investments in process / technology

% of respondents
n=155

In Figure 12, the data on omnichannel delivery process and technology is plotted against the four quadrant profiles again.

Retailers have been early movers in omnichannel delivery, and different organisations have landed on different approaches to both process and technology.

Sears, for example, has decided to tackle omnichannel delivery with home-grown technology. Using existing systems and a little Excel elbow grease, Sears manages an order routing optimiser connected to what it calls "Cheetah stores".

Across the US, Sears selected Cheetah stores by their strategic geographical location and by vetting store operations. Based on real-time inventory visibility tied to in-store safety stock targets, the Sears fulfilment team can optimise direct delivery from store.

This example is one of many where omnichannel process is being advanced through very little investment in technology. Fellow retailer Urban Outfitters (UO), however, has taken a more bullish stance on omnichannel technology investments.

Part of the investment was to support pick-from-shelf, which UO has been a leader in and credits for $9 million of additional revenue in a single quarter. The same technology also helps to unify the delivery experience by enabling drop ship capabilities.

UO SKU assortments, both online and in-store, include housewares and furniture that significantly differ in size/margin from the rest of the assortment. Drop ship capability enables UO to feature these products online or in store while dropping orders directly to the supplier, all transparent to the consumer.
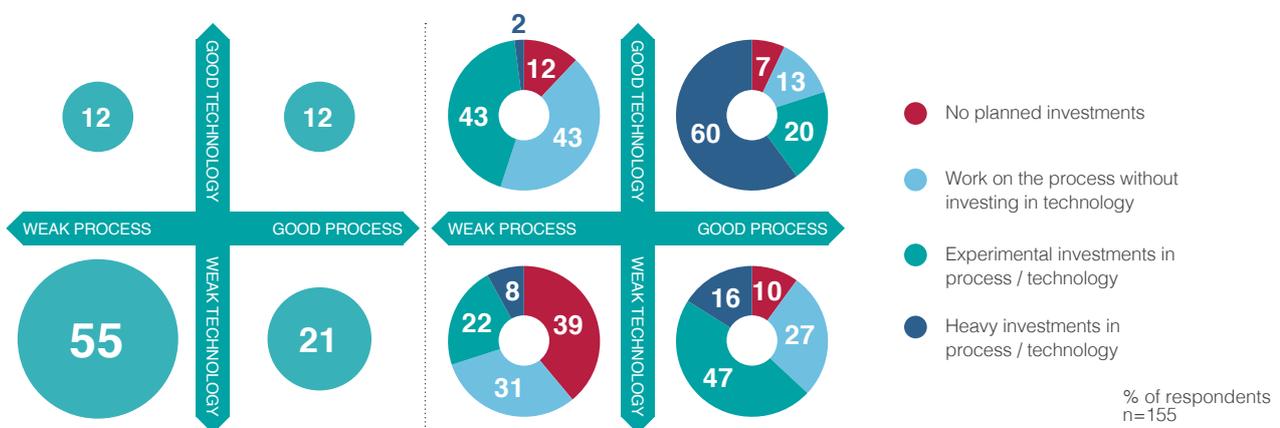
OMNICHANNEL RETURNS CAPABILITY

The majority of our respondents say its supply chain organisations have weak process and technology for omnichannel returns.

Innovative case examples mirror the results of the data in Figure 13. There just isn't much happening. Retailers have generally aligned on a BORIS strategy (buy online, return in store). In partnership with UPS, FedEx, and DHL, etc, most pure e-tailers and apparel companies have adopted print-on-demand return labels.

It's hardly sexy innovation. Print-on-demand labels do enable some basic data collection mechanisms such as issue codes and SKU trend analysis.

The investment plans for the four profiles on returns closely mimic the results for omnichannel sales and delivery. As shared later in this report, investments in omnichannel returns processes might just deliver the most value of the lot.

13 | Omnichannel returns capability and planned investments

No planned investments

Work on the process without investing in technology

Experimental investments in process / technology

Heavy investments in process / technology

% of respondents
n=155

OMNICHANNEL LEADERS HAVE MORE VALUABLE CUSTOMER INSIGHT

There is an interesting correlation between the value of customer data and your organisation's omnichannel capabilities. Almost without exception, across sales, delivery and returns, those that have good process and/or good technology say that data from direct and indirect customers is more valuable than those with weak capabilities.

Figure 14 uses four quadrants to show how each of the four omnichannel sales capability profiles rates the value of their data from direct customers.

Those with both weak process and weak technology have the highest portion of non-valuable data (40%) at a rate of double every other quadrant. While this data is correlative and not necessarily causal, it does highlight an interdependence between omnichannel execution and customer connectivity.

In fact, this same correlation becomes apparent when the data is mapped across the three core omnichannel processes (see Figure 15).

14 | Omnichannel sales leaders have more valuable direct customer data

- Data is valuable
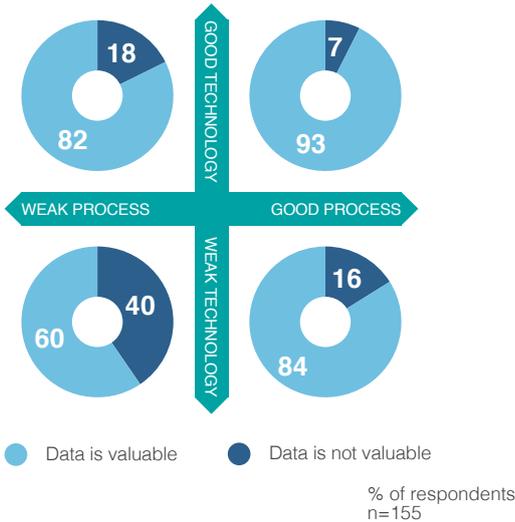- Data is not valuable

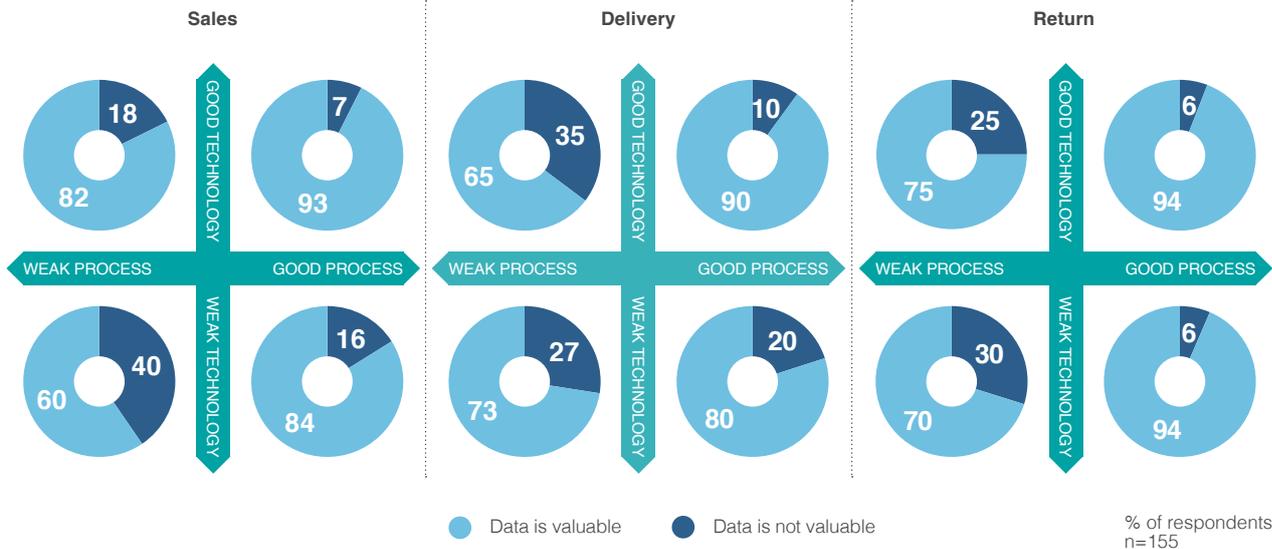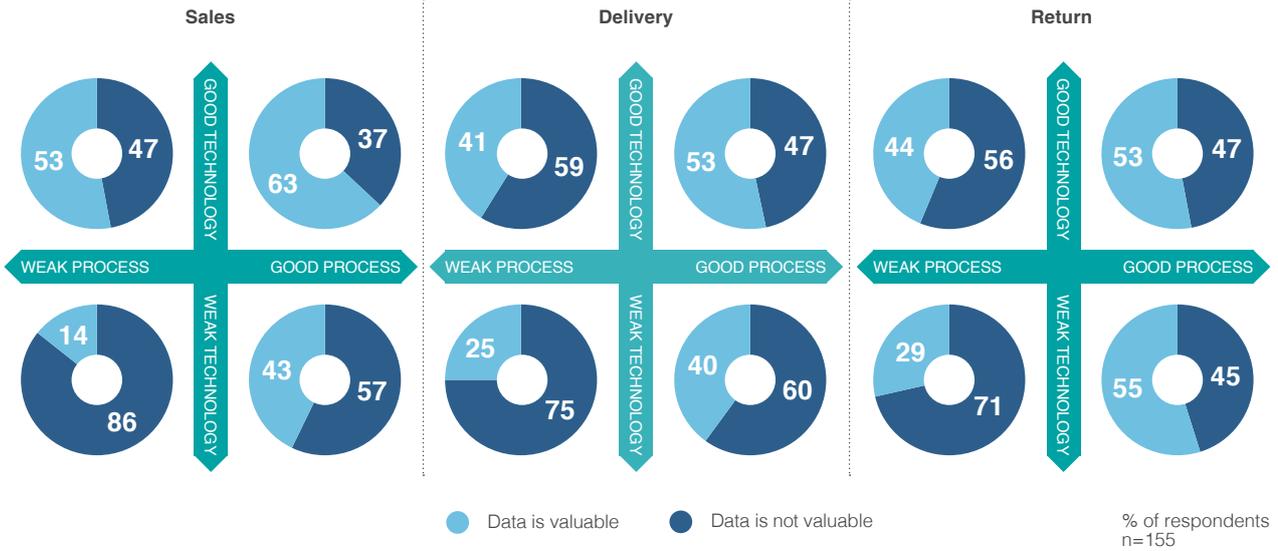% of respondents
n=155

Figure 16 repeats this same analysis but now as it applies to the value of data from indirect customers. For sales, delivery and returns, good process nearly doubles the value of data when compared to companies with weak process and technology.

15 | Omnichannel leaders have more valuable direct customer data

- Data is valuable
- Data is not valuable

% of respondents
n=155

16 | Omnichannel leaders have more valuable indirect customer data

Sales | Delivery | Return

GOOD TECHNOLOGY
WEAK PROCESS — GOOD PROCESS
WEAK TECHNOLOGY

Sales:
- Good technology / Weak process: 53 / 47
- Good technology / Good process: 63 / 37
- Weak technology / Weak process: 14 / 86
- Weak technology / Good process: 43 / 57

Delivery:
- Good technology / Weak process: 41 / 59
- Good technology / Good process: 53 / 47
- Weak technology / Weak process: 25 / 75
- Weak technology / Good process: 40 / 60

Return:
- Good technology / Weak process: 44 / 56
- Good technology / Good process: 53 / 47
- Weak technology / Weak process: 29 / 71
- Weak technology / Good process: 55 / 45

● Data is valuable ● Data is not valuable

% of respondents
n=155

The results of this analysis connect back to the opening of this report. The first few Figures shared a high-level storyline that customer data is highly valuable but difficult to access, especially further down the demand chain.
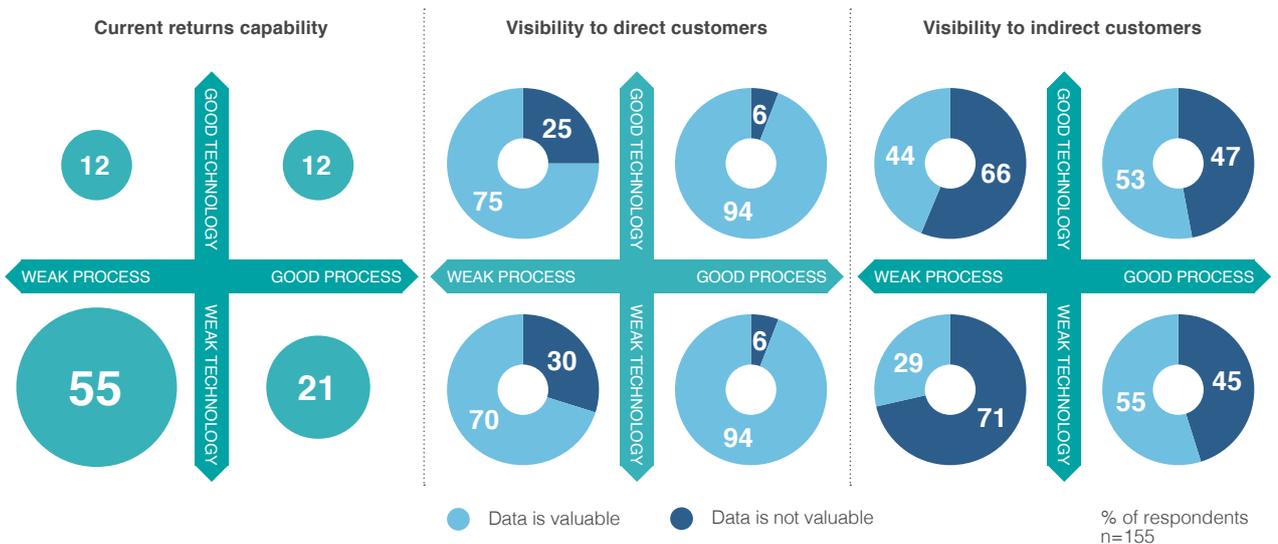
When mapped in relation to omnichannel capability, as in Figures 14 and 15, the value of customer data is improved in places where omnichannel processes are good. With one minor exception on omnichannel delivery related to direct customer value, the same is true with better omnichannel technology.

THE BIGGEST RETURN MAY BE ON RETURNS

A closer look at all the omnichannel returns process data points to interesting insight. Companies that have advanced their omnichannel returns capabilities, regardless of if they have good or weak supporting technology, say they have more valuable data for both direct and indirect customers.

Returns processes typically include satisfaction data on product quality, service level and delivery

17 | Investments in all omnichannel returns processes may yield the greatest customer insight

Current returns capability | Visibility to direct customers | Visibility to indirect customers

GOOD TECHNOLOGY
WEAK PROCESS — GOOD PROCESS
WEAK TECHNOLOGY

Current returns capability:
- Good technology / Weak process: 12
- Good technology / Good process: 12
- Weak technology / Weak process: 55
- Weak technology / Good process: 21

Visibility to direct customers:
- Good technology / Weak process: 75 / 25
- Good technology / Good process: 94 / 6
- Weak technology / Weak process: 70 / 30
- Weak technology / Good process: 94 / 6

Visibility to indirect customers:
- Good technology / Weak process: 44 / 66
- Good technology / Good process: 53 / 47
- Weak technology / Weak process: 29 / 71
- Weak technology / Good process: 55 / 45

● Data is valuable ● Data is not valuable

% of respondents
n=155

performance. Much of this data lands directly in customer service centres and customer care dashboards. Connecting to this data can provide valuable insight into order management, service levels and what customers really value.

Dell connects care data with operations via analysis called "cost of dissatisfaction". Over the last 10 years, it has saved millions related to improvements in fulfilment, order management and reduction of incidents by connecting this returns data back to its planning organisation.

One often overlooked omnichannel experiment that may warrant more focus is lockers. In 2013 and 2014, Amazon gained fame – and notoriety – for its experiments with lockers.

Lockers were fairly promptly ripped out of Staples and Radio Shack locations when the retailers realised the promise of additional foot traffic was a red herring. Amazon did have initial success, however, with more public locations like London Tube stations.

What may be overlooked with lockers is the fact that they don't have to be just a pick-up location; they also serve as a very convenient returns location for both the consumer and the seller.

Sellers benefit from the ability to create efficiency by scheduling pick-ups in groups. And, unlike in store returns, there is an opportunity for a direct connection between central planning and that all important real-time, valuable demand data source.
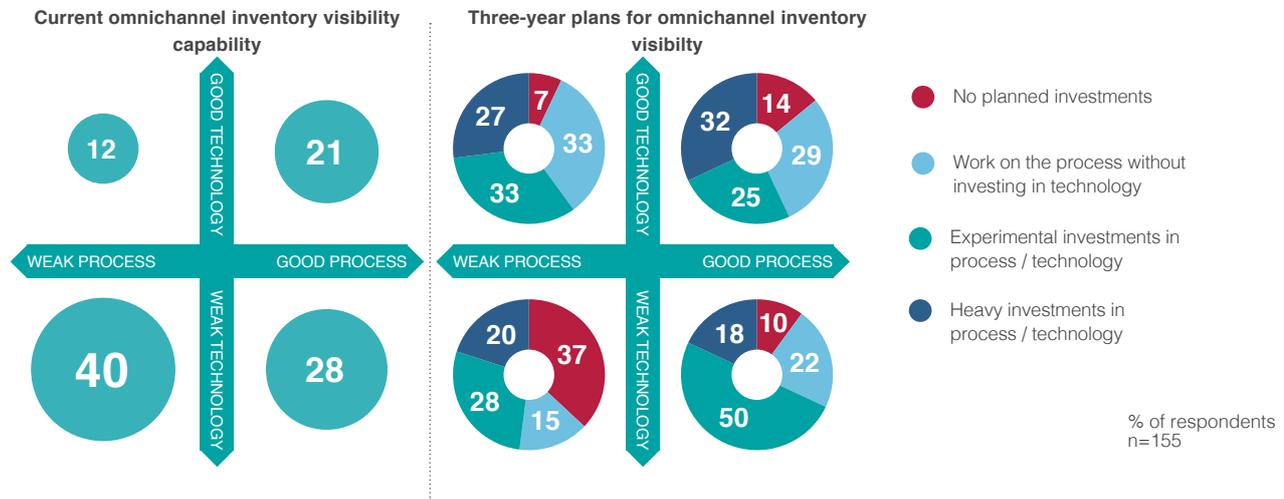
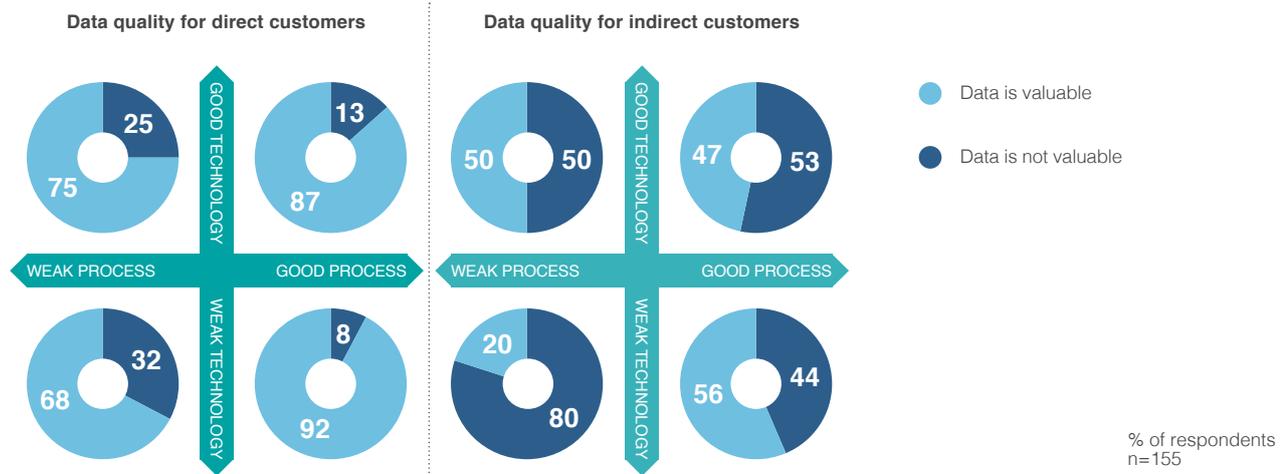# INVESTING IN TWO KEY OMNICHANNEL ENABLERS

Two items are consistently front of mind in omnichannel discussions: inventory and integrated demand and supply planning. While there's an overlap between the two – and across the sales, delivery and return processes – survey results show similar results on current state capabilities and investment plans.

Figures 18 and 19 integrate multiple views of omnichannel inventory visibility and integrated planning capability across the four quadrant profiles.
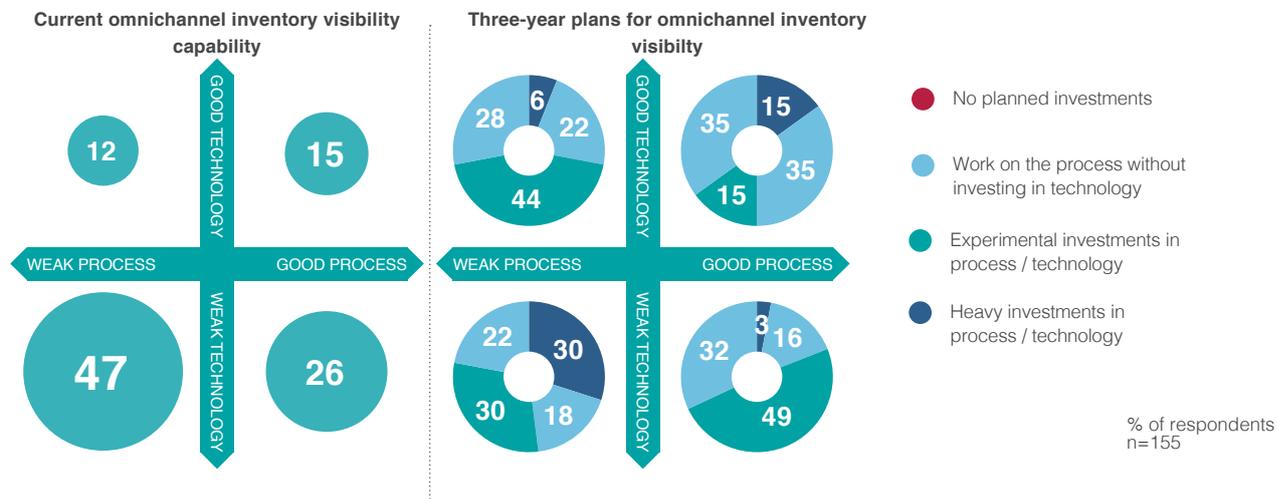
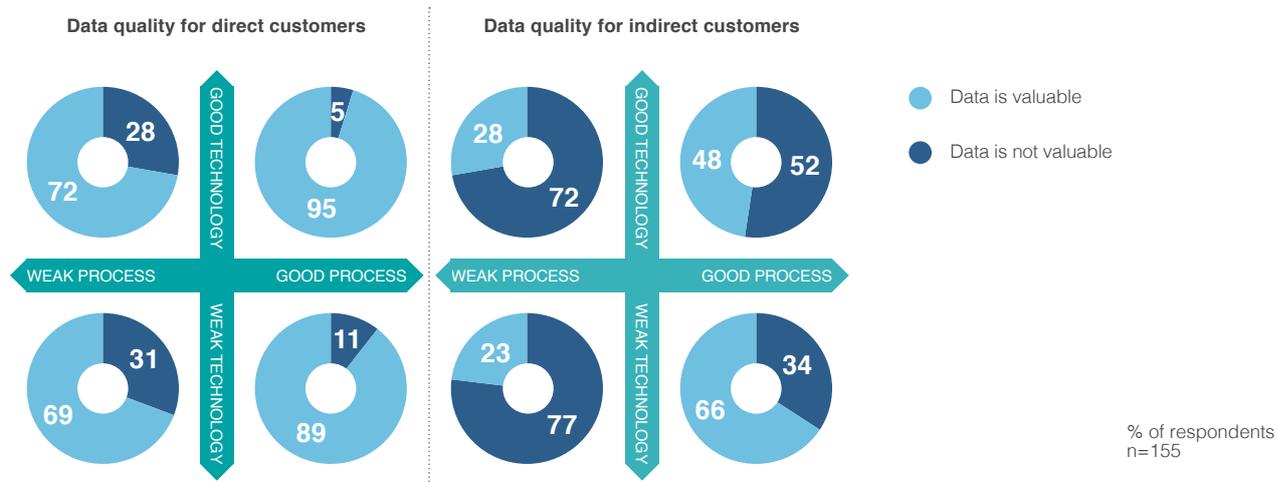## 18 | Omnichannel inventory visibility and planned investments

Current omnichannel inventory visibility capability

- Weak process / Good technology: 12
- Good process / Good technology: 21
- Weak process / Weak technology: 40
- Good process / Weak technology: 28

Three-year plans for omnichannel inventory visibilty

Weak process / Good technology: 7, 33, 33, 27
Good process / Good technology: 14, 29, 25, 32
Weak process / Weak technology: 37, 15, 28, 20
Good process / Weak technology: 10, 22, 50, 18

Legend:
- No planned investments
- Work on the process without investing in technology
- Experimental investments in process / technology
- Heavy investments in process / technology

% of respondents
n=155

19 | Improving omnichannel inventory visibility technology and processes yields further customer insight

Data quality for direct customers

- Weak process / Good technology: 75, 25
- Good process / Good technology: 87, 13
- Weak process / Weak technology: 68, 32
- Good process / Weak technology: 92, 8

Data quality for indirect customers

- Weak process / Good technology: 50, 50
- Good process / Good technology: 47, 53
- Weak process / Weak technology: 80, 20
- Good process / Weak technology: 56, 44

Legend:
- Data is valuable
- Data is not valuable

% of respondents
n=155

20 | Integrated omnichannel demand and supply planning

Current omnichannel inventory visibility capability

GOOD TECHNOLOGY

12   15

WEAK PROCESS   GOOD PROCESS

WEAK TECHNOLOGY

47   26

Three-year plans for omnichannel inventory visibilty

GOOD TECHNOLOGY

28 6 22
44

35 15
35
15

WEAK PROCESS   GOOD PROCESS

WEAK TECHNOLOGY

22 30
30 18

32 3 16
49

- ● No planned investments
- ● Work on the process without investing in technology
- ● Experimental investments in process / technology
- ● Heavy investments in process / technology

% of respondents
n=155

21 | Integrated omnichannel demand and supply planning processes have a big positive impact on customer insight

Data quality for direct customers

GOOD TECHNOLOGY

28 72   5 95

WEAK PROCESS   GOOD PROCESS

WEAK TECHNOLOGY

31 69   11 89

Data quality for indirect customers

GOOD TECHNOLOGY

28 72   48 52

WEAK PROCESS   GOOD PROCESS

WEAK TECHNOLOGY

23 77   34 66

- ● Data is valuable
- ● Data is not valuable

% of respondents
n=155

Companies grade themselves weaker on these two enablers as compared to sales, delivery and returns.

The data on three-year investments shows that the majority plan to make progress on each of these enablers – many with experimental investments in both technology and process.

CONCLUSIONS & RECOMMENDATIONS

As the cover to this report indicates, the race is on for customer-centric, omnichannel supply chain innovation.

In case you didn't hear it, the starting gun has already been fired.

Since 2010, there have been far more losers in omnichannel than winners. Most of the 'losers' are failed processes rather than entire businesses. Concepts like dedicated channel operations, dark stores and, to a large extent, lockers, are some recent examples.

The lesson for both winners and losers is that omnichannel innovation requires a new way of thinking. The past few years have been a time of smart experiments, in which those who have made progress have done so first on a small scale and then across operations. This shift is a big pivot for many supply chain leaders.

Consider these four recommendations to help start the pivot.

1. **Digitise your supply chain.** The roles of the supply chain executive, supply chain IT and corporate IT have always had significant interdependencies. The examples shared throughout this research demonstrate a clear reality. Digitisation of the supply chain is not an IT decision. It is a business decision. Supply chain executives can own the role of strategist by starting with the customer. By identifying untapped sources of value generation for customers, supply chain executives can help set the strategy for both process and technology investments.

2. **Make use of imperfect data.** There is a big difference between imperfect data and bad data. Investments in master data and planning technology have helped to eliminate bad data, but there is still a hesitancy to take action. As part of your strategy, set parameters related to precision needed in the analysis. Doing so will help to show where some customer insight is available, if not exception proof.

3. **Collaborate with your customer care group.** Customer service organisations are a direct source of customer data on value and also on real-time disruptions in fulfilment, product quality and service. Questions about these issues all land in this organisation. Connecting your front-end strategy to data on the actual experience will provide insight on needed investments to drive a customer-centric supply chain.

4. **Create a menu of supply chain services.** Within your business, consider an exercise like that of Unilever's buy behaviour analysis. Start with distribution and try to identify how two to three right-fit service models might require segmentation of distribution capabilities. The last step of this exercise will be customer profitability analysis akin to what's shared in the front half of this report.

Perhaps the most important finding from this research is that omnichannel innovation is not a consumer challenge. It's a business challenge that all industries are working through.
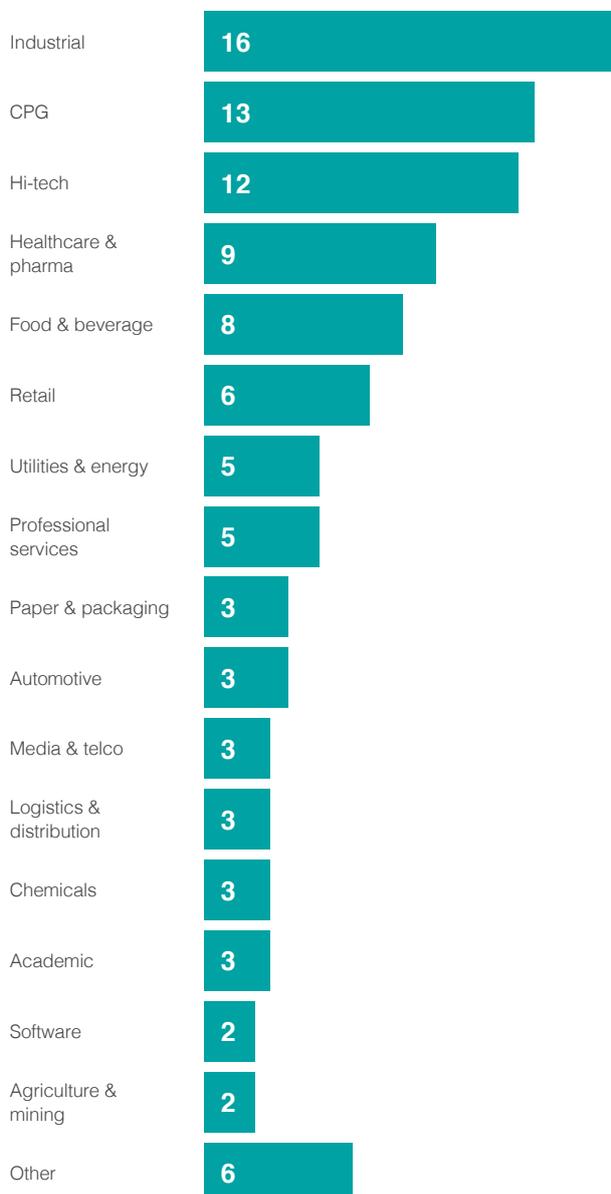
Be open to learning from the small group in the upper right quadrant. Good omnichannel processes and technology will generate value, regardless of the source.
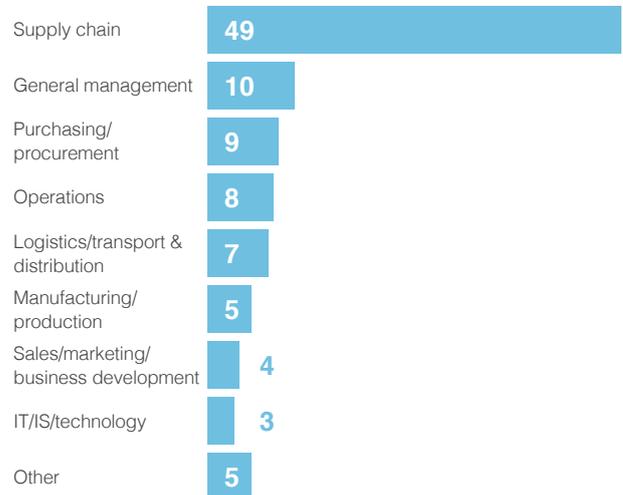
ABOUT THE RESEARCH

In February 2016, invitations to complete an online survey were sent to members of SCM World and to a wider group of practitioners in supply chain and other functions globally. In total, 155 completed responses were received during the survey period.

Key demographics are as follows (all figures represent % of respondents):
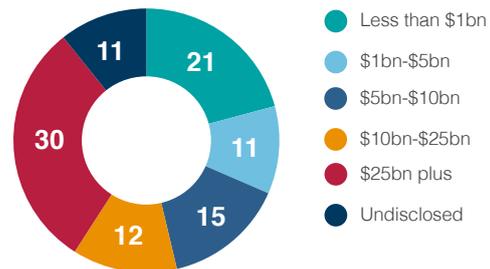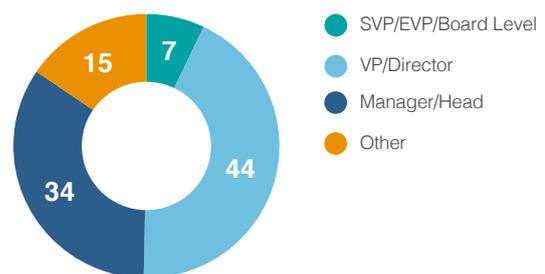
Industry

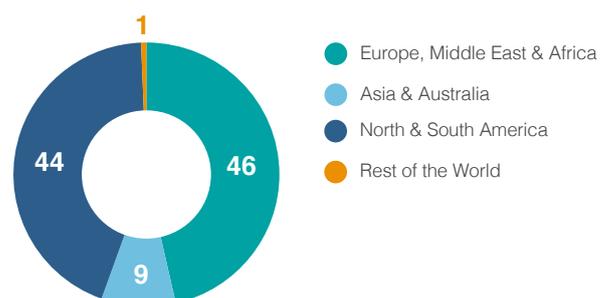| Industry	%
Industrial	16
CPG	13
Hi-tech	12
Healthcare & pharma	9
Food & beverage	8
Retail	6
Utilities & energy	5
Professional services	5
Paper & packaging	3
Automotive	3
Media & telco	3
Logistics & distribution	3
Chemicals	3
Academic	3
Software	2
Agriculture & mining	2
Other	6

Job function

Job function	%
Supply chain	49
General management	10
Purchasing/procurement	9
Operations	8
Logistics/transport & distribution	7
Manufacturing/production	5
Sales/marketing/business development	4
IT/IS/technology	3
Other	5

Company size

- Less than $1bn — 21
- $1bn-$5bn — 11
- $5bn-$10bn — 15
- $10bn-$25bn — 12
- $25bn plus — 30
- Undisclosed — 11

Job level

- SVP/EVP/Board Level — 7
- VP/Director — 44
- Manager/Head — 34
- Other — 15

Location

- Europe, Middle East & Africa — 46
- Asia & Australia — 9
- North & South America — 44
- Rest of the World — 1

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Shipping from stores drives $9 million worth of Q1 sales for Urban Outfitters (internetretailer.com/2013/05/24/shipping-stores-drives-9-million-urban-outfitters)

ABOUT SCM WORLD

SCM World is the cross-industry learning community powered by the world's most influential supply chain practitioners. We help senior executives share best practice insights in order to shape the future of supply chain.

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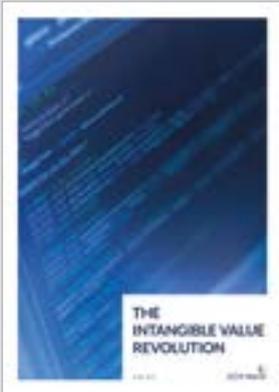
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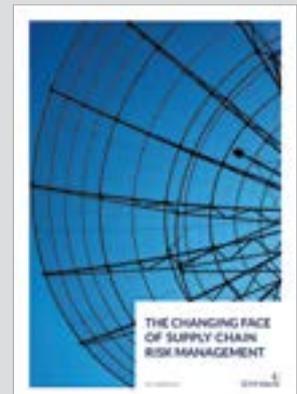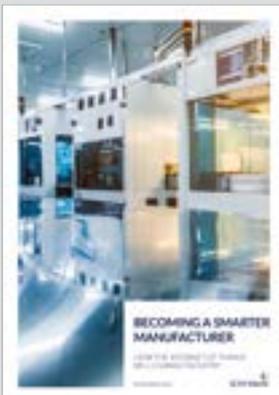July 2015

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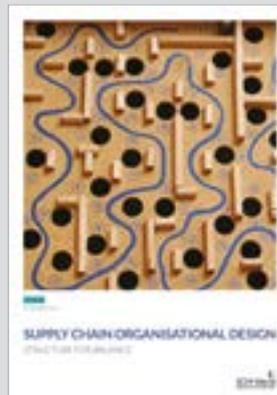

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