



THE NEW CUSTOMER: CHANGING SUPPLY CHAINS TO DEMAND CHAINS

The Digital Supply Chain of the Future

DSCI
DIGITAL SUPPLY CHAIN INSTITUTE



THE CENTER FOR
GLOBAL ENTERPRISE



About Digital Supply Chain Institute

The Center for Global Enterprise's (CGE) Digital Supply Chain Institute (DSCI) is a leading-edge research institute focused on the evolution of enterprise supply chains in the digital economy, and the creation and application of supply chain management best practices.

How DSCI Can Help

DSCI is a membership-based not-for-profit institute whose members are focused on executing the supply chain of the future. We perform research, conduct pilots, communicate the Digital Supply Chain story and link members with companies that are going through similar journeys. DSCI is a program of CGE. Visit our website dscinstitute.org or contact our Managing Director George Bailey (gbailey@thecge.net) to learn more.



THE CENTER FOR
GLOBAL ENTERPRISE

About the Center for Global Enterprise

CGE is a New York-based nonprofit, nonpartisan research institution devoted to the study of global management best practices, the contemporary corporation, economic integration, and their impact on society.

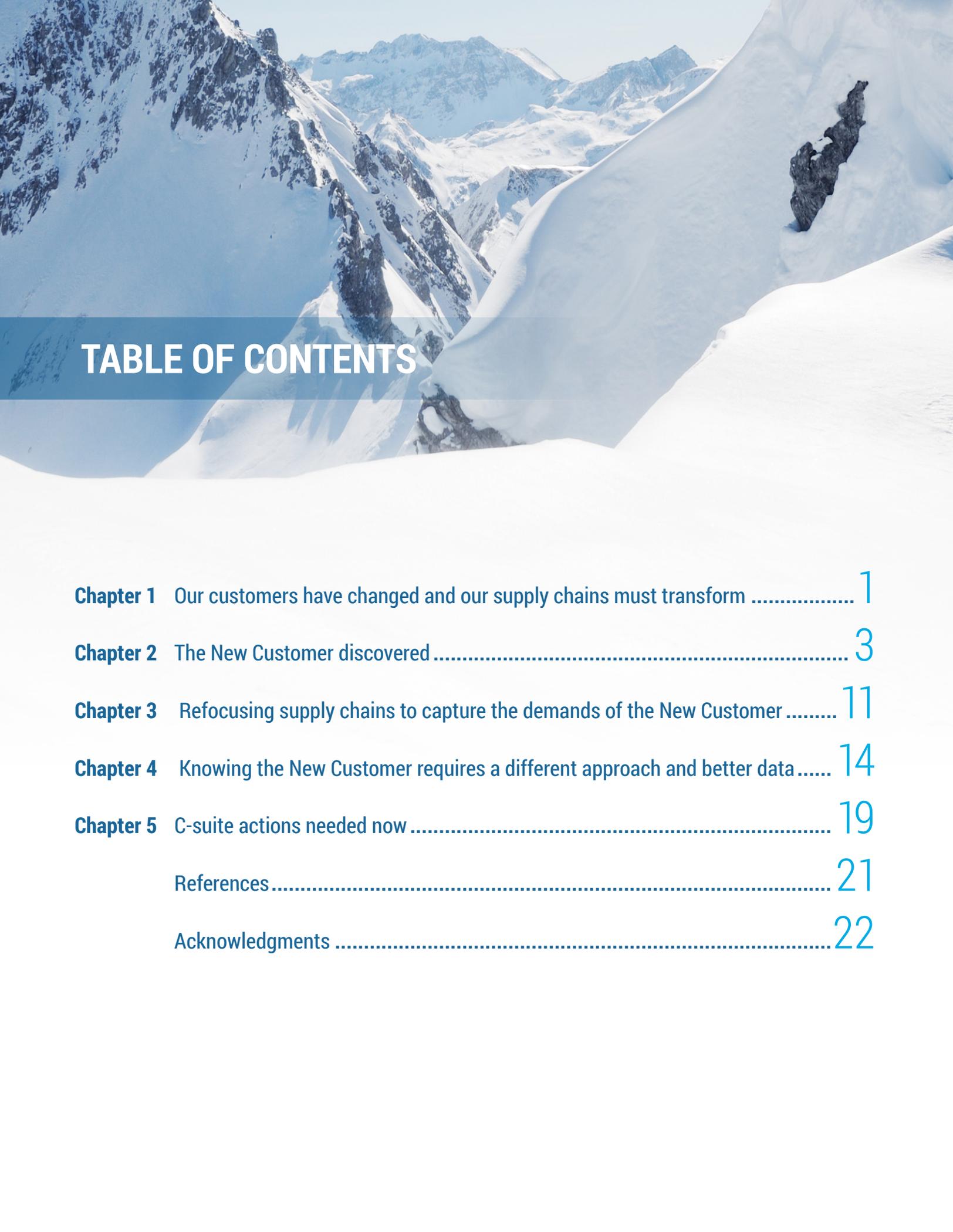


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CHAPTER 1

Our customers have changed and our supply chains must transform

“The New Customer expects your supply chain to marry deep knowledge of their needs with a rigorous approach to operational execution.”

■ Samuel J. Palmisano, Chairman, Center for Global Enterprise

Something of cataclysmic importance has happened: **our customers have changed and our supply chains must transform.** Not only have customers changed dramatically, but they have new, higher expectations than traditional business processes support. Nowhere is this more evident than with our supply chains. Teams of technology experts, industrial engineers and consultants have worked to standardize our supply chains, reduce the variety of products, offshore production, minimize suppliers, better forecast demand and improve order delivery. We have spent billions on massive ERP systems, deployed IoT devices, implanted sensors and experimented with Blockchain.

As a result, we have seen lower total cost, quicker on-delivery and more accurate demand forecasts. What we have not generally seen are noticeably happier customers. According to new data from the American Customer Satisfaction Index (ACSI®), customer satisfaction with retail overall is down for the second year in a row. The Retail Trade sector slipped 0.9% to 77.4 on ACSI’s 100-point scale.¹ Despite our best efforts, customer happiness has not improved because we are still optimizing our supply chain performance against the needs of our legacy customers. The gap between what we

are trying to improve and what today's customers want will increase if no action is taken. The **New Customer** wants and expects something dramatically different. Companies need to transform their supply chain to be "present" with this New Customer, and only by repositioning their supply chain will companies be able to meet the more personalized wants and needs of the New Customer.

This paper will discuss why we need to flip our supply chains to face the New Customer and discuss the specific action steps that supply leaders must take to be successful. While it may seem flip to say so, the age of the supply chain is over. Companies need "Demand Chains." Demand Chains not only ensure that people get what they want on time, but they also are designed to increase customer value in many ways. When this happens, they generate demand. More customers want to work with your company; they are happier and revenue for your company increases. To help supply chain executives achieve success, we outline the key dimensions of the Digital Supply Chain over the next 3-5 years.

Frontside Flip to face the New Customer

Back in 2016, DSCI collaborated with a team of 23 C-suite executives on the future of the Digital Supply Chain. We started on this topic because a group of top CEOs that CGE had gathered in Sanya, China, told us that the business issue they felt was most important to their company's future success was implementing a truly Digital Supply Chain. The CEOs needed help in deciding exactly what the Digital Supply Chain should be and how it should be managed across the world. They felt strongly about this effort; many volunteered their top supply chain and technology executives to work with us. Companies that participated included SAP, Colgate-Palmolive, Goodyear, Micron, American Express and other industry leaders from around the world. The most important conclusion, after almost a year of effort, was that the Digital Supply Chain would do more than improve the percentage of perfect orders. In fact, the most important thing was to transform the Digital Supply Chain into a process that attracted customers and grew revenue. The C-suite team called this change a "Frontside Flip." The supply chain should flip from focusing on the back end of the business to the front side – the customer side – to be "customer-present."

These leaders believe creating an experience that customers like and find added value would increase revenue and spell the difference between winning and losing companies. The consensus view was that, on average, supply chains would increase revenue by 10% and decrease cost by 20% – game-changing numbers. You can read the conclusions of the group [here](#). The Frontside Flip framework is even more important and obvious today than it was in 2016. But something that we did not anticipate happened. The customer changed. This is true whether you have historically been a B2B or a B2C company. We now have a New Customer with different expectations and requirements. And the supply chains that we built for our legacy customers will no longer meet market needs.



The New Customer discovered

“The biggest change that is happening right now is not new technology, but the emergence of the New Customer. The New Customer has a different set of expectations that current supply chain models cannot meet. Supply chains must transform to meet these expectations.”

■ George Bailey, Managing Director, DSCI

In the last five years, we have seen a remarkable change in the customer. This is true in both the B2B and B2C world. It is true across all industries and geographies. Of course, each industry has different levels of change, but all are affected. For example, the taxi industry everywhere from Santiago to Hong Kong to Paris has changed. Customer expectations include: direct billing, knowledge of where the ride is, how long it will take to arrive, how long the trip will last, and how much the fare will run. They also expect substantially lower costs even though benefits are greater. The New Customer from virtually anywhere in the world expects to control their transportation supply chain through their smartphone. The emergence of the New Customer doesn't mean convincing a different company or person to buy what you sell. It means that the individuals and companies you sell to have a new set of demands, expectations and requirements. When you transform your supply chain to meet these new requirements, you will grow. When you don't transform, you risk everything.

DSCI has identified ten elements that define what the New Customer requires. These requirements are emerging across the B2B and the B2C world and driving new kinds of demand.

Factors affecting the New Customer's expectation

People around the world are gaining access to products and services on-demand. They are using social media (e.g., Facebook), building business networks (e.g., LinkedIn) and procuring what they want online (e.g., Amazon). These trends are accelerating rapidly and changing what customers want from a supply chain.

According to DSCI research, there are mainly three factors changing the expectations of the New Customer:

1 Internet Adoption and Penetration: Over the last 15 years, rapid innovations in the Internet, mobile, social, IoT and other technologies are dramatically influencing everyday customers. Over the past five years, [an average of 640,000 people went online for the first time](#), daily. This translates to 27,000 people every hour. Cybersecurity Ventures predicts that there will be [6 billion Internet users by 2022](#) (75% of the projected world population of 8 billion), and more than 7.5 billion Internet users by 2030 (90% of the projected world population of 8.5 billion, six years of age and older).

2 Generational Change: Shifts in the demographics of the world population and changes in people's ability to adapt to new digital technologies are major factors. Millennials, a digitally native generation, are influencing customer expectations and also changing the way the Enterprise should run business. This generation can imagine how technology should be used to improve their lives. Surprisingly, older generations are more and more digitally adept. The percentage of older people with smartphones increased from [29% to 59% since 2013](#)!

3 Expectations Crossing Industry Boundaries: Customers are expecting more in terms of quality of products and services and comparing it against not only competition but also the best service they experienced in any industry. Customer experience with digitally native companies has shaped their values and raised the performance bar for the supply chain. B2B customers are expecting the same level of service – or better – than they receive as B2C buyers. According to [Avanade's research](#), 81% of B2B buyers said that they would choose a supplier that offers a consumer-like experience over an equally-priced alternative that does not.



New Customer's influence on DSCI's DPTR framework

	BETTER DEMAND	NEW PEOPLE	NEW TECHNOLOGY	MANAGING RISK
Expectation that order and fulfillment will be simultaneous	✓	✓	✓	✓
Belief that products and services should fit their specific needs	✓	✓	✓	✓
Requirement that peers and customers will review/report everything	✓	✓	✓	✓
Expectation that human interactions will be only on things that requires people skills	✓	✓	✓	✓
Sense that customer service people understand why and when you want something and what your priorities are	✓	✓	✓	✓
Expectation that people with whom I interact understand my business and how to make the supply chain work	✓	✓	✓	✓
Mandate that user experience will be joyful	✓	✓	✓	✓
Demand that price be transparent , fair, and "changeable"	✓	✓	✓	✓
Requirement that social values are followed by supply chain partners	✓	✓	✓	✓
Sense that privacy is respected but that the right things are shared with them	✓	✓	✓	✓

✓ Major Influence

✓ Minor Influence

The first is the **near-simultaneous matching** of when customers order and delivery. Amazon has trained all of us to expect that we will get whatever we want in two days or less, and are once again resetting expectations with same-day delivery. 41% of consumers are willing to pay a charge for same-day delivery while nearly a quarter (24%) of shoppers said they would pay more to receive packages within a one- or two-hour window of their choosing.² Amazon is enhancing their supply chain to reduce delivery time even further through vertical integration. They will use driverless vehicles, drones and distributed warehouses to ensure that people get what they want and get it fast. How fast is fast enough? Not yet clear, but same-day delivery is possible and even faster response is possible in certain locations.

Pharmacies like CVS are working out the details of how to do “drugs by drone” and have a supply chain that brings what you need to your location. Business customers expect nothing less. They want what they want, and they want it when they want it! Your lead time is important; reducing it can have a major impact on your business. Lead times that were once considered acceptable are now inadequate. The days of “please allow 4-6 weeks for delivery” are dinosaur-dead.

Today’s customers want their products and services to be delivered 50% faster than five years ago, according to the DSCI survey.³ The Amazon drones will be able to fly up to 15 miles and deliver packages under five pounds to customers in less than 30 minutes. While that may sound like a light load, Amazon executive Jeff Wilke said that the drone could technically handle between 75% and 90% of Amazon deliveries.⁴ Many traditional businesses question whether people and businesses will pay extra cost for rapid delivery. The details are still to be determined, but our research indicates that they want it faster than ever and expect that transportation costs will be much lower. A challenge for companies – and a necessity!

The second major characteristic of the New Customer is a belief that goods and services will be **tailored to their specific needs**. Henry Ford once said customers could have any color Model T Ford as long as it is black. The supply chain that Ford created was optimized for efficient mass production and color choice introduced an expensive level of customization. We are amused by his supply chain strategy today because everyone knows it would not work. Similarly, we believe products and services that are standardized today will be customized tomorrow. Some marketing professionals have talked about the “market size of one,” where each person and company gets what is useful to their specific needs. Companies no longer want to buy a solution that works across all industries. They insist that it has been proven to work for their industry and their company. A supply chain that can produce “mass customization” is what will win in the near future. We have talked about mass customization for years, but now companies can gather data about what the customer truly wants and provide it efficiently, even at scale. For example, 3D printing will allow companies to quickly and efficiently tailor their products to a specific consumer. And companies can sometimes make a generic product that is segmented to meet specific customer needs at a later point.

The New Customer expects that their **peers will review** and report everything about the product or service so that they can make more informed choices about what to buy. In a recent DSCI survey, 54% of respondents agree that peer reviews are much more important now when buying products and services, compared to five years ago.⁵ Organizations like Gartner report feedback on how companies perceive different types of software. Companies also check social media for reviews of what their suppliers have accomplished in the past. A supply chain that helps collect and manage this information will be instrumental to the success of their company.

The New Customer expects that human interaction will only occur on issues that require people skills. Everything else will be digital, automated, driven by smart algorithms and supporting systems. Today, many interactions that business customers and consumers have are with employees who process transactions. For example, in almost all grocery stores, there are cashiers who scan items and provide the total. Many stores have added “self-checkout” and allow customers to scan, bag and pay for the items. The grocery store may have only one employee who oversees the self-checkout area to provide any help needed by customers. The Digital Supply Chain uses automation, AI/ML, algorithms and other technologies to make transactions like this happen. One India-based investment management company with whom we have worked has a target goal for the total number of transactions that will be accomplished without direct human involvement. Why? Lower costs, for one reason. But the big reason is that the quality of the transactions will be improved (fewer errors) and customer satisfaction will be higher.

The New Customer anticipates that **customer-service people understand why and when** you want something and what your priorities are. “Customer service people” means anyone that interacts with your customer must fully understand customers’ needs. They could be in Sales, Operations, Supply Chain, Finance or a variety of other functions. As we have mentioned, customers increasingly want things tailored specifically to their business or personal life. For example, technology companies have increasingly offered solutions that contain hardware, software and services. These solutions are tailored to the needs of a specific industry and further modified to meet the requirements of a specific company. Top-performing solution sellers excel at understanding customer needs, delivering on the value proposition and negotiating and closing deals compared to their more transactional peers.⁶

The New Customer requires that **price be transparent, fair and changeable**. Buyers want to know why things cost what they do and understand for what exactly they are paying. They desire to know how much of the price is driven by production in high and low labor cost countries. They need to grasp how much quality drives price. And they must think that the overall price is fair relative to the value that they receive.

The New Customer expects that prices can and will change based on market demand, seasonality and other factors. Southwest Airlines has a revenue management function that works overtime to make sure that each seat is sold at the best price. Best price means the price that will maximize the revenue (and profit) contribution to the airline while delivering seats that customers understand reflect the law of supply and demand. The New Customer also anticipates that Southwest will

deliver a seat that is sometimes [priced lower than the competition](#).⁷ Customers understand that the person that they are seated next to may have paid much more than the price that they paid. We believe more and more industries will adopt the same kind of revenue management plan that Southwest Airlines uses. And our supply chains have to be able to manage the inventory of what is being sold against a variety of price points.

The New Customer also expects that the product they buy will help them achieve their goals. For example, Under Armour builds products that help the New Customer improve their performance and overall fitness.

The mission of the Under Armour brand is simple: to improve customer performance. Under Armour has invested significantly in digital health in order to build the largest digital fitness community in the world; they have over 270 million users on their Endomondo, MyFitnessPal and MapMy platforms. From physical fitness to nutrition to sleep recovery, Under Armour has the data to measure consumer progress on their fitness journeys and provide them with the performance solutions they didn't know they needed and can't imagine living without. By helping the New Customer achieve their goals, Under Armour is driving engagement, building customer loyalty and gaining insight into the consumer demands that drive their supply chain.

Managing a **supply chain that reinforces social values** is more and more important to the New Customer. People increasingly want to know that what they are buying was created sustainably and did not drive lower costs through the labor of slaves or minors, or environmentally-unfriendly methods. We expect that Blockchain-based solutions will deliver some of this information and create trust in brands. Bumble Bee Tuna uses a Blockchain process running on SAP in this way; they can clearly show that their tuna is harvested in a socially acceptable way.

Interestingly, **the New Customer is very social**. They expect to buy from an organization that their soulmates buy from. 63% of the respondents in the recent DSCI survey agree that it is important for them to buy products/services from socially responsible companies, compared to five years ago.⁸ For example, people decide to buy a Jeep or a Tesla at least partly because like-minded people buy the same item. They then will post pictures of their new purchase and participate in social media and physical get-togethers. People are also familiar with the B2B "herd mentality." Companies tend to buy from suppliers that are highly rated by their competitors.

The New Customer is deeply **concerned about data privacy**. Information about our interests, habits and behavior is often considered private. Much legislation has been written in this regard. For example, the GDPR regulation enforced in Europe has a series of requirements that companies must follow when collecting, storing, sharing and using data about their customers. The basic idea is that the customer owns the data and they can decide what you can do with it. One of the provisions is, "the right to be forgotten." This means that consumers can tell any company that has their data to delete it. Supply chain operators routinely collect all types of data about their business and consumer customers. Deciding how to manage this data and comply with the new privacy rules will be more and more important to attract and retain the New Customer. DSCI has written a paper

on how to manage compliance with these new regulations. You can access the white paper [here](#). Personal Identifiable Information (PII) is important but so is business information. Managing these issues through the Digital Supply Chain will require focus, attention to detail and change.

The New Customer also requires a supply chain that is more than pleasant. In fact, the **New Customer wants a joyful experience**. B2C examples are easy to find. Uber's supply chain in your hand creates joyful passengers who feel a sense of control, freedom and flexibility. What is not entirely clear is the overall safety of Uber, Lyft and other handheld supply chain-driven transport companies. There is not a lot of data that allows direct comparisons of taxi versus Uber safety records. Some believe that Uber is safer than a taxi in many cities because the passenger rating systems weed out drivers who are not good at driving or potentially inappropriate with passengers. We like a supply chain driven company that tracks performance with customers and Uber/Lyft seems to do that much better than traditional taxi companies.

Amazon's user experience is easy to navigate and creates happy customers that know they are getting what they want at a good price. B2B companies have powerful examples of making customers feel joy and happiness. For example, SAP users report great joy in having a single version of the truth and common management reports. Legacy supply chains can sometimes drive customer satisfaction because people get what they expected. But supply chains frequently don't drive happiness; happiness happens when customers get something extra that makes their business or personal life better.

The 10 items just reviewed define a **New Customer** that requires a supply chain far different than the one most companies typically have.

“We live in an era of the experience economy where customers are asking for a better end-to-end experience from order through delivery and service. More automation, visibility through your network of supply chain partners and assets, increased vertical integration with access to data that provides user experience feedback, can help fulfill these demands of New Customers.”

■ **Richard Howells, Vice President of Awareness and Thought Leadership, SAP America, Inc.**



Refocusing supply chain to capture the demands of the New Customer

How should companies operate their supply chains to capture the demands of the New Customer? How can the supply chain do a Frontside Flip and face this new and very different customer? Answering this question requires some careful thinking. And that thinking is driven by two different types of people.

There are two kinds of people in this world: Lumpers and Splitters. Lumpers like to aggregate data, look for high-level trends and pronounce straight-forward declarative conclusions. For example, “Companies should implement a Digital Supply Chain that creates value for the customer.” Splitters believe that it is only through developing a detailed breakdown can truth be found. For example, “Customers in the CPG industry desire a cycle time from order to delivery within two days.” Lumpers believe that Splitters often miss the most important message. Splitters think that Lumpers develop overly broad strategies that cannot be executed. For years, this has been played out as a battle between intuition (Lumper) and analytics (Splitter). Intuitive people base their beliefs on experience and analytical people believe that detailed analysis produces better answers to all questions. This debate about Lumpers and Splitter has been going on since Darwin first coined the terms back in 1857!⁹

For the first time in history, it is now possible to make increasingly more decisions with the best Lumper and Splitter thinking. Why? Because the amount of data available for analysis has grown exponentially and will continue to do so – by 2025, it's estimated that 463 exabytes of data will be created each day globally.¹⁰ And because people make better Lumper decisions once the Splitter analytics are available. In other words, Splitters can provide deep and insightful analysis of supply chain business issues and Lumpers are better able to draw conclusions based on the data and analysis. Except there are three problems challenging supply chain leaders today:

- We can't gather and clean the data we have, and we are missing other data that would help, so Splitters can't be sure their conclusions are correct.
- Lumpers tend to rule organizations and are not comfortable with the black box of Splitter analytics, yet they know they need to be more data-driven.
- The management process for handling data, prioritizing AI/ML investments, and developing algorithms has not been established and is not taught in business schools or as part of company leadership training.

Lumpers and Splitters are stuck. What makes matters worse is that most of the data we look at to drive decisions is historical data. We are driving the organization forward by looking out the back window.

Looking out the windshield. The first breakthrough that is possible, and essential, is a new data model. We know that demand forecasting is wrong, so we tweak the process, often automate parts of it and then run it again. And it is wrong again, maybe less wrong, but sometimes catastrophically wrong. This is true especially for new products and services but frequently for legacy products and services whenever there is a disturbance in the competitive environment. The typical supply chain demand planning process starts with a demand forecast from sales and marketing. By their very nature, sales and marketing people believe they can sell more. And supply chain people have experience with overly confident sales forecasts which turn into slow inventory turns. For example, in 2010, SONY decided to launch a great new thing: internet television. The Sales team was ecstatic and believed this TV would sell globally in massive numbers. The supply chain group could not believe the numbers they were given, and the matter was brought to the CEO and management team. In the end, the CEO and the consumer electronics team decided that the Supply Chain team should make and deliver the TVs according to the sales forecast. Result: the TV was a failure and did not sell anywhere near the sales forecast. The large inventory of TVs had to be sold at rock bottom prices, below cost. Inventory turns were terrible, and no one benefited. Why couldn't the supply chain team win the argument and prevent the massive buildup of stock that eventually had to be sold below cost? Why couldn't the company look ahead and better understand the demand for the new TV? Because there was not a systematic way to look out the windshield and see what the customer really wanted. In fact, the data used to make major decisions on what should be made and what customers really want is often unavailable or unused in decision making. The decision to ramp up the supply chain to deliver massive quantities of LCD TVs would not have been made if data had been collected that showed people preferring to access the internet using a separate device.

Apple TV is a success because Apple recognized that people preferred to use a custom device. Consumers keep their TV displays for a lifetime. And everyone knows that we will access the internet differently within five years! Our experience shows that often companies have data that could be useful, but they do not leverage it across organizational silos. Further, companies often lack the analytical skills to interpret the data and make decisions.

We are working with an entrepreneurial brand and an industry leader, Under Armour, one that is centered in agility and a relentless drive for innovation, growth and continuous improvement. Under Armour's success is due in large part to their ability to successfully adapt and transform their strategy, momentum and balance by staying grounded with a powerful mission, vision and core brand pillars: product, story, service and team. As a brand that was going through a "get big fast" model, they were, for a time, really just running to keep up. Over the past several years, however, they've thought through and successfully executed strategic, operational and cultural transformations to become smarter, faster and stronger. By hiring the right people and putting the right teams in place, Under Armour has been able to run a much more choreographed play that has allowed them to think about how they manage inventory differently and how they put processes and systems in place that unlock strategic opportunities in the supply chain and across the business. To do that, Under Armour upgraded their main ERP system with SAP's fashion management system to ensure that the efficiency they're targeting is well supported with data intelligence.

CHAPTER 4

Knowing the New Customer requires a different approach and better data

“Customers are demanding more customization and better product, services, and experiences. Understanding customers’ preferences will be a huge game-changer.”

■ Brock Bayles, Vice President – Finance & Analytics, Toyota Financial Services

You can't clearly see what is in front of you when the best information that you have is last year's sales data. We have introduced the idea of a new data model in our [Algorithm Council](#) white paper. We want to share it again because it is vitally important for the Digital Supply Chain to have a new data model to serve the New Customer. Exhibit 1 (on page 16) shows the typical data model based on historical sales data and sales force optimism. The best you can do is to take last year's sales figures and adjust them up to reflect your growth ambitions. Exhibit 2 (on page 16) is a Digital Supply Chain Data Model that takes a radically different approach. First, the data model includes the collection of information that drives the behavior of customers or even the customer's customer, and does not rely solely on past sales records. Second, the new data model includes data that has not been traditionally available to supply chain managers. The Digital Supply Chain data model provides a clearer view of the future: a clear view of the New Customer.

The CEO of the future: We believe that CEOs of the future will frequently be drawn from the ranks of the Digital Supply Chain officers that have done a Frontside Flip. One example: Tim Cook, the CEO of Apple, was the head of the supply chain for IBM's PC business. Managing the core process of the company, improving efficiency, building revenue in line with what the New Customer wants — these are important aspects that will often outweigh the strengths of typical succession candidates like the CFO and Sales leader. And the careers of others will be dramatically affected.

New people, new skills are needed. The New Customer must be understood, and their needs translated into operational requirements for the supply chain. The Digital Supply Chain organization will need a radically different skill set than what we have today. First, the organization must include data scientists that can collect, analyze and recommend decisions to management. Li & Fung is one of the world's top supply chain companies. They are particularly effective in sourcing products from China. They have been involved with nearly everything that you see in Walmart. They are working round the clock to strengthen their data science and analytical skills; they want to make sure that they add value to all their clients, far beyond just lower costs. Each company must manage its employment brand to attract these digital skills and they must be placed into the organization where they can add the most value. Some companies have bought other companies just to acquire their people with data science skills. Others have tried to compete with digital native companies (like Amazon or Google) by offering interesting work areas. These "Splitters" are frequently placed into groups that operate on business problems across the organization. Sometimes, companies will use outsourcing to obtain needed data science and analytical skills. "Analytics as a Service" companies are also emerging. The Digital Supply Chain of the future will need all these skills and more.

EXHIBIT 1

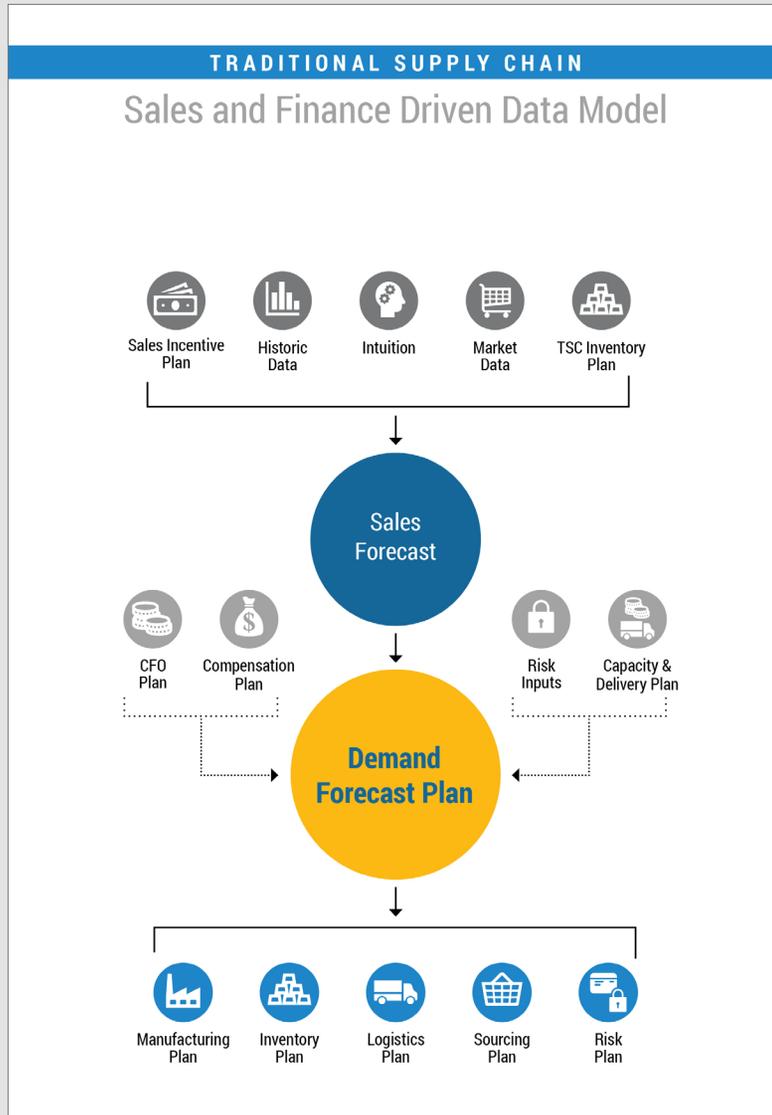
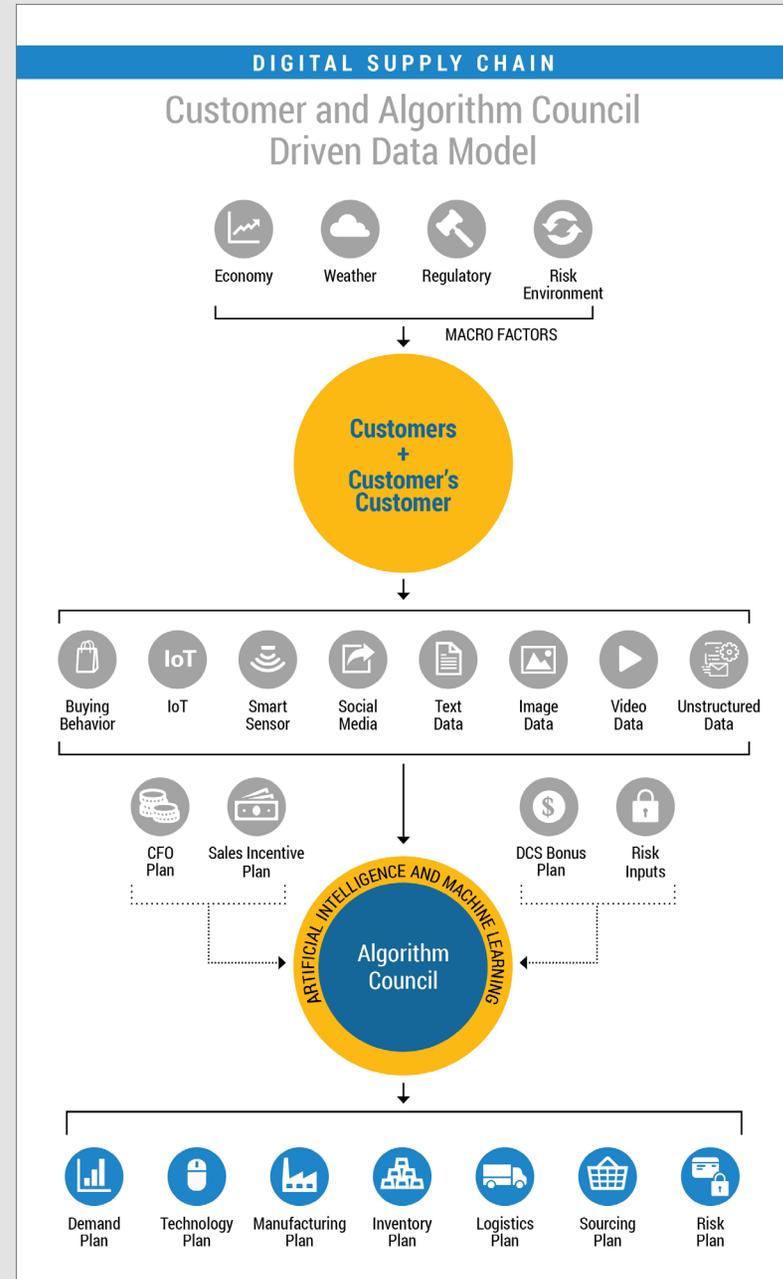


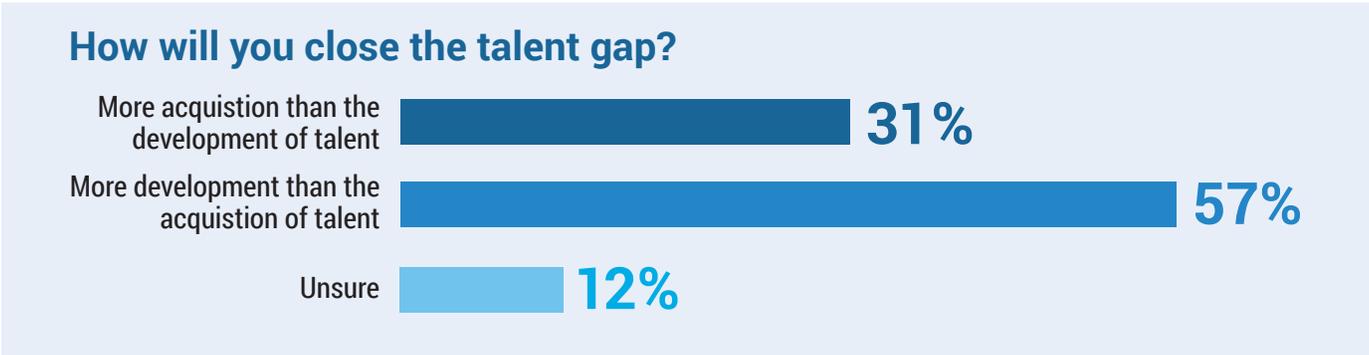
EXHIBIT 2



The truth is, even the best collection of Lumpers, Splitters, data scientists, and business owners will fail to have an impact if the overall supply chain organization is not prepared to operate in accordance with analytical results that truly define the desires of the New Customer. For this reason, supply chain organizations will undertake rigorous training to sharpen the skills of their people on data, analytics and customer focus. Interestingly, countries are beginning to look into growing the right skills to make their location more desirable. For example, Serbia requires all 5th graders to use Python and R, two of the most powerful analytical software tools available.

What will be the right mix of new people versus people who have brushed up their data skills? Hard to say. Some companies believe they can train and augment their workforce and require only a 5% change in people. Other companies predict that much more wholesale people change will be needed. Companies should focus on people who can help them understand the New Customer.

In a recent survey of more than 200 supply chain professionals and experts, we found that the development of talent has now overtaken acquisition as the primary way to close the talent gap.



Algorithms are the new management competency, and the best way to make sure that you pivot your supply chain to meet the New Customer’s expectations. One of our revelations is that algorithms require a central focus to provide strategically consistent benefits. Every company operates according to a set of formulae that define action. For example, retailers use algorithm(s) that dictate when stock needs to be replenished. Many of these formulae are based on rules-of-thumb and companies are typically not aware of the breadth of formula that is driving actions. Dell is a company that has long stood for excellence in supply chains. In fact, some would argue that Dell has the best supply chain in the technology business. They are sometimes cited as leaders in Mass Customization because each customer (business or consumer) can specify what they want in terms of features and functionality. We believe that the Dell supply chain grows sales because customers specify faster processors when they purchase their Dell devices. Customers love the way they can order what they need and be introduced to a series of options that make their life better. And yet, one of Dell’s top supply chain people says that Dell uses the Microsoft ERP the most as it operates its algorithms. What is the Microsoft ERP? Excel! The supply chain of the future must manage its algorithms across the organization in order to meet the needs of the New Customer. The best way to start is by forming an Algorithm Council that includes supply chain, IT, sales/marketing and finance people. The council can set priorities, deploy AI technology and make sure that algorithms are shared across silos.

Out with the old in with the new

New approaches to supply chain.

Making change happens while meeting quarterly goals. Many companies see the future of the supply chain but cannot get the bandwidth to prepare for it. These companies have strong financial people who make sure that cash flow and earnings per share stay on target. We have worked with a major defense firm, Lockheed Martin, that is facing challenges to its space business by new market entrants like SpaceX (Elon Musk) and Blue Origin (Jeff Bezos). Lockheed Martin is incredibly successful and technically excellent in space. It delivers on its promises to shareholders and customers. What can they do when they are facing companies that are run by billionaires that don't face the same quarterly earnings pressure? Lockheed Martin is finding a way to continuously operate and grow its existing business while competing in the markets that the new entrants are building. There is clearly a New Customer for space; A customer that expects all the Lockheed Martin has delivered and more. Another example is Corning, the world's leader in material science. (They produce Gorilla Glass screen protectors for smart phones). Corning has stepped up the pace of its change effort while maintaining its commitment to quarterly results. They face all the challenges that a successful company has in making change happen. But they are making progress because they have committed to meeting the needs of the New Customer.

There is good news and bad news for the Digital Supply Chain. The good news is really good. The revenue-generating Digital Supply Chain will be recognized as the single most important business process in any company. Building the supply chain of the future will make life better for the New Customer and will create a positive result for shareholders. People who "get it" will experience rapid career growth. In some companies, people who work in "Procurement" were engineers who were never quite good enough. Now, many of the best and brightest will seek out supply chain jobs.

Further, the Digital Supply Chain will have a positive social impact as suppliers and all companies can be held to a higher standard for working conditions and the environment. The bad news is that we don't have much time to change our supply chain. New Customers will insist on a new approach and will go elsewhere if we cannot provide it to them.



C-suite actions needed now

The journey toward the Digital Supply Chain that delights the New Customer requires immediate action. Here is our suggested plan for making progress:

- 1 Put someone in charge of the transformation process and have them report to the executive management committee.
- 2 Analyze the current supply chain against the requirements of the New Customer. Internal assessment is essential, but external assessment is just as important. Interestingly, they do not always add up. One company we have worked with has suppliers and customers that feel they are way ahead of the competition. However, the internal assessment revealed a team that felt they were behind. The worst-case would be when the internal team feels they are doing well but an external survey reveals real weakness. We have developed internal and external assessment tools to help companies assess the maturity of their transformation process. You can access the short Transformation Maturity Assessment [here](#).

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- 3 Segment your customer base and identify emerging New Customer requirements. While this paper has outlined many aspects of what New Customers want, there are differences by industry and geography. This segmentation should be done in collaboration with Marketing, but the focus is on operational requirements that might vary by segment. For example, in some segments, rapid delivery means one day and in others, rapid delivery may mean one week!

 - 4 Develop an action plan that addresses the four elements of Demand, People, Technology and Risk. Make sure that supply chain people are measured and rewarded on their contribution to demand, get the right people with the right skills in the right organization, deploy the new data model and needed technology and make sure that risk management is covered!

 - 5 Form an Algorithm Council and support progress through investments in AI. Embrace algorithms and data science as a management competency.

 - 6 Undertake laser-focused change projects that have a definable benefit and execute with passion. Measure and report progress. Use our [Catalyst framework as a model](#).

 - 7 Go faster than you are comfortable. Aim to make our customers happier with your supply chain than all others.
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“Some say that there is a reason Sears didn’t invent Amazon.” Each innovative new solution/platform/product has one thing in common – they change the experience and value for the customer and thus expand and dominate a market at the same time. Those opportunities exist once companies put the customer at the center of their innovation cycle.”

■ Brian Simons, CEO, Janus Logistics Technologies

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