2012 Supply Chain Benchmarking—Unlocking Value through Complexity Management and Collaboration

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Your presenters

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20 years of GMA Supply Chain benchmarking

GMA Supply Chain benchmarking


Inaugural Supply Chain survey 1998 GMA/BCG report on DSD 2005 Supply Chain survey 2010 Supply Chain survey

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Why we benchmark our Supply Chains

1. Get an objective performance measurement and set targets

- Ø 3

2. Identify areas for improvement

- +20%

3. Build the case for change

- Opportunity 1: +45%
- Opportunity 2: +20%
- Opportunity 3: +11%

4. Understand trends and start thought processes

- +16%

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The 2012 benchmarking report

New this year

First ever Direct Store Delivery (DSD) survey

Interviewed >60 Supply Chain executives

Two deep dive topics
• Complexity management
• Trade partner collaboration

Who we have spoken with

P&G
Unilever
Coca-Cola
McCormick
PEPSICO
CLOROX
Kraft
Heinz
Mondelēz International
Johnson & Johnson
HERSHEY'S
Kimberly-Clark
Bumble Bee Foods
Hillshire
Ferrero
ConAgra Foods
Diamond
Foster Farms
Hormel Foods
Sun Products Corporation
Dean Foods
Flowers Foods
SMUCKER'S
BUSH'S BEST

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What are the key trends in grocery Supply Chains?
Six key trends in US grocery industry ...

- Macro-economic volatility
- More discerning consumers
- Three growth demographics

- "No compromise" consumer
- Re-formation of retail landscape
- Rise of the digital economy

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... with significant impact on Supply Chains

We focused on two key trends that are driving significant value for grocery manufacturers

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Deep dive topics chosen for impact: $20–45B incremental profit opportunity

- **Complexity management**
  - 3–5% margin improvement
  - Up to 5% sales lift

- **Collaboration**
  - 1–3% margin improvement
  - 0.5–1.5% sales lift

$20–45B incremental profit across industry
Who is in the audience?
What type of organization do you represent?

- Grocery manufacturer: 38%
- Retailer: 12%
- Service provider (including logistics): 44%
- Distributor: 6%
What is your company's annual US revenue?

- $15B+ 29%
- $10–15B 9%
- $5–10B 9%
- $1–5B 18%
- <$1B 35%
What temperature class(es) is your Supply Chain?

- Ambient: 57%
- Refrigerated: 48%
- Frozen: 67%

Pick all that apply. Remember to press "Send" after each selection.
What delivery system(s) do you use?

- Warehouse delivery: 62%
- Direct Store Delivery (DSD): 50%
- Wholesalers / Distributors: 67%

Pick all that apply. Remember to press "Send" after each selection.
How has your Supply Chain performed?
How has your on-time delivery performance changed over the past two years?

- Improved significantly: 12%
- Improved somewhat: 47%
- Stable: 23%
- Declined somewhat: 14%
- Declined significantly: 5%

Retailers: Rate your Suppliers' performance
Suppliers: Rate your own performance
How have your case fill rates changed over the past two years?

- Improved significantly: 4%
- Improved somewhat: 39%
- Stable: 38%
- Declined somewhat: 16%
- Declined significantly: 4%

Retailers: Rate your Suppliers' performance
Suppliers: Rate your own performance
How have your inventory levels changed over the past two years?

- Significant reduction: 12%
- Some reduction: 48%
- Stable: 19%
- Some increase: 14%
- Significant increase: 7%

Retailers/suppliers: rate your own performance

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How have your costs changed over the past two years?

- Significant reduction: 10%
- Some reduction: 34%
- Stable: 19%
- Some increase: 30%
- Significant increase: 7%

Retailers/suppliers: rate your own performance

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How has your forecast accuracy changed over the past two years?

- Improved significantly: 6%
- Improved somewhat: 33%
- Stable: 40%
- Declined somewhat: 18%
- Declined significantly: 3%

Retailers/suppliers: rate your own performance

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Change in grocery manufacturer service performance over the past two years

On-time delivery rates

Retailer perspective
Grocery manufacturer perspective

Fill rates

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Change in productivity metrics over the past 2 years

**Inventory performance**

- Improved significantly: 10%
- Improved somewhat: 53%
- Stable: 15%
- Declined somewhat: 15%
- Declined significantly: 8%

**Cost performance**

- Improved significantly: 8%
- Improved somewhat: 33%
- Stable: 23%
- Declined somewhat: 28%
- Declined significantly: 10%

**Forecast accuracy**

- Improved significantly: 10%
- Improved somewhat: 38%
- Stable: 38%
- Declined somewhat: 13%
- Declined significantly: 3%
What does growing complexity mean for Supply Chains?
Increasing complexity a common concern
Product proliferation has failed to trigger growth

US CPG new product introductions

Many unsuccessful product launches remain in the marketplace today
High complexity evident across Supply Chain

Product complexity:
French Fries

Channel complexity

- Walmart
- Target
- Amazon.com
- Costco Wholesale
- Kroger
- Publix
- Dollar General
- Walgreens
- 7 Eleven
Complexity reduction ≠ SKU rationalization

Common approach: cut slow SKUs

Bottom quartile
<10% of volume

Many sources of complexity

Unique product specifications

Formulations

Packaging specifications / formats

Distribution methods
Five stages of complexity management

Limited understanding
- Minimal awareness

No action
- No reduction efforts

Projects
- Ad-hoc reduction projects
- On-going complexity reduction

Program
- Corporate culture of simplicity

Culture

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Best practice: the "Handshake"

The Supply Chain view

- Supplier complexity / cost drivers
- Retailer complexity / cost drivers

The integrated plan

- Define the offering
- Scale operations
- Protect / grow volume

The market view

- Consumer needs
- Variety only where it creates consumer value
How does complexity impact your Supply Chain?

- Increasing freight / logistics costs: 42%
- Increasing space needs: 39%
- Increasing packaging / customization costs: 36%
- Declining forecast accuracy: 31%
- Higher spoilage rates / reverse logistics costs: 29%
- Increasing warehouse labor costs: 23%
- Higher out-of-stocks: 13%
- Other: 1%

Pick the three biggest impacts. Remember to press "Send" after each selection.

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How would you describe your company's approach to complexity management?

- **The entire organization is focused on simplicity**: 5%
- **There is an on-going effort to reduce complexity**: 22%
- **One-off projects have been implemented**: 54%
- **Problem is well-known but no action has been taken**: 13%
- **Little understanding of complexity**: 6%
Interview responses: most grocery manufacturers in project stage

- **Limited understanding**
  - Minimal awareness

- **No action**
  - No reduction efforts

- **Projects**
  - Ad-hoc reduction projects

- **Program**
  - On-going complexity reduction

- **Culture**
  - Corporate culture of simplicity

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Proportion of grocery manufacturers in each stage

- Interviews: 4% 3% 15% 13% 56% 69%
- Live polling: 15% 13% 15% 13% 11% 3%
What projects have you initiated to reduce or manage complexity?

Pick all that apply.

Remember to press "Send" after each selection.

- Periodic SKU rationalization (45%)
- Warehouse consolidation (39%)
- Other projects or initiatives (39%)
- One-time SKU rationalization project (29%)
- Packaging / promotion format harmonization (25%)
- Charging for customization (15%)
- Pushing customization downstream (13%)
What are the biggest barriers that limit your ability to manage complexity?

**Grocery manufacturers**
- Lack of internal alignment: 65%
- (Perception of) losing shelf space / sales: 58%
- Poor understanding of costs of complexity: 55%
- Lack of robust NPD gate-keeping: 23%

**Retailers**
- Lack of internal alignment: 50%
- (Perception of) losing shelf space / sales: 25%
- Poor understanding of costs of complexity: 67%
- Lack of robust NPD gate-keeping: 33%

Pick all that apply. Remember to press "Send" after each selection.

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Successful companies apply four key strategies

1. Gain internal alignment between Supply & Commercial

2. Quantify and understand incremental complexity costs

3. Only offer variety valued by consumers

4. Develop strong supplier-retailer alignment
How can the industry move ahead in collaboration?
Many barriers slow down progress in collaboration
Five stages of collaboration

**Process efficiency**
- Response to problems

**Basic effectiveness**
- Basic on-going collaboration
- Either deeper collaboration OR internal process

**Advanced effectiveness**
- Both deeper collaboration and internal process

**Joint value creation**
- One integrated Supply Chain

**End-to-end Supply Chain integration**
- One integrated Supply Chain

- One integrated Supply Chain
How has your level of collaboration with trade partners changed over the past 2 years?

- Increased: 67%
- Stayed the same: 29%
- Decreased: 5%
To what degree do you typically collaborate with trade partners?

- **Integrated end-to-end Supply Chain** scaled across strategic partners (4%)
- **Both sophisticated collaboration and robust internal process** (18%)
- **Either deeper collaboration (e.g., top-to-tops) or robust internal process** (31%)
- **Basic collaborative initiatives, e.g., VMI and collaboration on forecasting** (25%)
- Collaboration usually in **response to Supply Chain problems / basic EDI** (21%)
Interview responses: few manufacturers have progressed beyond advanced effectiveness

- **Basic effectiveness**
  - Basic on-going collaboration
  - Either deeper collaboration OR internal process

- **Advanced effectiveness**
  - Both deeper collaboration and internal process

- **Joint value creation**
  - One integrated Supply Chain

**Process efficiency**
- Response to problems

**Proportion of grocery manufacturers in each stage**

- Interviews
- Live polling

- **Joint value creation**
  - Interviews: 0%
  - Live polling: 3%

**The Boston Consulting Group**
What are your primary objectives in collaborating with trade partners?

<table>
<thead>
<tr>
<th>Grocery manufacturers</th>
<th>Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost savings</td>
<td>67%</td>
</tr>
<tr>
<td>Sales lift</td>
<td>64%</td>
</tr>
<tr>
<td>Improved relationships</td>
<td>58%</td>
</tr>
<tr>
<td>Improved forecasting</td>
<td>44%</td>
</tr>
<tr>
<td>Inventory reduction</td>
<td>42%</td>
</tr>
<tr>
<td>Reduction in out-of-stocks</td>
<td>39%</td>
</tr>
<tr>
<td>Improved lead times / speed to market</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>
Which collaborative initiatives have you implemented?

- Transportation optimization: 56%
- Supply Chain Top-to-Tops: 48%
- Optimize order quantities: 45%
- Share retailer scan data (POS): 44%
- Value stream mapping / opportunity identification process: 35%
- Joint forecasting with partners: 34%
- Share out-of-stock data: 31%
- Vendor-managed inventory (VMI): 24%

Pick all that apply.
Remember to press "Send" after each selection.

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What have you found to be the key enablers of successful collaboration with trade partners?

Pick the top three. Remember to press "Send" after each selection.
What have you found to be the biggest barriers to successful collaboration with trade partners?

**Grocery manufacturers**
- Difficulty quantifying savings: 41%
- Lack of trust with trade partners: 32%
- Under-resourcing: 32%
- Data & technology issues: 30%
- Difficulty scaling successes: 22%
- Difficulty sharing benefits: 14%
- Poor scorecard performance: 8%
- Poor alignment, leadership buy-in: 5%

**Retailers**
- Difficulty quantifying savings: 25%
- Lack of trust with trade partners: 17%
- Under-resourcing: 33%
- Data & technology issues: 67%
- Difficulty scaling successes: 0%
- Difficulty sharing benefits: 25%
- Poor scorecard performance: 0%
- Poor alignment, leadership buy-in: 33%

Pick the top three. Remember to press "Send" after each selection.
Successful companies apply four key strategies:

1. Trust
2. Senior leadership commitment
3. Structured process & governance
4. Mutual benefit
What is next?
Next steps and timeline

Supply chain and DSD surveys open until February 22nd

2012 GMA Supply Chain logistics benchmark report will be published in May

2012 Supply Chain Benchmark
Unlocking Value Through Complexity
Management and Collaboration
See how your Supply Chain stacks up

<table>
<thead>
<tr>
<th>Topics</th>
<th>Sample KPIs</th>
</tr>
</thead>
</table>
| Supply Chain profile    | • Top SC priorities  
                           | • Size of operations  
                           | • Outbound shipping method |
| Costs                   | • Cost / case  
                           | • Freight costs / mile |
| Service level           | • New products  
                           | • Spoilage / code date  
                           | • % sales / profit in bottom 25% of SKUs |
| Warehouse / Inventory   | • Pick rate  
                           | • Capacity utilization  
                           | • Inventory on hand  
                           | • Forecasting error |
| Portfolio complexity    | • New products  
                           | • Spoilage / code date  
                           | • % sales / profit in bottom 25% of SKUs |
| Collaboration           | • Collaboration activities |

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### Logistics costs as percentage of sales

- **Total logistics costs as % of 2012 sales**

- **Sample output page**

  - **Your company**

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Retailers … should we also include a retailer-focused benchmarking survey next year?

Yes. I would definitely participate

Yes, and I might participate

No, I am unlikely to participate

Retailers

45%

55%

0%
Thank you for participating!

To participate in the surveys or interviews please contact

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Special thanks to the GMA Oversight Committee

- **Kraig Adams**, VP Customer Solutions, Large Store North & South, Coca-Cola Refreshments
- **John Coyle**, VP Customer Supply Chain, WhiteWave Foods
- **Dennis Donelon**, Senior Director Customer Supply Chain Integration, PepsiCo
- **Timothy Fischer**, SVP Supply Chain, Bumble Bee Foods
- **Stuart Latta**, VP Customer Delivery Systems, Nestle USA (DSD)
- **John Phillips**, SVP Customer Supply Chain & Logistics, PepsiCo (DSD)
- **Jack Ryan**, Director of Customer Logistics, Nestle USA
Thank you