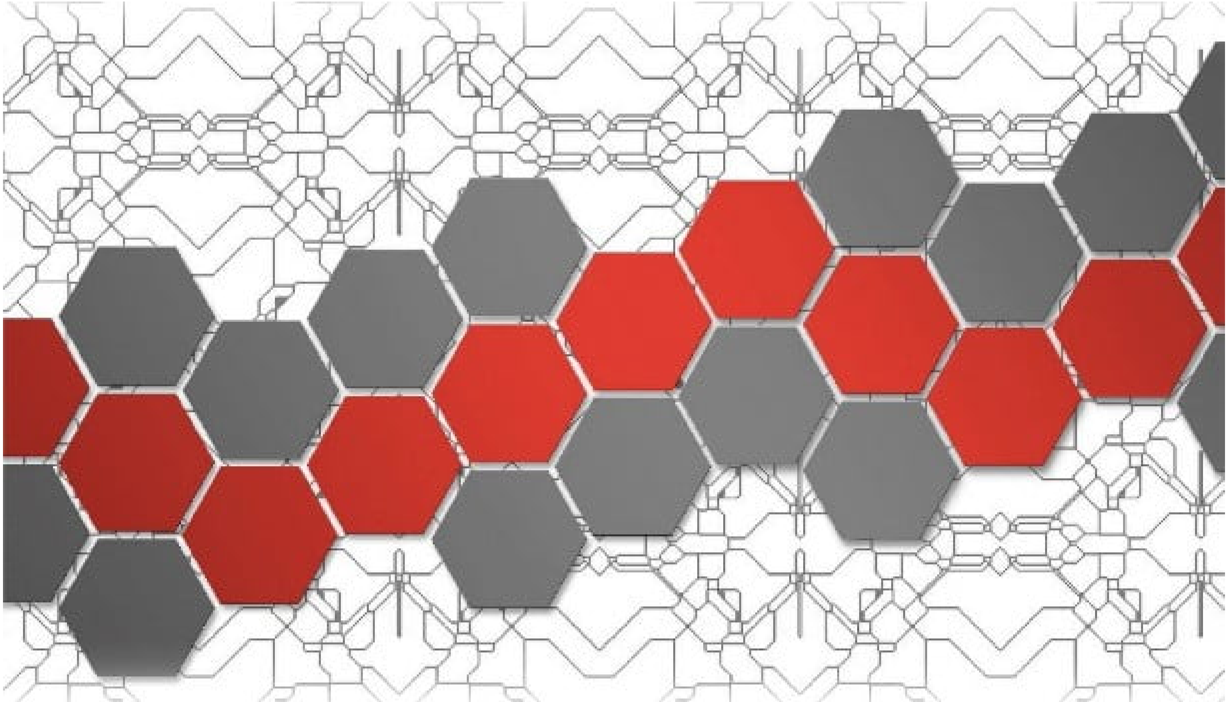
Supply Chain Reinvention



Supply Chain Reinvention

Digital Commerce – Realizing the Profit Potential

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INTRODUCTION

The rapidly expanding “Digital Age” is impacting all companies, regardless of their industry, geography, product lines or customer markets .

Online sales are growing daily, with consumers making an estimated 18% or more purchases online in 2019 and business-to-business (B2B) online orders totaling more than 20%-with some B2B companies exceeding 75%-of total sales.

The trend of increasing sales can be largely attributed to major disruptors like Amazon, which have led the digital commerce revolution by offering all customers-consumer, business or industrial-a vast product selection, low prices and rapid shipping. This has resulted in new shopping behaviors and trends that are driving customer expectations to an all-time high and forcing all companies- retailers, wholesalers, distributors, manufacturers and logistics providers-to react quickly and significantly.

> *Traditional business practices and operations are no longer enough to satisfy customers. Winning-and even surviving-in this new customer-centric world requires every company*

to reinvent its objectives, approaches, methods and mindsets.

Digital commerce is a broad topic. Defined effectively, it includes everything a company does- both internally and with trading partners-to transact business and/or collaborate on services using electronic means. From the supply chain perspective, it impacts all the mega processes- PLAN, BUY, MAKE, MOVE, DISTRIBUTE AND SELL. For the purpose of this paper, we will focus on the part of digital commerce that is fundamental for selling products through all appropriate channels (a method we refer to as "sell anywhere") and distributing them to all customers possible (or "operate anywhere").

This paper is designed to help executives understand the compelling need for digital commerce and successfully navigate its strategies, potentials and benefits. It explores the new customer and market trends, provides a step-by-step guide for implementing new supply chain strategies and showcases one company's successful reinvention. The expectation is the in-depth coverage will result in an executive call-to-action and roadmap to profitable growth.

PART ONE

PLANNING NEW STRATEGIES
FOR THE NEW CUSTOMER BEHAVIORS

THE NEW CUSTOMER BEHAVIORS AND THEIR IMPACTS

The new world of customer buying behaviors has fundamentally changed the pace of decision making. The expanded customer options have at times created a stronghold on traditional processes, where time was not of the essence. This has foundationally changed the thinking pattern of today's customers. In a relatively brief period, the majority of customers have gone from being loyal to retailers to now being loyal to products.

Customers have not lost a connection to brands, but have become more cost- conscious, using online searches to find what they want, when they want it and at a price they want to pay for it. The scope of sales channels has expanded from purely brick-and- mortar shops to new types of stores, marketplaces, kiosks and online platforms.

This major change has been intensified by improved services made available online, personalized marketing and smart companies that focus on the customer experience (CX). Customers continue to value free shipping, ease of returns and rapid and accurate deliveries all completed with competitive pricing. So how effective is your company at achieving a high CX?

The impacts of these changes have caused considerable cost increases and order delays. Investing in change is critical to enhance your competitive position and fend off the looming pace of retail bankruptcies and store closures that accelerated in 2019 and is expected to continue in 2020. Several well-known retail brands filed for bankruptcies and more than 9,000 stores closed in 2019.

The loss of retailer loyalty and changing customer preferences have led to many unprofitable e-commerce operations. Some surveys have estimated that 90% of e-commerce operations are unprofitable, when evaluating all costs to serve, including returns and fraud, for example.

Further, the impacts on businesses are widespread. The "Amazon Effect" has caused many of the disruptions, as companies either lose sales, brand equity and customer interactions due to the overwhelming success of Amazon. At the same time, labor shortages have created an unprecedented growth in robotics and other automation in distribution and fulfillment centers, as well as in factories, where speed to market has become the primary objective.

With the expansion of sales channels comes a more complex operation that requires new systems capable of dealing with the added complexities. Critical business issues such as inventory allocations for distributed order management and multiple channel management require automated handling. There is no industry interacting with digital commerce where the impacts of the new customer behaviors are not profound.

THE CHALLENGES FOR MOST COMPANIES

Forbes recently reported that a majority of executives agreed that achieving growth has become tougher in light of changing customer patterns. Of those facing difficulties, 47% said that a primary challenge is meeting consumer expectations, even as they describe the current economic environment as “business friendly” and “robust.” The primary challenges are changing customer patterns, internal pressures toward increasing efficiencies and reacting to the market instead of anticipating customers’ needs-or unmet needs-and delighting them with original ideas.

This widespread view of business is the result of challenges that exist in most all companies. To illustrate this point, we identified several issues typically encountered by many teams:

- **Understanding and recognition.** Many executives struggle with fully comprehending the impacts of the new customer behaviors. When e-commerce sales grow, for example, the team assumes the sales will be supported without undergoing significant business model changes. This is often justified using the logic that the cost of doing nothing does not exceed the investments needed to reinvent themselves.

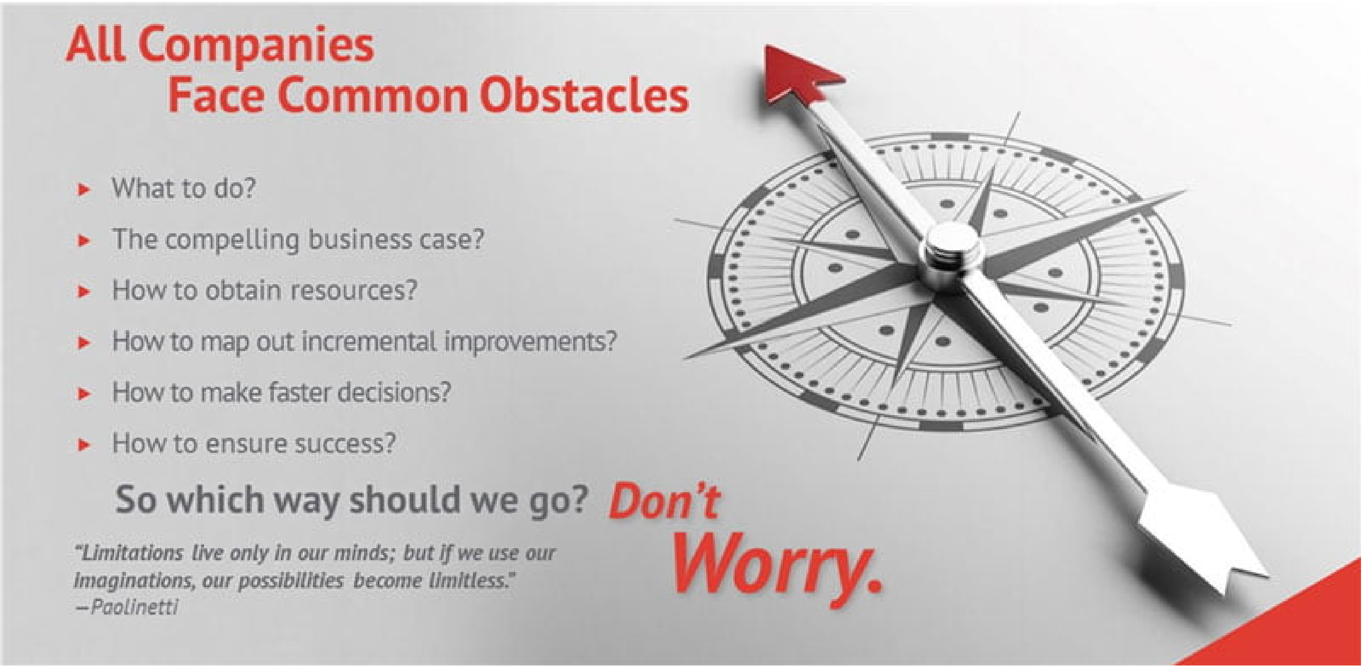
- **Culture and decision-making processes.** Change is hard for businesses with years of successful operations. To this end, the team is often comfortable in their relative positions. For example, consumer packaged goods (CPG) companies that have grown with brick-and- mortar retailers argue against starting their own direct-to-consumer (D2C) operations as conflicting with their retailers, and their cultures typically reinforce the argument.

- **Lack of confidence in knowing what to do.** The old adage, “if you are not moving forward, you are moving backward,” is never more true than it is today. This position does indeed carry with it a major challenge of digital commerce knowledge, talent and skills to ascertain insights into customer preferences and future trends. The high cost of ineffective strategies or business models presents two high risks: 1) that the business model will address "yesterday's needs" and thus be outdated before it is implemented and 2) that the company will become "stuck" in its transformation to digital commerce.

- **Spinning wheels on digitalization.** Reinvention is challenging, and people, processes and technologies are often misaligned such that progress is stymied and planned dates are missed. There are several examples of this challenge discussed in the media, where well-known brands are delayed in achieving the new performance levels promised by the business case and ROI.

The collective effort of change is often challenging enough that it hinders reinvention. Alternatively, when projects are initiated to address these issues, they are often misplanned from the start; limit their senior executives' commitments; require "pilots" that take additional time and are frequently measured by the wrong KPIs or simply in misleading terms; and, just as with any transformation, are bogged down in details and unclear objectives.

OVERCOMING THE OBSTACLES



Harnessing the winds of change requires a clear, planned program to drive change. Analogous to the creation of a building, having a blueprint of the end design ensures a strong foundation is planned from which to build. The fundamentals are many and broad-based, but the most important include the following:

- **Obsessive and compulsive focus on the customer.** This principle, stated by Jeff Bezos, has been the cornerstone of Amazon's over-whelming success over the past several years. While virtually all company executives commit to “putting the customer first,” only a select few actually live it the way the Bezos’ quote implies. This is the BEST starting point for overcoming the obstacles. By creating a constant conversation with their customers-through social media, product reviews, etc.- their needs become automatically apparent. In the end, customer-focused organizations proactively respond to changing customer requirements.

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    Digital commerce is the future. Obviously, digitalization is gaining traction in all industries. Several companies have started with a digital transformation of their supply chains, which yield valuable lessons for other business processes. In order to overcome the obstacles, it is imperative that senior management believe in-and commit to-digital commerce as the way of the future.

- **Risk aversion can be managed.** There are always risks when a company commits to serious change, but these risks can be managed. By identifying the right risks, the team can plan a mitigation strategy. The key is to move forward even when the next move is not clear. “Trial and error” digital transformations provide valuable learning to plan the next move. By using clear KPIs, the team can get special advance warnings so that adjustments are made in a timely manner.

- **Knowing what to do is the content step.** By doing a comprehensive review of your current approach with a comparative eye to your competitors, the team can clearly identify any gaps. The approach should involve teams-and consider consultants to avoid institutional bias-that assess strategy, people, processes, technologies and assets, as well as data availability, to enable quick, effective decision making. It answers the basic questions that arise around capabilities, skills and commitments.

- **Planning and execution require talent, executive commitment and persistence.**

A recent article asked, "Given the number of digital solutions capable of transforming and improving supply chain operations, why are so many companies spinning their wheels instead of driving forward?" The many possible responses start with poor planning, weak or incomplete roadmaps and non-integrated business processes. The "knowing what to do" step mentioned above points out gaps in the current state; however, inadequate or unclear strategies and goals, as well as the uncertainties of customer behaviors, adversely affect progress.

- **The overcoming of obstacles is often complex and challenging.** Knowledge and experience, and applications of the right tools, can help companies penetrate the barriers to change and skepticism of many managers and staff. The alternative to identifying the company's critical obstacles and applying smart methods and tools to manage them is to risk far more serious results; "doing nothing" or "doing the wrong things the wrong ways" leads to higher costs, revenue losses or worse.

EXAMPLE PLANNING AND ROADMAP GUIDELINES FOR SUCCESSFUL DIGITAL COMMERCE

At Tompkins International, we have a methodology for planning and designing the right roadmaps for the right companies. While the major steps are common to all with the goal of achieving digital commerce success, the methods, tools and techniques vary with the company's current state assessment and its cultures, talents and past experiences with major change programs.

We have adopted an eight-step program for achieving digital commerce success, and thus the profitable growth that most companies seek.

The initial step, following the current state assessment, involves challenging the current business strategy by enhancing it with digital commerce tools and techniques. Business models die, brands do not! This principle recognizes the power of the company's brands, which need a sound strategy for merchandising and selling in the new digital world.

The strategy must answer five main questions:

1. What do we want the company to be and do in 2-3 years?

2. What should we do to bring delight to our customers?

3. What strategies need to be defined to implement a comprehensive digital strategy?

4. What will be our competitive advantages with providing services such as:

    - “Sell anywhere with smarter logistics”
    - Superior and optimal supply chains
    - Agile automation

5. What technologies are needed to plan and manage business complexity?

6. What product assortment gaps exist today?

The new digital commerce strategy must value the speed of disruption and change. Strategies must be developed to adapt to industry changes by disruptions, trends and innovations. Effective strategy today is a process that serves as the starting point for commerce, logistics and technology. It works to resolve strategic choices and set measurable goals.

It is imperative that a change in strategy stirs up organizational discomfort which typically raises resistance. Failing to recognize this phenomenon will cause delays and/or resistance that hinder progress. Many reinventions are initiated without concern about these factors and, thus, get stuck somewhere in the process. This is another explanation of why so many companies do not succeed in meeting their planned timelines and milestones.

Once armed with a clear strategy, companies can then focus on the operational issues that must be addressed. These steps require similar thinking, evaluations, choices and adequate guidelines so as to identify the objectives, measure progress and know when the results achieve said objectives. Timelines must be continually set and reset to reflect the need for speed and urgencies, while ensuring effective progress and change.

In the end, profitable growth is the only goal for a digital commerce reinvention. This can be accomplished by both sale price optimization and cost reduction. Cost reduction-long the favorite with management for reengineering their supply chains-has given way to profitability planning. This requires an understanding of price elasticity, product life cycle planning and demand planning.

Revenue expansion can be achieved through the optimal use of capital expenditures (e.g. sites, equipment, inventory, etc.). Value creation should be the predominant goal, and profitable growth is the best measurement of exemplary performance toward this mission.

PART TWO

IMPLEMENTING NEW STRATEGIES FOR THE NEW CUSTOMER BEHAVIORS

GETTING STARTED

Implementing a new strategy and roadmap can be complex and challenging. We often find companies “stuck” in one of the eight steps, as they struggle with differing opinions, contradictory understandings, decision making and change.

Our solution approach is aligned around six business units. In each business unit, we deliver four core competencies:

- **Strategy:** What should our business and operating strategies look like?
- **Commerce:** How do we want to do business commerce?
- **Logistics:** What superior logistics do we need?
- **Technology:** What technologies will best enable our strategies?

In the following section, each step of our eight-step program is reviewed and summarized in terms of information and suggestions for implementing a digital commerce reinvention. The roadmap determined in Step 1-which is based on the new digital commerce strategy for the particular company-defines the steps and their sequence, simultaneous tasks and the timing and resources anticipated for each step to achieve the strategy.

STEP 1:FORMULATE A NEW COMMERCE STRATEGY AND ROADMAP

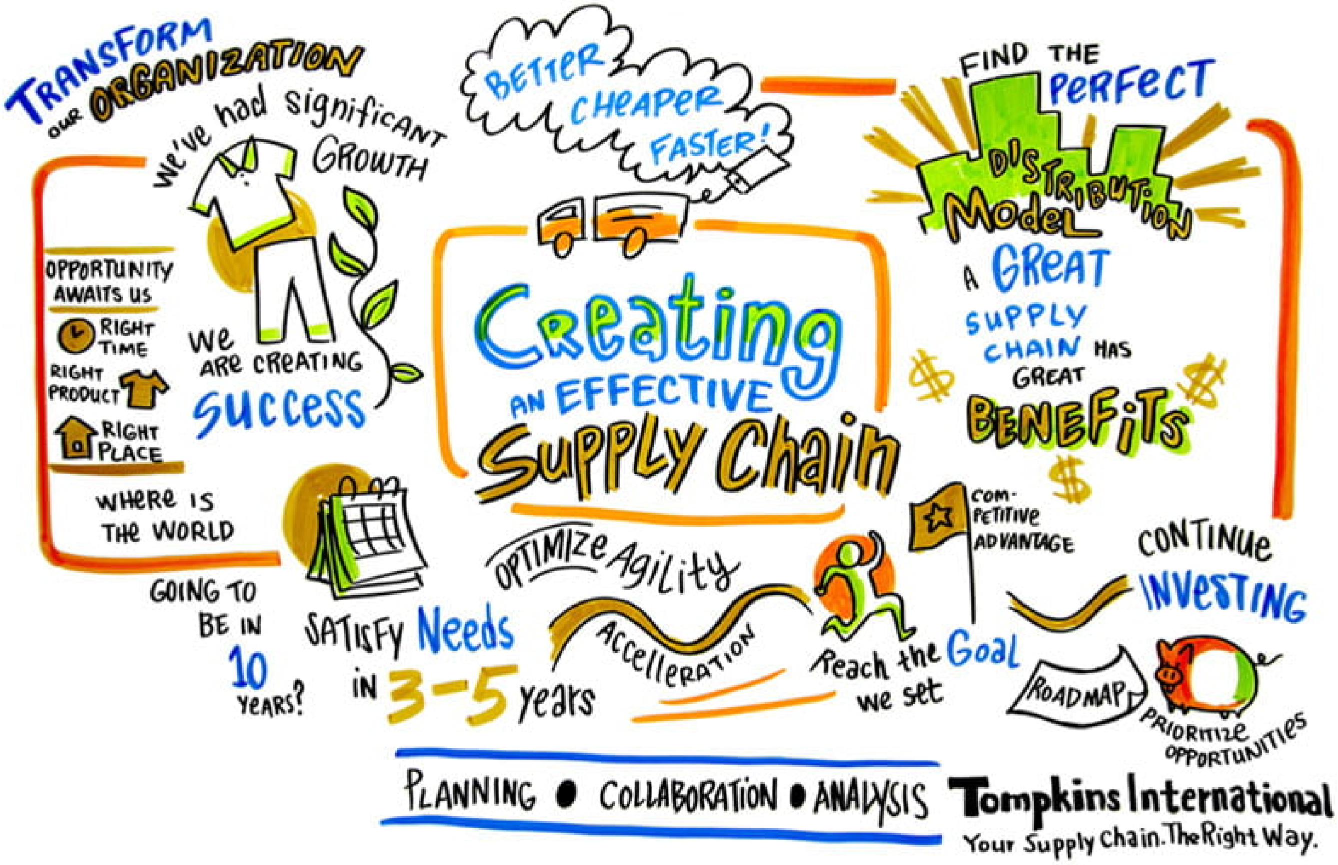
As introduced earlier in this paper, developing strategies in the new digital commerce world requires a very different mindset-one that understands and values the speed of disruption and change, and the absolute need for flexibility and options. It also requires the total commitment to the CX. We discussed the critical importance of laser-focusing on the new customer behaviors.

Value of the Brand: Developing a strategy for the CX with D2C as an implementing channel, however, involves much more than simply establishing a website for the brand. The new strategy must cover each stage of the customer journey-from acquisition to selling to delivery (and returns). Yet, the future is even less predictable than in traditional business planning, and the differences between business strategies (goals) and operating strategies (capabilities) are more pronounced.

Customer Identification: To meet the needs of your customers, they must first be precisely defined. Ensuring you know your target audience sets the tone for product assortment, marketing and price points decision making. Ignoring this critical stage often renders the rest of the business planning and positioning efforts ineffective.

Social Media Management: Customers want to be engaged on a regular basis, and not just as a one-time strategy. They may change their preferences often, and not just by season. Social media and other sources of information create "opportunities" for customers to explore and possibly change products and sites. This key factor makes the new commerce strategy even more dynamic as a requirement. Knowing your customers and their behaviors is a constant requirement, which places new types of pressures on strategy development and ongoing execution.

We make use of a special method referred to as the "Accelerated Solution Workshop" (ASW), which engages the executive team and cross-functional team leaders in a special two-day event that leverages group genius. These results are then captured and illustrated visually in real-time, similar to the example shown below.



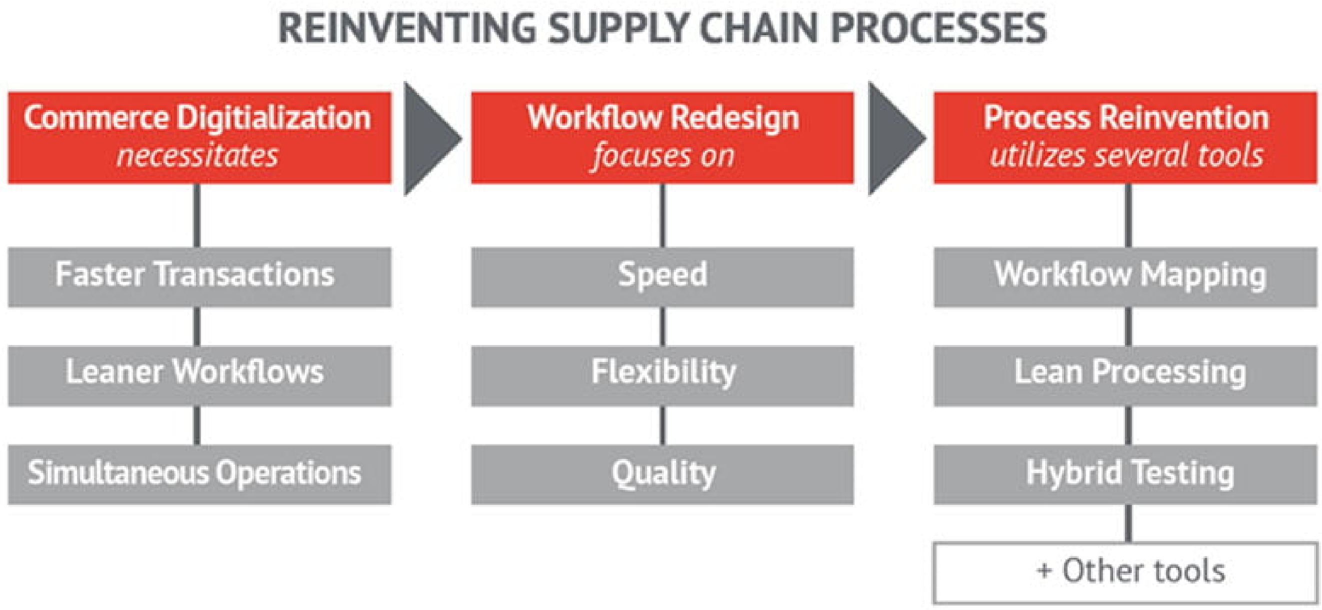
We also use techniques such as strategy maps to best align the vision, strategic alternatives, goals and suggested initiatives. This method facilitates the development of the roadmap, which defines the initiatives and steps to achieve the desired future state for digital commerce.

STEP 2: REINVENT YOUR SUPPLY CHAIN PROCESSES

The next step in reinvention is concerned with the operational processes of the company. Traditional workflows dealt with e-commerce as a separate organization, which led to ineffective and inefficient supply chains. Digitalization of commerce involves faster transactions, faster business positioning, leaner workflows and seamless integration of these new channels.

Those companies that have used the Supply Chain Operations Reference (SCOR) model to create process designs will need to reassess several for their digitalization readiness. As with strategy

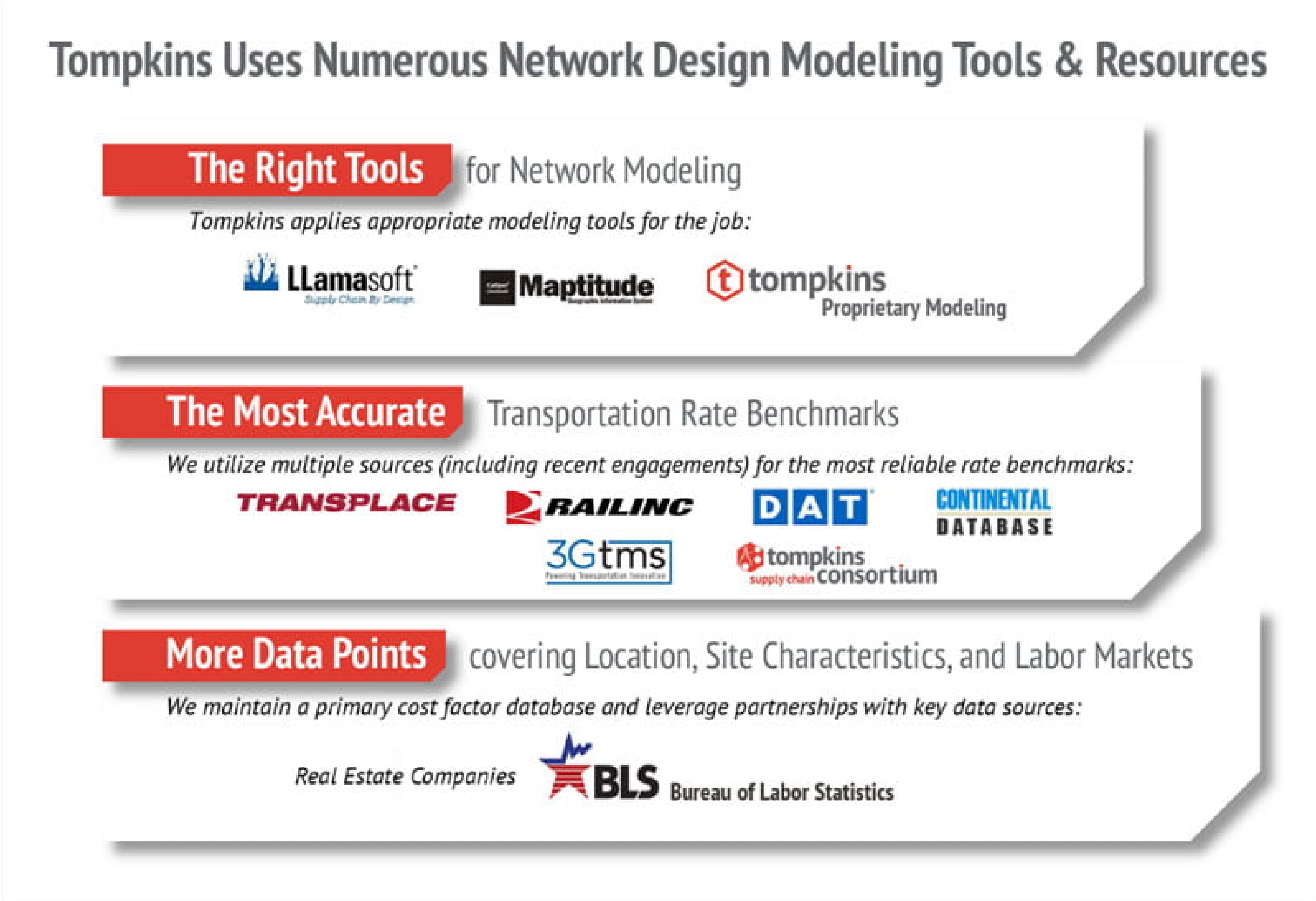
maps, workflows need to be redesigned and often repositioned to accommodate speed and flexibility while assuring quality and also raising the bar on services.



Process reinvention requires similar tools that have been used in recent years with traditional processes, such as workflow mapping, root cause analysis, lean processing and hybrid testing, for example. The difference is that for digital commerce they bring with them new risks (e.g. data security, fraud detection, real-time inventory management, real-time price management, order routing, etc.) that may not exist in many of today’s businesses.

STEP 3:REDEFINE YOUR LOGISTICS NETWORK

Today’s shoppers present themselves where they live. Unlike traditional retail that collect this demand into hubs (i.e. stores), today’s networks must respond to an uncertain demand configuration and deliver the demanded products quickly and cost effectively. Traditional pool point and/or hub and spoke techniques with fixed demand have been replaced with a variable demand world able to respond on-call as needed.



With an expanded reach zone, networks of facilities are being formed to provide deliveries within hours of purchasing. This phenomenon is called distributed order management and relies on a network of sites with the speed, flexibility and agility of the distribution of goods (and services) in closer proximity to the customer base.

In conducting network designs for companies in the digital era, we make use of several tools, as illustrated at right.

STEP 4:SELL ANYWHERE

Traditional retail used the store as the primary sales channel for customers. In the new digital world, customers are now visiting websites and social media to discuss products and services they like (or dislike). This phenomenon requires businesses to adapt by offering their goods and services where their customers are.

The digital commerce strategy then requires that companies sell their products on more than one marketplace or website, regardless of how popular that site may be- even Amazon, for example. Companies should offer their products “anywhere” within reason: marketplaces, select websites, sales channels, retail stores and any other platforms that increase their target audience and potential sales.

Recent years have provided the optimal environment for consumers, where they can shop for the best product, price and delivery time right at their fingertips. With this freedom, today’s customers tend to browse and compare products and pricing across different sites. Certain customers have preferred sites for the category, brand or style, and we want to reach as many potential buyers as possible.

At Tompkins International, we collaborate with partners that assist in the process from marketing approach development to the last mile delivery of goods to consumers. Our collective partners have a wide range of expertise in many industries and applications to help you develop leading websites, “endless aisles” and high-performing marketing teams for selling anywhere.

STEP 5:MANAGE YOUR CHANNELS

As sales strategies evolve to reach customers where they shop, multiple channel management has become a business headache. Our partner providers employ information management and standardization practices to collect product information, create standard templates for channel release and manage the listing and delisting of products based on inventory availability.

The Tompkins Digital Platform integrates this functionality into a single user experience where the tedious processes can be managed as one stream of work with all required data elements available for quick decision making.

STEP 6:OUTSOURCE FULFILLMENT OPERATIONS

With the CX now at the execution phase, selecting the right fulfillment partner is a critical decision in delivering on the sales promise. Just as the process of logistics outsourcing requires evaluating capabilities, culture fit and alignment with the company strategy, so does the selection process for the right fulfillment service provider.

As with any distribution operation, there are critical aspects that should be understood and planned for, including:

- Peak/Average Flow Requirements
- Value Added Service Requirements
- IT Infrastructure

- Labor Flexibility
- Space Flexibility
- Material Handling Techniques
- Order to Ship Timeframe

There are subtle differences, however, in logistics outsourcing and fulfillment services. The flexibility and agility required by fulfillment services are more important, as are thought leadership and “trusted advisor” potential. Digital commerce fulfillment is new and more challenging; thus, the service partner should be advising the company as much as it is fulfilling and delivering orders. Service pricing is important, but companies should value service at least equally in accordance with the digital commerce strategy and its intended competitive advantages.

The ability of the fulfillment partner to grow with the company-in locations as well as volumes- is a critical success factor. In summary, we are delivering a solution that connects “sell anywhere” with “operate anywhere.”

STEP 7:UTILIZE ROBOTICS AND AUTOMATION

On a regular basis, there is industry dialogue concerning the labor shortage in the warehouse space. As labor becomes more scarce, the cost of available associates continues to rise to fill critical jobs. This trend is projected to continue, and therefore companies must leverage automation to minimize the increasing labor costs.

Along with cost reduction, automation and robotics increase speed, productivity, affordability and quality. The fulfillment partner should have the basic level of robotics as an inherent capability, and the company might want to augment this depending on volumes, types of products and speed. Robotics will also address concerns around the availability of trained labor.

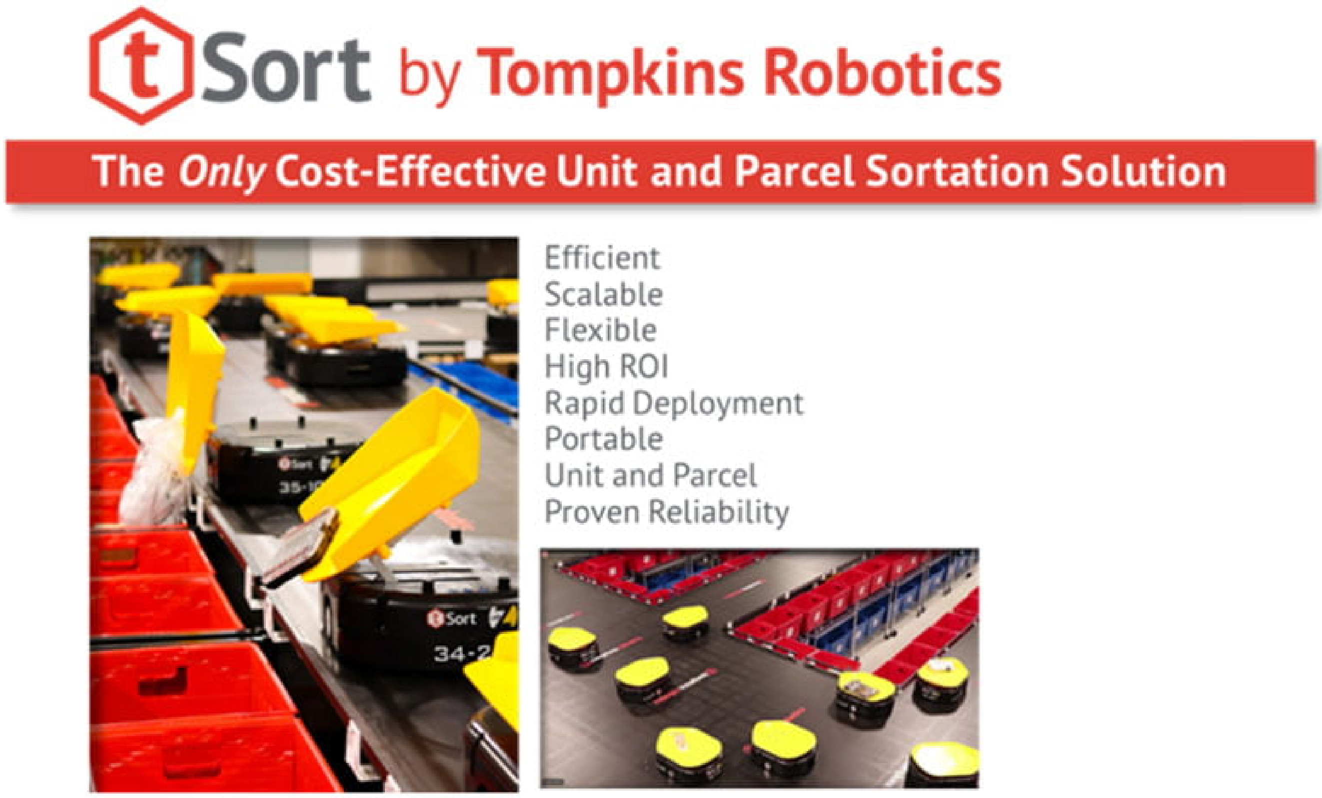


Figure 1: Watch our solutions in action @ Tompkins Robotics t-Sort and t-Sort Plus on our website

The t-Sort solution by Tompkins Robotics is helpful in supporting fulfillment with a high units-per-order content and provides a flexible, variable route sortation solution to manage complex order picking requirements. This scalable system easily manages the "each" pick complexity while enabling efficient item selection for induction. With a modular approach, the solution capacity can be increased or decreased instantaneously.

STEP 8:GROW PROFITABLY

Steps 1-7 implement digital commerce reinvention for the company. This will position the business with an operating model that has the capabilities to perform at high levels and grow profitably.

Profitable growth, however, does not occur automatically-it must be managed. This starts with the customer and continues with updates to meet (and, in some cases, exceed) the new customer behaviors and journey. The CX discussed earlier begins with their thinking and travels through to delivery for each order. Customer needs, therefore, fall into any of the following six categories, as suggested by Google:

1. Surprise me

2. Help me

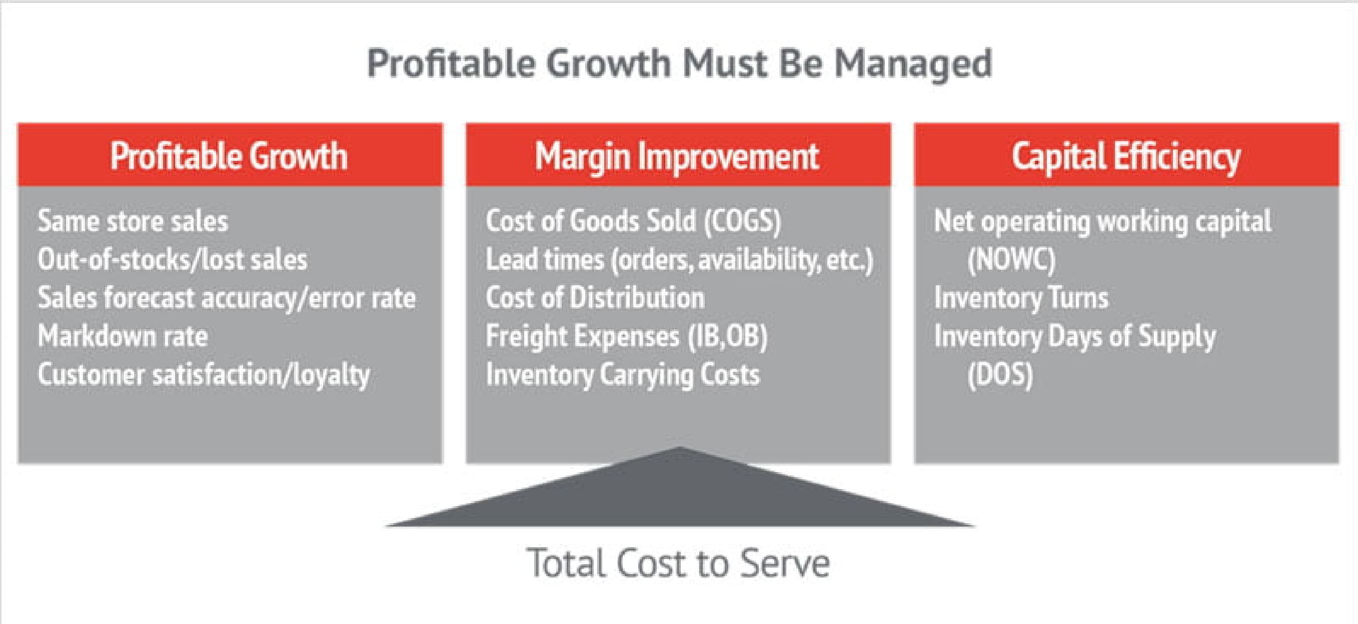
3. Reassure me

4. Educate me

5. Impress me

6. Thrill me

Searches are driven by needs, and orders are influenced by the searches, the customer's experience with the brand and the brand's ability to meet their needs. The CX, in turn, represents the customer supply chain that must be fulfilled.



We recognize that companies are struggling with developing or implementing winning strategies for digital commerce. Profitable growth comes from the right strategy, implementation and management. One of the requirements for the right management is how quick and adaptable the company is in adjusting their digital strategy. Agility is the action term that characterizes successful profitable growth, which is achieved first by allocating adequate capital and talented resources, and second by redefining how performance is measured. New metrics are needed for profitable growth in the digital world, rather than the traditional measures such as market share or sales by retailer, for example.

As discussed earlier, implementing the eight-step program should be tailored to the company as it redefines its strategy and builds its roadmap. Deploying a new strategy for digital commerce reinvention should not require more than six months for most companies.

Introducing and integrating new technologies may require an additional three months depending on the degree of complexity of new systems. The speed of digital commerce both requires and permits rapid progress. Companies no longer need to endure 18 or more months to implement new business processes and systems.

PART THREE

A CASE STUDY

INCLUDING D2C TO IMPROVE REVENUES

This case study is about a multinational consumer goods business that was looking to expand its sales strategy to include a D2C channel in hopes of increasing revenues. To date, they had been using traditional sales channels (e.g. retail, distributors, wholesalers and remarketers) and were experiencing flat revenues. Their current supply chain was bulk based, whereby they moved cartons and pallets of product to their sales partners. They recognized that digital commerce was a strategic shift to “eaches,” which would require significant operational changes.

The company was concerned about causing “channel conflict,” but knew that customers were changing their buying behaviors, and the market was requiring speed and multichannel sales. They also recognized that the expansion to D2C was straining their operational capabilities.

Tompkins was engaged to help them understand what strategy, supply chain, business process, systems and customer service changes would need to be reengineered. Their senior management team was also aware that they needed to alter the business culture. We helped them understand that reinvention was necessary and challenging, and that a structured program was the best approach to achieve their goals.

APPROACH

We utilized the Tompkins eight-step program described earlier in this paper that aligns critical resources (people and capital) to develop and deliver optimal business performance. The company needed to move from a bulk, 9-5-based world to a very dynamic 24/7 world, where orders were individual and for smaller quantities.

We initially assessed the current strategy and culture for its readiness to design a D2C channel. Scenarios of operational activities (e.g. supply chain design, fulfillment strategies, delivery requirements) were designed to establish how the business should go to market. With this understanding, the team broke down the high-level strategy into more detailed process maps to better understand critical handoffs, alignments and success factors to efficiently operate in the market.

To jump start the strategic organizational alignment process, we engaged the greater organization using our ASW method. This facilitated group workshop involves a strategic discussion with a cross-functional team where all speak candidly and openly about the process and strategy concerns and the team works through how to solve them. At the conclusion of the two-day meeting, the company was left with a clear alignment of strategies, goals and next steps to lead the implementation of the new digital commerce strategy. In effect, a roadmap was created to guide the work and timebox its development.

The roadmap called for implementation teams on critical areas. For example, one team focused on the essential information and requisite systems to manage the increased complexity. This team defined additional solution requirements, the implementation schedule and the robust data management needed. Each team provided the critical KPIs required to monitor its success, and these were integrated into an executive dashboard for monitoring progress.

OUR SOLUTION PROGRAM

Below we discuss the considerations involved in each step of Tompkins' eight-step program, the adjustments we made to adapt the program to the company and the salient points that were defined and resolved.

The team started with what they believed were the company's customer requirements (needs). As changes were defined, we stepped back to ensure the underlying need was resolved and if not, we developed an alternative more suited for the company's products and changing customers. This iterative step is critical in a rapidly evolving digital commerce world.

1. **Business Strategy**

   When many people think about a business strategy, they envision detailed financial modeling of plans. However, what is needed more-in addition to corporate goals-is the operations strategy which will enable the goals to be met. This involves defining the necessary capabilities in order to achieve the designed end state.

   We applied a five-step process to develop the company strategy. The management discussions were facilitated using facts rather than perceptions. If a perception was raised, it was put on a parking lot page and not allowed into the conversation until facts could be provided to substantiate the statement or issue.

   Major projects of this type require time and effort. As the company managed the ongoing business, Tompkins played a significant role in collecting the base information to support the discussion. We interviewed key players to learn their concerns and then evaluated and assimilated critical data to substantiate facts and facilitate an abbreviated yet holistic team alignment. We also conducted a competitive benchmark analysis to understand the pricing, products and positioning within the company's target market.

   We planned and facilitated our ASW process. This included a two-day meeting where senior leaders from the cross-functional teams addressed relevant issues and collaborated on solutions. The goal was to create a clear, collective strategy for digital commerce and a roadmap for the reinvention. As facilitators and industry experts, we led, challenged and contributed as appropriate, and the entire session was also summarized graphically, similar to the example shown here, to help put the strategy in perspective.

2. **Customer Clarification**

   Clearly defining its target customers enables a business to identify and leverage the preferences and behaviors of each customer group to drive sales and demand among those audiences. For example, younger shoppers may value the ability to shop 24/7 and receive next-day delivery while an older consumer may place a higher value on special packaging or gift notes. Understanding your customer value proposition is necessary to remain competitive in today's customer-centric environment. Losing sight of the things your customers want and value is the first sign that you are losing traction in the market.

   This company's customers desired same- and next-day delivery. They wanted their products quickly because of urgent needs, and also appreciated the ease of finding new products and understanding their unique features. They valued the endless aisle experience and required that order issues were handled online and efficiently.

   Tompkins also identified additional product groups that were once considered brand desirable only but were now attractive to younger customers in non-branded offerings. The team uncovered private label opportunities that were once considered sacred. This helps in rounding out the assortment with more profitable goods.

3. 

   Sales Channel Management

   Selling across multiple channels requires the use of a strong channel management process. A well-developed strategy standardizes the data management process, where critical data of each channel can be viewed and updated through a single platform within minutes.

   The company had not thought through the data issues for digital commerce. Data management had evolved over time and many staff members were involved in the order resolution process. However, as their online presence expanded, order fraud began to creep in, requiring the need for improved risk controls.

   By developing a standard data process and utilizing the Tompkins Digital Platform, the team was able to expand their digital footprint and increase their sales, with 25% less staff and a more than 20% reduction in customer complaints and issues. By using process documentation techniques, we effectively reinvented their process and put them on a pathway for considerable expansion and growth.

4. **Sourcing and Product Categories**

   Once the target customers were defined, along with their changing behaviors and preferred marketing channels, the focus turned to the categories and products that should be offered online. We examined the company's current selection, recent buying trends and competitor offerings and identified three critical factors: the sale price of items offered by category, the critical features that customers desire and the source price for these goods.

By collecting products and their selling locations into a meaningful hierarchy, Tompkins was able to define revenue and margin targets. Initial demand profiles and costs per unit were applied to understand category targets. By using statistical methodologies, initial views were vetted against performance data.

Specific items and assortments were layered in to determine the demand and profit from product categories. The objective was to identify competitive gaps in the offering and unproductive assortment elements that should be pruned. With a detailed view of target profitability, the units needed to deliver the projected performance and timing of the demand, we could then drive the sourcing process.

Prior to our engagement, the company had not looked outside of their own business to evaluate the strengths and weaknesses of their product offerings. The Tompkins team introduced margin analysis and sell through ideas to manage the units for demand optimization. Early signals were identified so that “hot” items could be landed in time to support seasonal selling.

As a result of our coaching, seasonal markdowns were reduced by 10% and the end of season pack-out processes were eliminated. Overall sales increased by reading the early demand signals and taking aggressive action to push slow movers with a sizable first price change. The business “cleared the shelves” more effectively at the end of each season, resulting in a significant increase in customer satisfaction.

5. **Supply Chain Design**

   Developing the right strategic supply chain network is paramount to controlling rising costs and delivering on the increasing customer service needs. We applied the best network modeling tools in order to balance fulfillment costs with transportation costs (inbound and delivery) while providing the lowest operating cost network of distribution and fulfillment centers.

   The traditional hub and spoke network design cannot keep pace with the increasing demand for same- and next-day delivery and agile stocking plans. As service demands increase, a distributed logistics network is critical to deliver on time, on budget and without waste in today's market.

   When designing the network, there are two unique requirements to address: fast moving, high demand goods and slower moving items. The network must take each product type into account and manage them efficiently and effectively. Customers want certain items fast, so these products must be held locally. Conversely, customers generally accept longer delivery times for large and/or slower moving goods.

   To mitigate the costs of slower moving items, we reduced the number of sites and kept these in a consolidated location, which supported inventory control. Other considerations around site design included: (a) demand dispersion, (b) inbound points and deconsolidation requirements, (c) importation activities, (d) outbound international requirements and (e) future business expansion and focus strategies. The ultimate network design had to bring the art and science together to enable the optimal solution.

   We applied Llamasoft Network Design models to evaluate different scenarios based on site locations, inventory levels and fulfillment costs. We also applied support tools for freight rates, real estate costs and other related factors.

6. **Fulfillment Strategy**

   Historically, supply chain networks have been developed using fixed store locations as the basis for defining distribution site selections. As more and more of the delivery costs become variable in nature (as a result of digital commerce), changing the planning and supply chain approach is critical to successfully manage costs and consider new services. Developing a flexible distribution strategy that constantly evaluates the right ship point to minimize cost is critical in today's era. Also, a constantly dynamic inventory planning model is important to maintain high service levels with lower delivery costs.

   Third-party logistics providers (3PLs) have evolved by moving pallets and cartons through the supply chain efficiently and effectively. The new digital commerce requirements, however, have strained their volume-based capabilities. That issue-plus the tight labor markets-have called for automation and new technologies to be deployed. At Tompkins International, we provide sortation robotics systems that are rapidly catching on with high- volume operations. Thus, we merge picking, sorting and packaging processes to increase fulfillment efficiency for digital commerce operations.

Our fulfillment solution involves partnering with the right 3PLs to deliver the right distributed logistics solution for the company. We also evaluate automation (e.g. autostore, a-frames, carousels, etc.) for the fulfillment operation for multi-clients to minimize costs and maximize service. This has helped the case company ensure space and productive capacity is available when needed to meet seasonal demands. Removing operational complexity helps free up working capital. Further, sales and marketing can create new combinations as the market demands. Micro-marketing techniques, for example, can target selected customer needs and behaviors, and deliver the best prices possible.

Thus, we designed a fulfillment strategy that could unlock many selling and profit opportunities that before required unique and separate elements. We created a four-site network for the company that provided two-day delivery for 99% of the nation’s population. The company was also able to make “kits” on the fly, which reduced inventory levels by 5%.

7. **Delivery Management**

Order delivery continues to be a key issue for sellers in the digital commerce world. In mid- 2019, Amazon reported that it was already capable of offering same- and next-day delivery to 72% of the total U.S. population, including almost all households-95% or more-in 16 of the wealthiest and most populated states and Washington, D.C. Further, Amazon announced it is delivering grocery products within a two-hour window to all Prime members living in the 2,000 regions eligible for the service.

As Amazon continues to provide fast deliveries at no premium charge, sellers are concerned about the challenges to meet these capabilities without incurring transportation costs that equal their product margins.

Our distributed logistics network model helped the company achieve rapid delivery at lower costs. We were able to deploy the multi-site network and increase selected same- and next-day deliveries by 25% while reducing overall delivery costs by 30%. This network has helped the company gain a competitive advantage and enabled them to leverage additional market opportunities.

8. **Selling Price Management**

   Profitable growth is critical in ensuring long-term business survival. Knowing the right pricing is important though very challenging in the digital commerce era. Today’s global, dynamic and unpredictable landscape requires sellers to compete with anyone, anywhere and for a price that the market will determine.

   Thus, a seller must have a robust process to regularly view market sale prices and establish rules to elevate adjustments as needed to remain competitive. Many times, list positioning is based on price and customer rating. As a result, a dynamic pricing process is imperative to understand the competitive pressures so businesses can adjust as needed. Moreover, we must know the inventory available in real-time to guard against overselling, while achieving high customer satisfaction. Timely and efficiently delisting items when inventory wanes is just as important as getting products listed when they are available for sale.

   Implementing the Tompkins Digital Platform helped the company ensure a high list order, flexible pricing (to raise and lower as needed) and high service scores to increase overall profitability by 3.5%.

Recognizing the changing customer behaviors and demands and market trends requires that sellers assess their business and operations strategies objectively. When we applied the power of our eight-step program, the company redeveloped and redesigned its strategies and processes to achieve the significant results reported in this case study.

RESULTS

Implementation of the solutions required the management of several operational and financial components, which are summarized as follows:

1. **Inventory:** The solution involved maintaining inventory levels and not allowing an expansion of assortment to increase inventory. Demand planning tools were introduced to foster internal discussion and alignment on where to tighten inventory ownership and chase demand opportunity. The assortment selections were increased 15% and only a 1% overall inventory increase.

2. **Service Level:** A main objective of the D2C channel was to provide two-day service anywhere in the nation. It was planned to accomplish this with delivery costs, level inventories and fulfillment costs at or below benchmarked targets. By deploying a distributed network where they paid only for the space they used, they were able to provide 99.5% two-day coverage and fulfillment costs 2% below their targets.

3. **Revenue Expansion:** The company wanted, of course, to expand its revenue base. They expected to increase revenue 20% in year one by implementing the new approach. We deployed the Tompkins Digital Platform that standardized data and allowed them to market their products in more channels than originally planned. Company revenues increased by 35% in year one, with expected continued expansion through robust social media and other targeted marketing, based on new insights into customer needs and behaviors.

4. **Profit:** By mapping the business processes and realigning tasks, the company was able to reduce staff by 5% while absorbing the revenue increase. Customer concerns subsided as orders arrived on-time and order fulfillment increased to 99.8%. Overall profit increase was 15%.

The company redesigned their business approach to enable growth and unleash the power of customer conversation. This included a regular read of customer information to adjust future planning and operational design. By doing so, they increased growth while reducing operating costs. By using the eight-step program the ROI and other benefits were achieved and-in fact- exceeded all estimates.

CONCLUSION

While selling products and services online is commonplace today, digital commerce-as it has been defined-is new for many companies.

Digitalization has changed the entire industry by offering customers low prices, rapid delivery and a wide product assortment. It is important to recognize that a comprehensive digital commerce strategy includes vendor, supplier and partner interaction as well as sales activities.

Today’s customers are demanding very robust sales and delivery solutions. Companies that fail to reinvent themselves will become subject to consolidations and closures. The Tompkins Digital Commerce program serves to reposition companies to succeed in the dynamic market and all of its service and information requirements. There is no substitute for applying the eight steps-customized for each company-to ensure not only business survival, but also long-term profitable growth.

As discussed, a successful strategy must include the following critical elements:

- Price Optimization
- Brand Clarification
- Customer/Partner Collaboration
- Operational Speed and Efficiency
- Capital Efficiency (Fixed and Working)

We hope this paper is helpful in explaining to business executives what they need to do in response to the changing customer behaviors and market trends. We stand ready to advise companies on the *why* , *what* and *how* to reinvent your business for profitable growth through digital commerce.

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