JANUARY 2021

Perfect Delivery: The New Rules for Survival, Innovation, and Growth

By Steve Banker

Customer loyalty begins with excellent service and timely delivery. Companies have come under pressure to unify their buying experience across channels, capture orders easily, and deliver them rapidly and accurately.

When it comes to gauging the loyalty of an organization's customer relationships, the Net Promoter Score survey typically represents best practice. NPS is correlated with revenue growth, and calculated based on responses to a single, simple question: How likely is it that you would recommend this company/product/service to a friend or colleague?

When a company's NPS score falls, it is not unusual for the organization to put in place a cross-functional team, sponsored by a high-level executive and tasked with discovering why the score has fallen--and then fixing the problem. All too often when these teams dig into the cause of the NPS decline, they hear, "I want you to ship and deliver what I ordered, when you said you would." When that is the case, companies begin the journey to improve on the perfect order metric.

Based on conversations with supply chain practitioners, here are some common learnings associated with such journeys:

- As supply chain complexity increases, perfect deliveries become more difficult.
- Improving on this metric will always involve a focus on people and processes, but often also includes implementing new, more robust, supply chain applications.
- The wrong metrics drive suboptimal behaviors; metrics can often be manipulated.
- Initially, it is not uncommon for logistics, which is at the end of the process, to be blamed for late deliveries. However, when the end-to-end order fulfillment process is decomposed and measured, it is frequently found that logistics is not performing that badly.

There is no point in achieving very high performance on the perfect order metric if your company loses money in the process. Achieving the perfect order requires tight supply chain orchestration across the extended supply chain; that is challenging enough. But doing this in a way the preserves margins makes this so much more difficult.

Achieving the perfect order is made difficult by stock keeping unit (SKU) proliferation and a trend to smaller and more frequent deliveries. Further, disruptions have become more commonplace; climate change has increased severe weather events, free trade is breaking down, and tariffs can increase in the blink of an eye. As we have learned, unexpected events, such as pandemics, can also wreak havoc on both supply chains and global economies. Traditional brick-and-mortar retailers, facing the relentless competition from the likes of Amazon's broad product selection and expedited deliveries, have responded by trying to turn stores into fulfillment assets and by developing other new ecommerce order flow paths. These omnichannel flow paths include order in store, ship to home; order online, pick up at store; and several other outbound and returns flow paths. These retailers have learned they need to have just one pool of inventory available to serve all channels and that they need sophisticated order orchestration capabilities.

While retail is undergoing a true supply chain revolution, the complexity associated with achieving perfect orders is not just limited to business-to-consumer (B2C) companies. Business-to-business companies have fundamentally changed how they manage their order-to-fulfill value chain. Many manufacturers and distributors are experiencing radical changes that impact both the selling and distributing of goods and customer loyalty.

Disruptors are emerging in the wholesale distribution industry. One new entrant ARC has studied grew to encompass over 70 distribution centers. In several ways, this distributor's business model is like Amazon's, only their primary focus is delivering to business customers rather than consumers.

Their supply strategy is built on three pillars: connect demand to supply in real time; ensure the right product is in the right place at the right location; deliver on time. Technology is an enabler in all three of these areas. Their supply chain starts with a consumer that needs a replacement product. That customer may go to retailers that range in size from Big Box retailers to Mom and Pop outlets. These retail outlets, in turn, order their products

from a variety of distributors. The distributors can carry 20 to 30 different brands from several different manufacturers. But there are tens of thousands of stock keeping units. This SKU proliferation makes it impossible for retail outlets to have all the products they might need on hand. Making on-site storage even more difficult is the fact that many of the products are bulky and take up a lot of space. SKU proliferation also makes it very difficult for distributors to economically carry the right inventory. Enter this disruptor with their use of digital technologies, the right physical infrastructure, and thus the ability to deliver a wide variety of products very quickly. This kind of transformative disruption is happening across many manufacturing and distribution industries. If it has not happened in your industry yet, beware—it's coming.

Order-to-Fulfillment Digital Technologies

Depending on a company's business strategy and technological maturity, there are many technologies that could play a role in delivering the perfect order. However, there is no doubt that for the order-to-fulfillment value chain, the most critical applications are order management orchestration, warehouse management, transportation management, and global trade management.

The perfect order starts with knowing, in real time and with very high accuracy, where the inventory is located or when the next production run is scheduled. At a minimum, companies need to know where their finished goods inventory resides. In many cases it requires visibility into both inbound and outbound inventory and production capacity.

A warehouse management system (WMS) ensures almost perfect inventory accuracy – often 99.9 percent and above - for inventory at rest. Transportation management systems (TMS) add the real time visibility to inventory in motion. A TMS maintains service levels by understanding the origin-to-destination lead times and using them as a constraint during the optimization run.

The main reason companies implement a TMS is for freight savings. ARC's research on the benefits associated with TMS shows they do garner significant freight cost reductions. However, most customers achieve more than savings, they also improve their service levels. It is worth mentioning that the highest freight savings ARC has encountered came from TMS solutions that included transportation network modeling as part of the solution.

The next step is orchestrating orders across channels and customers. Traditional, legacy order management systems in enterprise resource planning solutions lack the ability to deal with complexity caused with fulfilling orders across different customers with different service levels, different channels, and different omnichannel flow paths. Modern, cloud-based distributed order management (DOM) systems don't have the same constraints.

Having a GTM system is necessary for seamlessly delivering orders that cross borders. If a company's tariff information is inaccurate and customs documentation not properly submitted, shipments can be delayed with penalties imposed, and what looks like a profitable order can become a big loser. And like with TMS, a GTM solution can save companies money in a variety of ways.

However, as previously mentioned, perfect orders on their own are not enough. Companies also need to make profits. WMS, TMS, DOM, and GTM all contribute to reducing costs in different ways. The ROI ranges from good to great on these applications, and the ROI can increase when the applications collaborate effectively together.

From a technology perspective, applications can be on-premise, on-premise but supported with a cloud infrastructure, or they can be a public (multi-tenant) cloud solution. Public cloud solutions are the most advanced. Public cloud solutions are designed to be configured, not customized. And most public cloud customers buy these solutions because they understand how costly customization can be in terms of delaying payback and making operational flexibility more difficult to achieve.

More Resources

Above, we examined why perfect delivery is becoming more and more important, and outlined the core technologies needed to achieve this. This article is supported by three additional articles that go into more depth on these core technologies. These articles include: Seamless Order Orchestration: Simplifying and Delivering Orders; Adaptive Logistics: Overcome Disruptions and Exceed Expectations; and Global Trade Compliance: Ensure Perfect Delivery through Minimized Delays, Costs, and Trade Risk.