

Short Takes



Achieving Return On Investment:

Where Does It Happen In the CPG / Retailing Business

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The following question was posed to Thought Leader Roundtable participants including Infosys, conducted by GMA Forum Magazine.

ROI HAS RISEN TO THE TOP OF EVERY CEO'S PRIORITY LIST, and CPG / retailer CEOs are actively looking for tools, techniques and resources that meet the ROI test. So, for this IS/LD issue, we asked CPG and retailing experts: “In your travels about the CPG industry, what noteworthy initiative or investment have you seen that impressed you because it actually produced a meaningful ROI for a CPG company and / or a retailer company?”

IN YOUR VIEW, HOW AND WHY DID IT WORK? Would investing in this tool or initiative make sense for all CPG companies? “If not, where *would it* make sense?”

IN OUR EXPERIENCE, 'DEMAND DRIVEN SUPPLY NETWORKS' (DDSN) HAS BEEN A KEY INITIATIVE with significant ROI benefits for the Retail/CPG industry.

Lack of demand visibility at retail stores leads to multiple problems, the most noticeable is out of stocks. OOS adversely impact CPG manufacturers and can contribute to losses and consumer brand switching. Consider the following fact:

- 31 percent of out-of-stocks lead to CPG manufacturer losses;
- 43 percent of out-of-stocks lead to retailer losses.

Other problems resulting from reduced demand visibility include higher markdowns, poor product allocation and higher product returns.

DDSN integrates demand, supply and product processes across retailer and CPG manufacturer supply chains and coordinates processes and technologies to effectively and efficiently serve consumer demand. Typically, store POS information is used as the source for consumer demand signals sent through the supply chain for supply planning.

The objective of this initiative is to provide visibility to all the members of the CPG value chain in order to create a nimble and agile network wherein all the members react to the same demand signal and thereby improve the service level of the value chain as a whole (i.e., minimize out-of-stocks at the end point).

DDSN Benefits

The following are some typical benefits that analysts expect with the implementation of a DDSN initiative:

- Reduction in inventory levels of some five to 15 percent across the supply chain;
- Increase in in-stock rates of three to six percent;
- Increase in service levels to the stores from the warehouse of around 10 to 15 percent.
- Significant reduction in labor for supply chain planning and execution.

Based on our experience and observations, we have seen benefits that are more or less in line with the above.

FACTORS THAT MAKE DDSN WORK: In the basic DDSN model, POS information is used to generate time-phased sales forecasts at the item store level. This is used with store-level item inventory and other ordering parameters to generate time-phased store-level item order plans. These plans are then cumulated to drive warehouse-level replenishment plans or shared with DSD vendors.

There are multiple models that a retailer and CPG manufacturer can use to implement DDSN. The models vary depending on:

- Which business partner controls the generation of store level sales forecasts and order plans;
- The point in the retailer's supply chain to which the retailer provides demand visibility.

The following factors need to be considered for a successful DDSN initiative:

- Clear definition of processes that use time-phased planning concepts across the supply chain.

The concept of DDSN is predicated on providing visibility to current and future demand and supply plans.

When store level or warehouse level replenishment or demand estimation processes are defined, what works is to put in place processes that will enable the full vision for DDSN with every planning process, time-phasing its demand and supply plans. Though the retailer / CPG manufacturer may choose to implement the DDSN vision in increments, the company should define the process vision and implement solutions that enable time-phasing of these plans upfront.

- Clarity on control of processes and activities between CPG manufacturers and retailers.

Irrespective of the model of DDSN agreed to between the CPG manufacturer and the retailer, it is imperative to clearly define the responsibilities between the business partners. For example, which business partner will generate the item store level forecast? Which partner will ensure generation of store level order plans?

The model adopted will depend on the product category being enabled, with multiple factors to consider before a decision is made. It is important that the retailer and the CPG manufacturer evaluate these factors before deciding on the approach to DDSN.

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Once the model is agreed upon, there have to be clear processes of collaboration to ensure that the adopted DDSN model works.

- *Lack of mature tools to address the required functionality.*

Most available tools / applications are still evolving and are not fully geared to meet all capability requirements for a DDSN solution. Successful retailers recognize this, and have adopted a hybrid approach where they use core market applications in conjunction with custom-built solution enhancers. These overcome the scale and unique functional requirements needed for a DDSN solution. Failed DDSN initiatives have relied solely on a market applications not meant to fully enable DDSN without utilizing custom-built solution enhancers.

- *Clear definition of linkages with other related processes like merchandising and item data management.*

DDSN processes and solutions do not work in isolation. There are fundamental linkages with merchandising processes and to item data management processes (master data management).

The success of a DDSN initiative depends on considering these linkages upfront and incorporating capabilities to address these linkages in the solutions they implement.

- *Handling organizational change / defining new metrics to measure associates.*

Enabling DDSN either by the retailer or CPG manufacturer will warrant additional responsibilities and defining new metrics to evaluate associates and processes. Putting in place a DDSN solution without defining new roles and new supply chain metrics will not lead to a successful DDSN initiative, as the execution of the defined DDSN process and the measurement of its success will not be accurately measured.

In addition to putting in place a DDSN solution, companies must focus on significant organizational changes in responsibilities and metrics to make the initiative a success.

- *Defining a clear implementation road map.*

Implementing a DDSN solution is a multi-year initiative that requires the retailer or CPG manufacturer to undertake incremental initiatives.

[A pilot implementation to test the results and validate the ROI for such an initiative is recommended.](#) The approach should be one of piloting a simple DDSN solution before rolling out to a large number of products and demand points.

A suggested approach could cover:

- [Agree upon a pilot product category](#) where items can be inventoried;
- [Identify a warehouse that services a small number of stores;](#)
- Ensure that these stores have [an inventory management system in place;](#)
- Generate a store-level forecast and replenishment plan and a warehouse level replenishment plan;
- The CPG manufacturer can [utilize the time-phased replenishment plan](#) for materials and production planning

Once the business benefits from the pilot have been established, this initiative could be rolled out to a full implementation.

Conclusion

A DDSN initiative offers the CPG / retailer value chain the ability to [come together collaboratively to realize significant business benefits and ROI](#) by helping to reduce out of stocks and improve sales for existing, new and promoted brands/products.

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