Digital Commerce Reinvention: A Case Study

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#3 OF A 3-PART SERIES ON STRATEGY

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INTRODUCTION

In the previous two articles, we discussed the imperatives for companies to reinvent their business and operating models for digital commerce and introduced an eight-step program to plan and implement new strategies for new customer behaviors. The second article included a brief case example of a company's successful reinvention, and this article will expand that discussion into a complete case study.

In the following dialogue, we set the framework for competing in this new customer-driven world. We lay out the focus areas and fundamental tools for designing and applying a comprehensive approach, substantiated in this case study of a consumer products company.

DIGITAL COMMERCE TODAY

It is commonly known that Amazon has led the digital commerce revolution by providing 24/7 shopping for customers with an efficient delivery network. As a result of this and subsequent other advances, consumers expect to shop freely, buy items with competitive pricing and receive them quickly-when, where and how they want.

In the past decade, the ultimate goal has changed from supply chain efficiency to micro-marketing techniques to take current assortments and make them uniquely attractive to specific customer profiles/clusters/groups. Unlike traditional retail that created a single retailer brand and image, today's sellers are creating focused brands and images for specific product groups. To accomplish this, retailers and brands are using digital channels to evolve their marketing and positioning to meet defined groups.

Winning and even surviving in this new world require new ways of thinking. Business strategies must evolve and integrate the latest technology and efficiencies to deliver the margins required to drive growth. Without evolving marketing strategies that take advantage of customers where they naturally collect, retail will stagger through inefficient expenditures trying to "find" customers rather than harvesting opportunities where their customers are.

Our Tompkins strategy promotes the strengthening of partnerships (ecosystem) to leverage strengths to collectively drive market value. In the future, going alone will not provide the economies of scale required to deliver high service at low cost that larger competitors can deliver. Only though partnering with a collection of sellers can we deploy the best thinking to ensure we deliver their goods and services to the marketplace at the lowest cost and highest service level.

THE CASE STUDY

This case study is about a multinational consumer goods business that had recently initiated its direct-to-consumer (D2C) selling in the hopes of increasing revenues. They had used traditional selling channels (e.g. retail, distributors, wholesalers and remarketers). Their

current supply chain was bulk based, whereby they moved cartons and pallets of product to their partner sellers. They recognized 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.

OUR SOLUTION PROGRAM

The reinvention process adapted the eight- step program identified in the previous articles on planning and implementing. Below we discuss the considerations involved in each step, 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 change more suited for the company's products and changing customers. This iterative step is critical in a rapidly changing e-commerce world.

To first state the results-as reported in the previous article-the company experienced a 15% reduction in operating expenses, 25% expansion of revenues and a 12% increase in

operating income. Equally important, they experienced a 10% increase in customer satisfaction scores (customer delight).

1. Business Strategy

When many people think about a business strategy, they envision detailed financial modeling of plans. What is needed more, however-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 Accelerated Solutions Workshop (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 is 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, as well as 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 better risk controls.
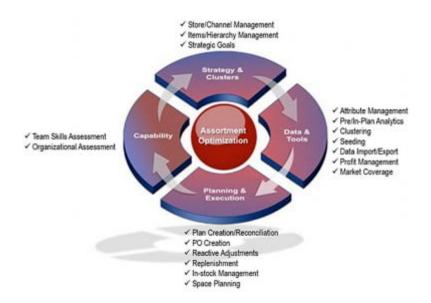
By developing a standard data process and utilizing the Tompkins digital solution, the team was able to expand their digital footprint and increase their sales, with 25% less staff and a

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 are 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: (a) the sale price of items offered by category, (b) critical features that customers desire and (c) 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.

✓ Store/Channel Management
✓ Items/Hierarchy Management
✓ Strategic Goals

Strategy & Clusters

✓ Attribute Management
✓ Pre/In-Plan Analytics
✓ Clustering
✓ Seeding
✓ Data Import/Export
✓ Profit Management
✓ Market Coverage

Data & Tools

Assortment Optimization

✓ Team Skills Assessment
✓ Organizational Assessment

Capability

Planning & Execution

✓ Plan Creation/Reconciliation
✓ PO Creation
✓ Reactive Adjustments
✓ Replenishment
✓ In-stock Management
✓ Space Planning

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 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 "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 move 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 modelling tools 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: (a) fast moving, high demand goods and

(b) 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 which 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 e-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 provide for fulfillment efficiencies 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.

At Tompkins, we team with Etail Solutions to provide a digital platform for channel and product management. This solution has 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%.

SUMMARY AND CONCLUSION

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 process, the company redeveloped and redesigned its strategies and processes to achieve the significant results reported in this case study.

Traditional approaches no longer serve the needs of today's consumers. Companies that fail to reinvent themselves will become subject to the consolidations and business closures that have riddled the industry over the past decade. 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.