# It's a Consumer-Driven World

## Supply chains need to bend, not break – and here's how

One Network Enterprises™



## NEW CHALLENGES FOR RETAILERS AND MANUFACTURERS

It is becoming increasingly clear that we live and work in a world dominated by the desires and needs of individual consumers. Not very long ago, the movie rental company Blockbuster Video had a market cap of $5 billion with over 9,000 retail stores. Its position seemed so secure that it never seriously considered an opportunity to buy a young upstart DVD-by-mail rental company, Netflix, for $50 million. Today, there is one store in the world, in Bend Oregon. In 2010 was forced to declare bankruptcy (the company at the time was valued at just $24 million).  Meanwhile, Netflix has grown into a behemoth, with a market cap of over $128 billion and over 140 million subscribers. Netflix innovated a new subscription by mail service, one that was extremely attractive to consumers sick of paying late fees.

The lesson from this and countless other recent examples like Uber and AirBnB, is clear: no matter how successful a company was in the past, its future success or failure eventually depends on whether it can consistently satisfy its end-consumer. As Amazon and others have demonstrated so clearly, the customer has to be at the center of business and a barometer of success. As a result, today's retailers and manufacturers are searching for ways to become more responsive to end-customer demand, to be "consumer-driven".

This white paper, using real case studies and examples, describes how companies are feeling pressure to become more responsive to consumer demand. This paper will also show how quickly the habits and preferences of today's consumers are changing—consumers are simply moving too fast for companies with traditional supply chain strategies and technologies to see and react in a timely manner.

This paper is organized around the following 7 key insights:

1. Today's consumers have raised the stakes of customer service.
2. Today's consumers want choice.
3. To reach the end-consumer you need to own the last mile.
4. Today's consumers are always online and on their devices—you should be too.
5. Consumer-driven requires the entire chain to work together.
6. Companies must overcome several global supply chain challenges in order to become consumer-driven.
7. Entirely new technology systems are required to see and respond to end-consumers.

## CONSUMERS HAVE RAISED THE STAKES OF CUSTOMER SERVICE

With more competition than ever before, today's customers are spoilt for choice and willing to exercise it at the drop of a hat. Consumers can make or break a company in a matter of months. One high instructive example is Lululemon, the maker of premium yoga wear. Lululemon was the darling of the apparel world. Its sales growth caught the entire industry by surprise, leaving competitors such as the Gap, Nike, and Under Armour scrambling to provide their own alternatives.

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Yet in a matter of months, Lululemon's fortunes changed. Its customers began complaining of quality issues with some of its products, and even more embarrassingly, that its best-selling yoga pants were too sheer to wear in public. The fallout was immediate: after failing to acknowledge customer complaints promptly, Lululemon's founder was forced to step down from his management role. As the New York Times reported, the company eventually issued a costly recall of its yoga pants.

Lululemon's supply chain issues only made matters worse. As it worked to improve the quality of its yoga pants, Lululemon fell behind in the development of new fashion items, which meant that it ordered new products later than it should have. This resulted in late deliveries and other problems such as tops arriving before the matching pants, which led to even more cancelled orders. As the Wall Street Journal reported, eventually the company admitted that it has seen its sales "decelerate meaningfully".

Lululemon's story shows just how volatile consumer sentiment can be, and also how important it is to develop supply chain strategies that give you the ability to see and respond rapidly to the end consumer. And yet so few companies have managed to become consumer-driven. Why?

## TODAY'S CONSUMERS WANT CHOICE

Why is satisfying today's consumer an increasingly difficult challenge for companies? The answer in large part is due to the rapidly evolving habits of today's consumers. Today's consumers defy the confines of traditional market segmentation. This consumer has conflicting preferences and facets: shops online but demands human touch, insists on individualized service but communicates in packs. This individual is hard to read—and even harder to please.

**Consumers want choice**. They a wide range of choices of products, and they want personalized service. This is driving the need for a wider array of products, and increasing complexity in the supply chain. One large beauty products company has seen their SKU count go from 50,000 to 75K, and expect it to go to 100K by 2020. They have a 30 percent annual turnover in SKUs due to shifting consumer preferences. Failing to predict and react to these changing preferences can cost the company millions of dollars a year.

**Customers want it fast**. Customers today want it fast and they're willing to pay for the privilege. A 2019 consumer report by digital consultancy firm, Avionos, showed that fast delivery was the number one factor affecting a positive customer experience. Companies that are accommodating this wish, are seeing rapid growth.

## TO REACH THE END-CONSUMER YOU'LL NEED TO OWN THE LAST MILE

Amazon was an innovator in fast delivery, and proved that speed and convenience really matter to customers. While logistics has traditionally been seen as a necessary cost center, Amazon turned it into a competitive weapon, and forever changed customer expectations on delivery.

*One Network customers have succeeded in integrating thousands of their suppliers and logistics providers onto One Network's cloud platform, enabling a 360 degree visibility of the customer's order from the time it is created, to when it is sent to the supplier, and eventually delivered to the customer.*

According to Bloomberg, the consumer's desire (and willingness to pay) for convenience is why Amazon chose a strategy of same-day delivery throughout the U.S.  Amazon is also pioneering the use of drones to deliver packages to customers within a half hour of placing an order. Amazon's strategy has been applied to Whole Foods since it bought the grocery chain in 2017. Prime members get free delivery within two hours of ordering from Whole Foods.

So the message is clear. Selling a great product isn't enough anymore. In order to truly satisfy the end-consumer companies need to work together, sense and anticipate demand, then work with their logistics partners to deliver great service through to the last mile.

## TODAY'S CONSUMERS ARE ALWAYS ONLINE—YOU SHOULD BE TOO

Consumers continue to spend more of their time online. Research from Internet Retailer shows that ecommerce is growing steadily in double digits every year (15% in 2018), while brick and mortar retail is growing at around 3-4 percent per year (3% in 2018). In 2018 ecommerce sales accounted for 14.3 percent of total retail sales, and the growth rate is accelerating year by year.

What's driving the growth? There are two factors. The first is proliferating use of smartphones and tablets, which are boosting the amount of time consumers spend online.

According to Pew Research Center, 81 percent of U.S. consumers now have smartphones, and they're using them to research purchases, find stores and to find the best prices available — often buying directly on their device.

The second factor contributing to growth is traditional retailers' increased investments in their online sales divisions. Specifically, large retailers are seeking out omnichannel retail experiences, allowing store associates to "save a sale" by ordering out-of-stock merchandise through online backends, fulfill customer orders more rapidly by enabling suppliers to directly ship the product to the customer themselves, and in the future allowing online shoppers pick up the goods in-store.

## CONSUMER-DRIVEN REQUIRES THE ENTIRE CHAIN TO WORK TOGETHER

Becoming consumer-driven may seem like an obvious strategy for retailers like Walmart, Target, Lululemon and Amazon, but manufacturers are also now realizing that rather than simply focusing on their immediate trading partners in the supply chain as they have in the past, they also need to be able to see and respond more quickly to their actual end-consumer's feelings and needs.

Smart, connected products are making this easier than ever, and providing deeper insights into customer preferences, behavior and product usage. This data is extremely useful in identifying the most popular product features, performance, and conditions in which customers use the product. It can also inform service departments who can be more proactive in anticipating problems with products. It can also be very useful for product design teams, who can address design flaws and performance problems in new releases.

And since a product today is rarely the result of a single company, there is a tremendous amount of value created when all trading partners, including manufacturers, have

access to real time consumer demand, and to this new enriched product usage data. This enables trading partners across the whole chain, from the retailers to raw material suppliers, to work together to give end-consumers what they want, both now and in the future.

## CONSUMER-DRIVEN BEGINS WITH OVERCOMING THESE GLOBAL SUPPLY CHAIN CHALLENGES

Yet despite their growing recognition that they need to become more consumer-driven, today's retailers and manufacturers are struggling to make it happen. Why? The answer often lies in their global supply chains. Despite millions of dollars of technology investments in their supply chain management systems, companies still face the following key challenges:

- Forecasting and demand management tools cannot see customer demand in real time
- Siloed systems for demand and fulfillment
- Systems that cannot support multi-party processes and collaboration (e.g. different systems for customers, suppliers, logistics providers, and parcel carriers etc.)
- Lack ways to quickly ensure whether customer service levels are being achieved
- Struggle to synchronize customer demand with orders, operational plans, transactions, etc.
- Lack insight into the financial impact of supply chain issues
- Stale views of orders, shipments, stock-outs, and inventory
- Higher than optimal levels of operational costs and inventories

Simply put, consumer-driven execution requires a multi-enterprise multi-tier arrangement that is technologically unfeasible and cost prohibitive using traditional supply chain management tools.

## NEW TECHNOLOGY SYSTEMS SHOULD BE DESIGNED TO BE CONSUMER-DRIVEN

In response to these challenges, companies have identified the following key technology requirements as part of their strategy to address their global supply chain challenges and enable accelerated responses to their customers. They require a single system that:

- Enhances all existing reporting, providing multi-level, rollups from sites to regions to executive levels, providing "living dashboards" configured to the role with real time data that matters to that specific role.
- Gains better information about customer demand in real time
- Allows suppliers to see customer demand and respond with their Available-to-Promise (ATP) status into the system
- Enables suppliers to connect to a single system and commit to the product
- Manages shipment tracking even when brand owner is not managing the freight
- Provides intelligent agents that identify potential issues and recommend or execute resolutions
- Reduces lead times and system latency
- Automates labor-intensive tasks with intelligent agents

## THE ONE NETWORK PLATFORM ENABLES THE CONSUMER-DRIVEN ENTERPRISE

With One Network's Platform for autonomous supply chain management, some of the world's largest retailers and manufacturers have achieved global visibility, digitized their supply chain processes, and made themselves much more responsive to end-consumers. Business benefits include:

- Forecast accuracy up to 95-97%
- Improve long term order forecasts accuracy to 85-88%
- Reduce in days of inventory by 10-30%
- Reduce order cycle time by 75%
- Reduce expedited logistics by 30-50%
- COGS reduced by 05.-1%
- Reduce manual planning and execution management overhead by 12-50%

Enterprises have also succeeded in integrating thousands of their suppliers and logistics providers onto One Network's cloud platform, enabling a 360 degree visibility of the customer's order from the time it is created, to when it is sent to the supplier, and eventually delivered to the customer. This is enabling One Network's customers to make better decisions and optimize profitability and customer service levels, to truly become a consumer-driven enterprise.

## ABOUT ONE NETWORK

One Network is the intelligent business platform for autonomous supply chain management. Powered by NEO, One Network's machine learning and intelligent agent technology, this multi-party digital platform delivers rapid results at a fraction of the cost of legacy solutions. The platform includes modular, adaptable industry solutions for multi-party business that help companies lower costs, improve service levels and run more efficiently, with less waste. This SaaS and aPaaS platform enables leading global organizations to achieve dramatic supply chain network benefits and efficiencies across their ecosystem of business partners. One Network offers developer tools that allow organizations to design, build and run multi-party applications. Leading global organizations have joined One Network, helping to transform industries like Retail, Food Service, Consumer Goods, Automotive, Healthcare, Public Sector, Defense and Logistics. To date, more than 75,000 companies have joined One Network's Real Time Value Network™ (RTVN™). Headquartered in Dallas, One Network also has offices in Japan, Europe, and India. For more information, please visit www.onenetwork.com.

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