



Supply Chain as a Key Enabler

KPMG Supply Chain Advisory

—
February 20, 2019



Our Agenda for today

01

**Case for
Change**



02

Future View



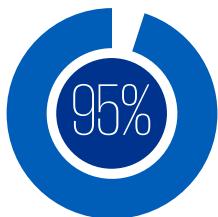
03

**COO / CPO
Top of Mind**

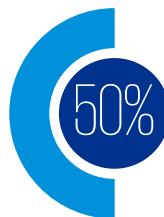


The case for change - CEO Agenda

CEOs remain focused on *Driving Growth*; but are also embracing the digital agenda. They see agility and intuition key to turning digital disruption into opportunity. This digital business path has critical implications for Operations



Responding
to disruption



Risk



Rethinking
Operating Model



Increase focus on
Customer-centric
strategy



Growth



Emerging markets

CEOs see **technological disruption** as more of **an opportunity** than a threat and **54%** are actively disrupting the sector in which they operate, rather than waiting for competitors to do the disrupting

Over 50% of CEOs say that a **strong cyber strategy** is critical to engender trust with our key stakeholders

Over a **quarter** of CEOs (28%) think about changing their **business operating model**

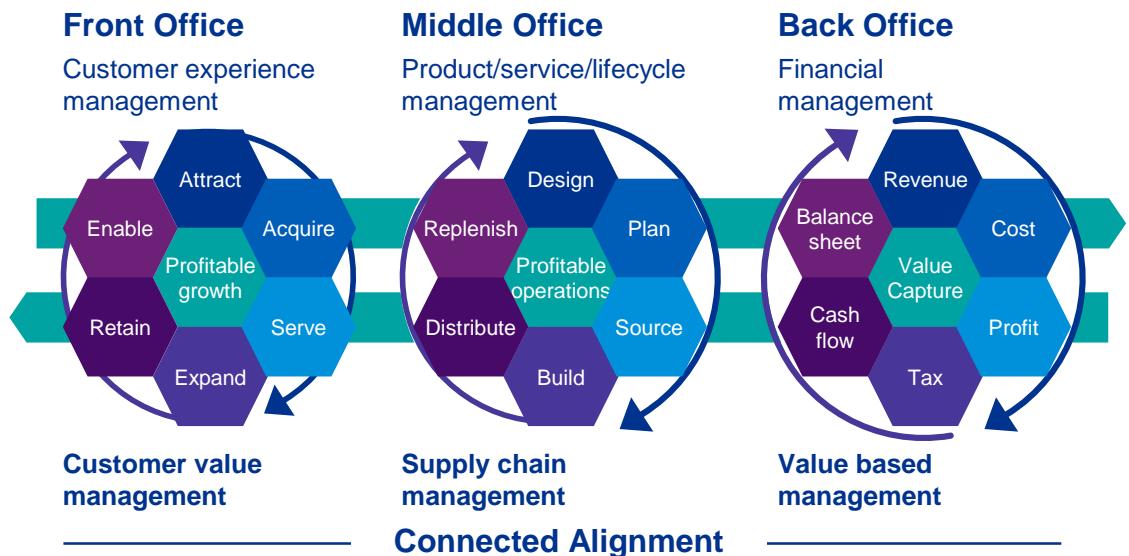
Only a **quarter (23%)** of CEOs say they are currently **exceeding customer expectations** for a personalized experience

33% of CEOs say that **strategic alliances** would **drive growth over** the next 3 years, followed closely by organic growth (28%) and then mergers and acquisitions (16%)

70% of CEOs say their biggest priority for geographical expansion is **emerging markets**, with just 28% saying that developed markets are their priority

Source: KPMG – CEO Outlook 2018

The COO agenda has to shift to Data Driven & Digitalized Supply Chains to enable a Connected Enterprise



52% of CEOs have aligned middle and back office processes to reflect a more customer centric approach to front office operations



Optimize

Doing what you currently do but **better and cheaper** via digitization



Growth

New business enabled by **digitalized supply chains**



Reinvent

Using **digitalization** to access **new customers** or expand product scope



Data-Driven & Digitalized Supply Chains

Companies that embrace the Digital Thread throughout the Connected Enterprise will outperform their competitors.

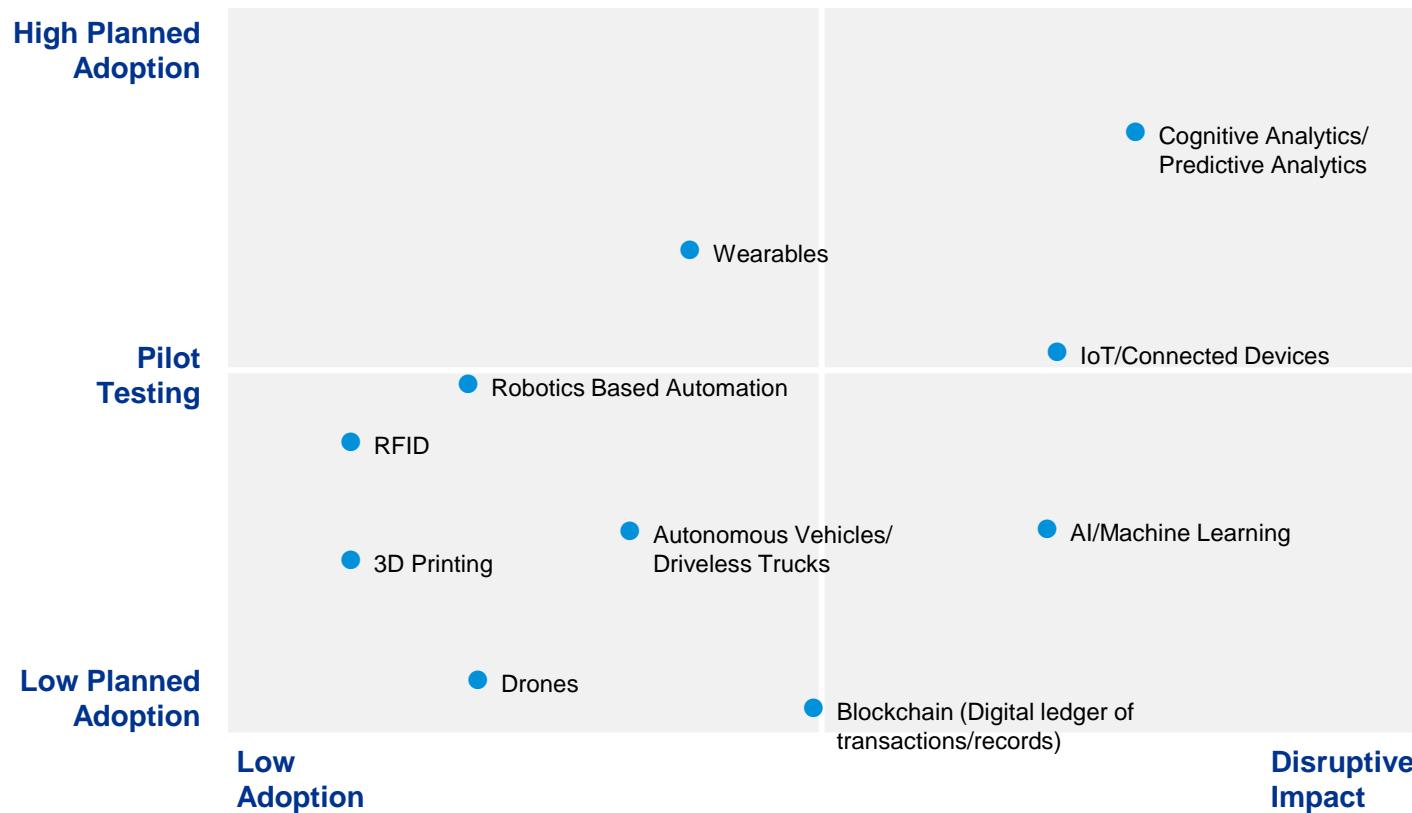
They will accelerate growth by:

- Offering unique customer value propositions and products
- Operating flexible business models, containing new kinds of capabilities
- Employing agile organizational designs

Source: KPMG – CEO Outlook 2018

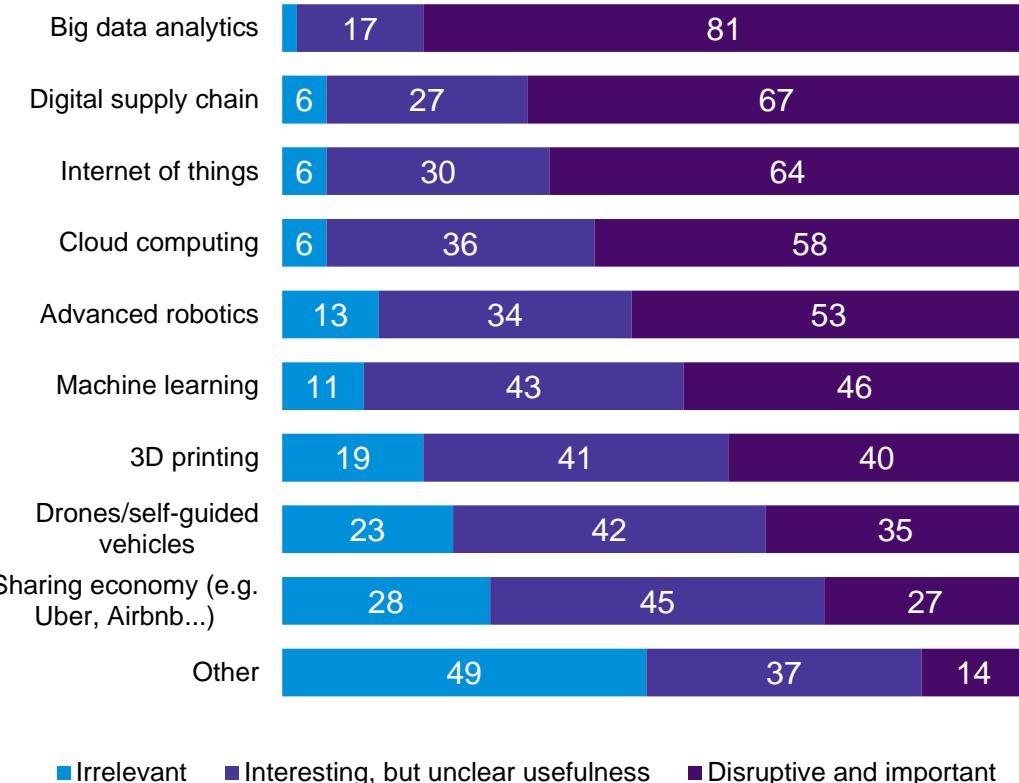
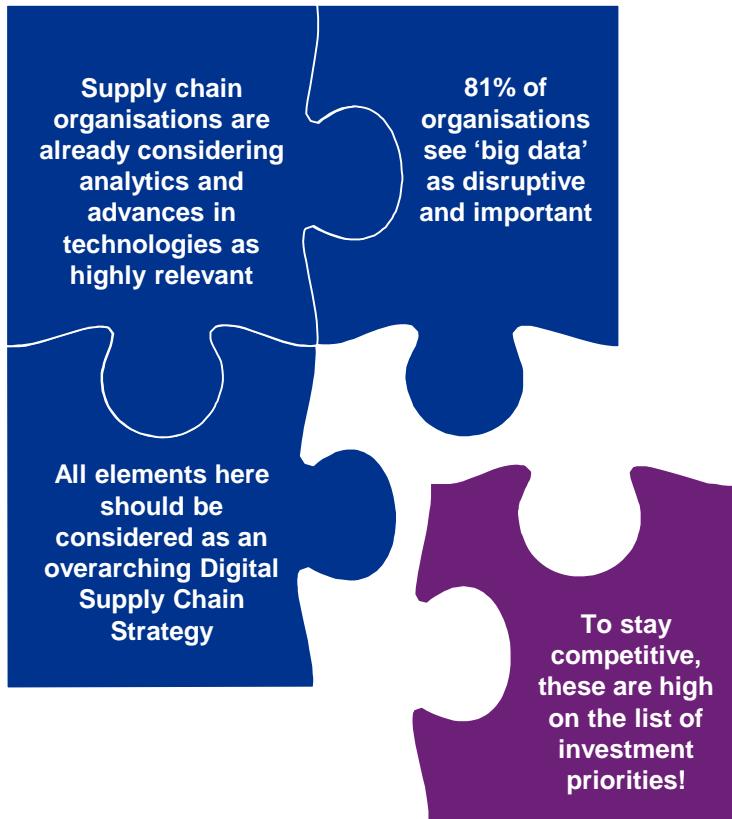
Planned Technology Adoption (24 months) versus Impact on Business

Weighted Average of disruptive impact and adoption



Source: JDA & KPMG – Digital Supply chain in Retail & Manufacturing: A State of the Industry

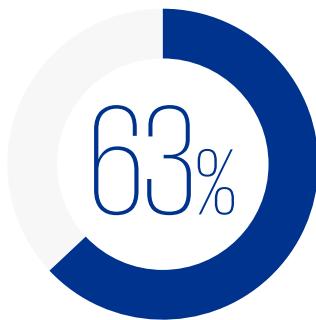
Analytics are already a top priority for supply chain executives



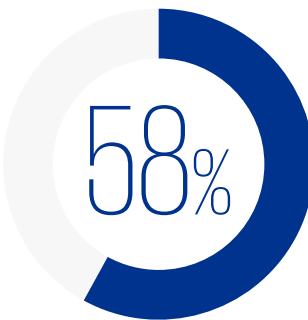
Source: KPMG - SCM World Future of Supply Chain survey % of respondents (n=1,415)

Organizations plan to invest (24-36 months) in Digital Supply Chain solutions

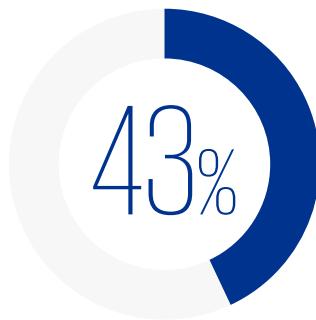
Investment areas over the next 2-3 years



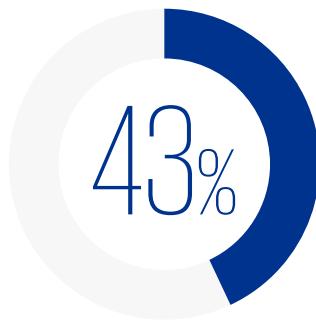
Demand planning
and forecasting



Inventory planning
and optimization



Building stronger
relationships with other
organizations



Procurement

Source: KPMG



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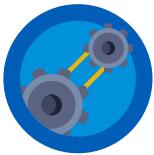
Accelerators and enablers support customer experience improvement and end-to-end operational efficiency.



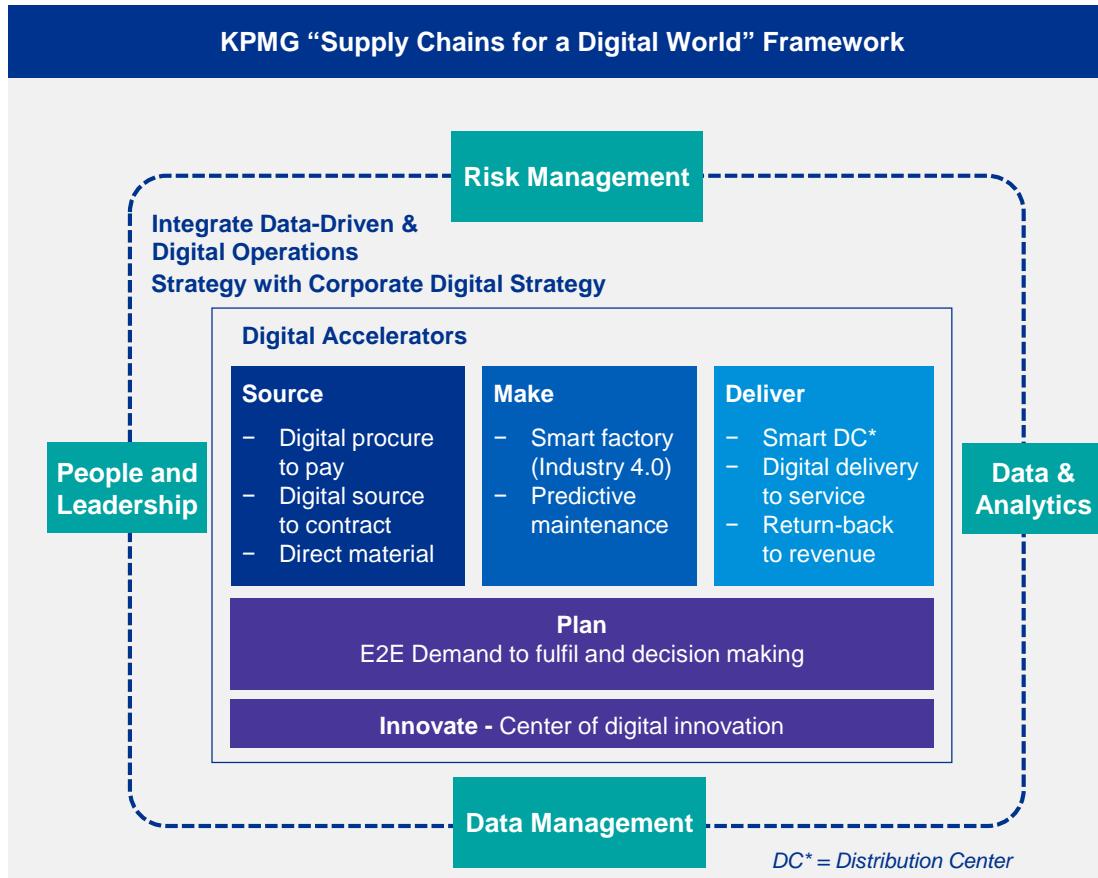
Technology is changing rapidly so planning now for the short, medium and long term is critical



Cyber risk: Operations and IT security platform need to be integrated for the future digital age



Agility and Flexibility: Operations will become decentralized and closer to the Customer



Sustainability has a social and cost impact which must be considered when developing the new Supply Value Networks



Customers expectations will continue to grow and evolve, requiring a predictive Supply Chain



Talent: Roles and skill-sets in Operations must evolve to stay ahead of the rapidly changing technological environment

Risk and Cyber Security are a real threat today and will require increased focus and attention



Environmental impact on sources of food and materials:



- climate change
- natural disasters (estimated global economic losses from natural and man-made disasters in 2017 totalled \$306 billion, up 63 percent from last year)
- shortages



Cyber security:

60%

of cyber-attacks are in the supply chain

Geopolitical instability:

- 01 Brexit
- 02 war/conflict
- 03 trade barriers



“

The nature of having the **devices interconnected and allowing external parties** such as customers ‘inside the walls’ of your secure organization means that you are **opening the number and type of ‘attack vectors’ into your company’s systems**. These devices are often physically dispersed and are **not top of mind for organizations’ IT security design**, which exposes organizations to significant supply chain security risks. Some estimate **up to 80 percent of security breaches occur through the supply chain**

”

– Peter Liddell
AsPAC Head of Operations,
KPMG Australia

Source: <https://www.linkedin.com/pulse/supply-chain-cyber-attacks-what-businesses-need-know-haydon-kirby/>

Customers expectations will continue to grow and evolve, requiring a predictive Supply Chain



Many organizations will redirect their investments to **customer experience innovations**

A new international study by Unilever reveals that a third of consumers (33%) are now choosing to buy from brands they believe are **doing social or environmental good**²



52% of consumers said they choose products that **don't make them wait**¹

Giants such as Starbucks and H&M are making ethical **sourcing and supply chain transparency** a key part of their customer strategy³

-  **greater customization**
-  **faster delivery**
-  **instant communication and tracking**
-  **smaller batch sizes**
-  **a transparent, sustainable supply chain: visibility over all suppliers, sources and materials**
-  **ethical sourcing**
-  **no contamination or tampering**

Sources:

1. <https://www.campaignlive.co.uk/article/meet-dawn-customer-future/1433579>
2. <https://www.unilever.com/news/Press-releases/2017/report-shows-a-third-of-consumers-prefer-sustainable-brands.html>
3. <http://www.tradeready.ca/2018/topics/supply-chain-management/4-companies-succeed-focusing-ethical-sourcing-manufacturing/>

Is your supply chain serving your customer?



Key questions

Am I serving customers effectively and efficiently?

Am I managing inventory to balance service performance and efficiency?

Am I utilizing assets efficiently?

Key supply chain objectives

Improve customer satisfaction and profitability

Faster, more accurate and more efficient deliveries

- average time-to-market in days
- customer order cycle time in days
- order to cash cycle time
- order line fill rate
- percentage of orders delivered complete and on time.

Minimize risk

- create redundancy to manage supply risks
- have escalation procedures in place for potential risk

Improve margins through lower costs and premiums by extended services

- average monthly national forecast error
- demand plan accuracy
- finished goods inventory days of supply
- inventory accuracy.

Improve margins through lower costs

- customer order cycle time Reduce total capex as a percentage of revenue
- perfect order performance.

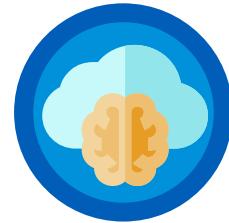
Performance areas

Service

Working capital

Operations

Operations will require more technology skills enabled in their team rather than in traditional IT functions



01



Human roles evolving across the value chain

Robots and Artificial intelligence (AI) are impacting the roles performed by human beings

"Today, virtual customer assistants (VCAs) and chatbots handle 2% percent of customer service interactions. In four years, they will handle 10 times as much." – Gartner

02



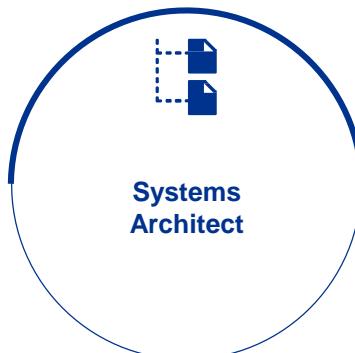
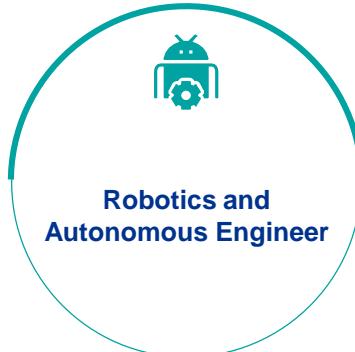
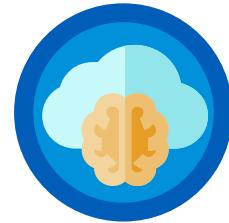
New skills sets required in supply chain

Emerging technologies, automation and AI are creating a new skills set for human roles

"By 2021, three out of five factory-level AI initiatives in large global companies will stall due to inadequate skill sets. " – Gartner

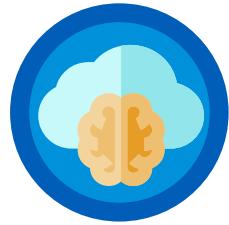
Source: Gartner, Smarter with Gartner, 21 December 2017, <https://www.gartner.com/smarterwithgartner/gartner-predictions-for-the-future-of-supply-chain-operations-in-2018/>

New Roles will be required to execute Operations processes in the future

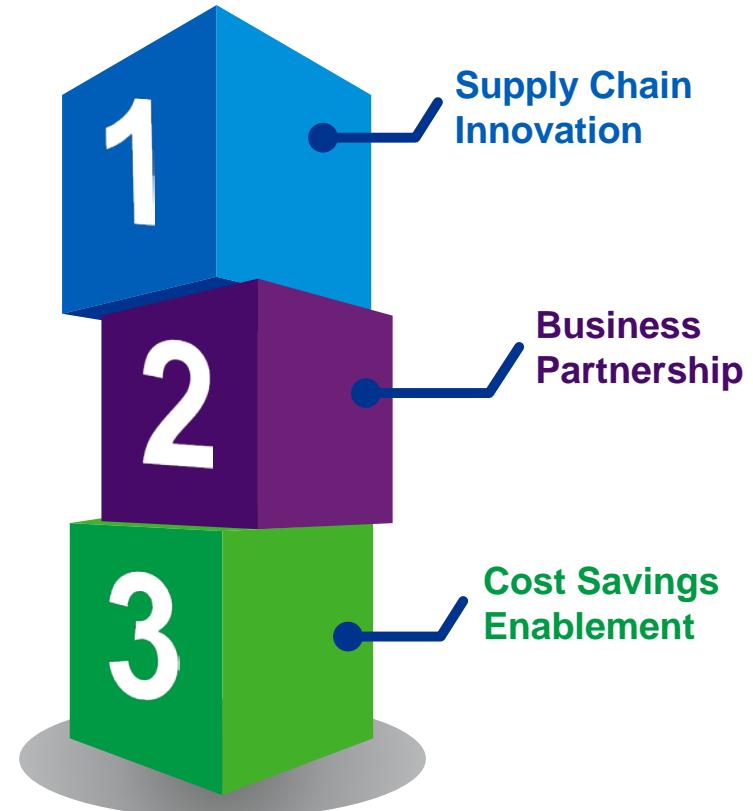


These new roles will live within the Operations organisation and the related capabilities need to be much more integrated, collaborative and governed to deliver improved customer experience.

As the procurement professional dons multiple hats, the role and impact become more strategic



Establishing a vision for procurement transformation occurs in stages and requires successive levels of outcome-based trust development with stakeholders.



Source: KPMG – FutureBuy 2025

Procurement role : Internal Consultant



Procurement needs to understand the business well enough to apply sourcing tools that can drive the most effective business outcomes in each individual operating group and geography.

Key Considerations

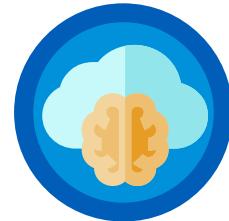
- Focus on stakeholder value, not just “checking boxes”
- Predict customer needs based on historical spend patterns
- Challenge conventional thinking on supply sources and models
- Provide external perspectives and insights into emerging trends
- Speak the language of the stakeholders and understand the business

Talent Imperative

- Recruit and develop talent that looks and acts like the people in the organization they serve as stakeholders
- Communication, listening, and interpersonal skills become vital
- Align with stakeholders, deep understanding of the business, categories, culture, and business imperatives

Source: KPMG – FutureBuy 2025

Procurement role : Market Intelligence



Procurement must consume large quantities of data, in multiple forms, and derive meaningful market insights for the business, emphasizing early directional detection, rather than specific predictions on exact movements in the market.

Key Considerations

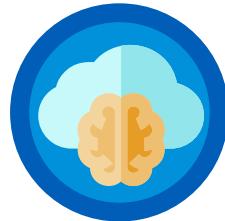
- Perform predictive analysis, understand customer needs based on historical spend patterns and market intelligence
- Challenge conventional thinking on supply sources and models
- Provide external perspectives and insights into emerging trends
- Develop a structured approach to analysis

Talent Imperative

- The ability to mine and communicate data is vital
- Identify primary and secondary sources for data, utilize data to support business decisions, and make recommendations to the business
- The establishment of Centres of Excellence (COEs) to support multiple sources of data and teams requiring information will be important

Source: KPMG – FutureBuy 2025

Procurement role : Relationship Broker



An emerging capability for procurement is the need to develop both outward and inward facing relationships. Individuals may play different roles at different organizations across the supply network.

Key Considerations

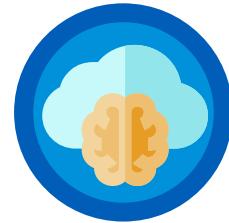
- Supplier relationship management with specific business outcomes defined
- Alignment of stakeholders internally
- Connecting suppliers with the business
- Interfacing with external agencies
- Alignment externally with business drivers rather than categories

Talent Imperative

- Understanding both suppliers and stakeholder perspectives, knowing the business well enough to align both
- Listening, conflict management, and facilitation are key
- Strong commercial and business acumen to support internal and external negotiations

Source: KPMG – FutureBuy 2025

Evolution of Procurement Capability Maturity Model



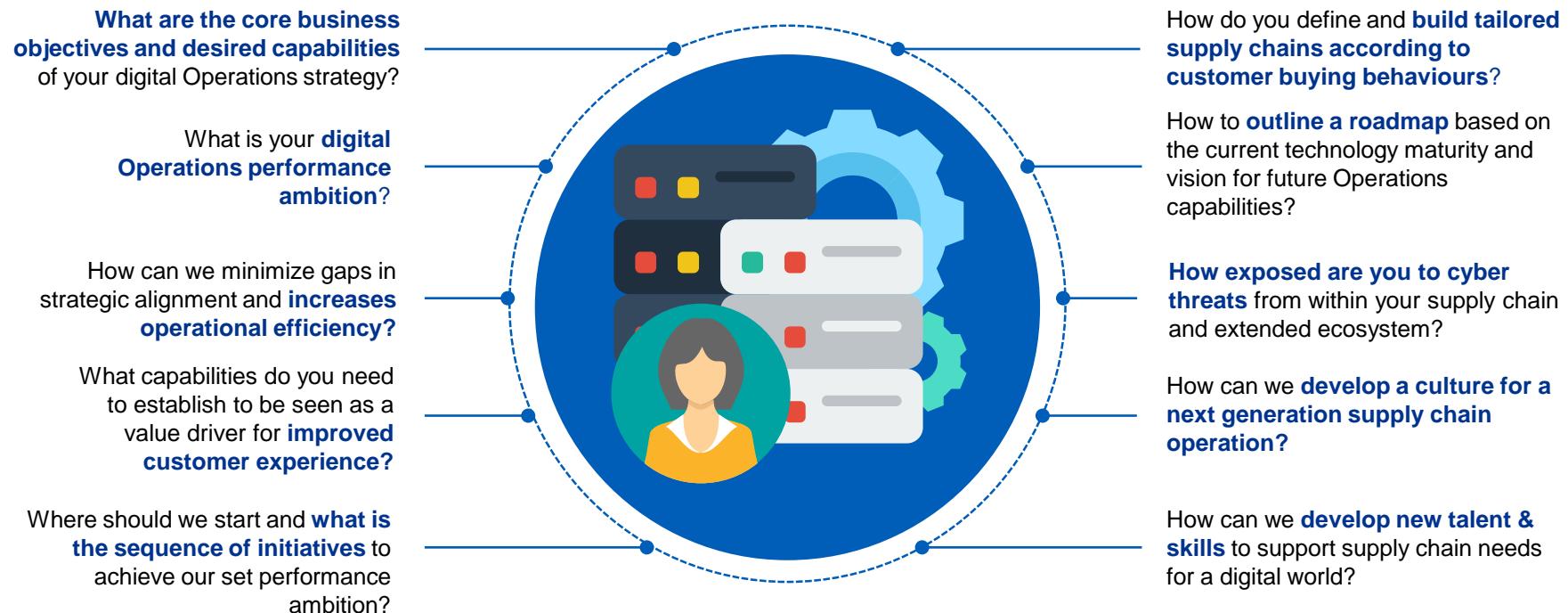
Proactive procurement organizations are taking deliberate steps to upgrade talent. What is your progress in building new capabilities as procurement moves its agenda to the future? ?

	1 Ad Hoc	2 Defined	3 Managed	4 Leveraged	5 Optimized
Internal Consultant	Small team handles ad hoc requests for transaction work	Quarterly reports generated and reviewed with stakeholders and follow-up	Global team coordinates with stakeholders via defined statement of work's (SOW's) templates ?	Global team + site representation provides local and engagement	Global team + collocated teams participate in team meetings and anticipate requirements
Market Intelligence & Cost Modeling	Low level of common tools, processes, and methodologies	Cost models apply publicly traded financial information to create high-level product models ?	Dedicated cost model and supplier intelligence databases established with Market Intelligence (MI) portals, feeds, and updates	Dedicated cost modeling, MI analyst, and ground-level roles established; all major categories have updated MI feeds	Cost models, MI, and global event management are leveraged across the business for application in design, production, and marketing decisions
Relationship Broker	Supply Market Information reports and debriefs are presented to stakeholders ?	Quarterly market reports and inflation/deflation trends with ad hoc MI category & cost model reports	Systematic process defined for engaging stakeholders, aligning supplier scorecards to stakeholder post report metrics to assess satisfaction	Forecasting of stakeholder demands and technology road maps linked to supplier strategies to drive alignment	Suppliers actively engaged with stakeholders through face-to-face sessions, supplier integration on product design, and ongoing virtual extended team meetings

Source: KPMG – FutureBuy 2025

What should COOs / CPOs be thinking about?

Business as usual is not an option. The biggest limitation is no longer the technology and what it can do, but the imagination of those who must deploy it





Thank you!



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