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cutting through complexity

Driven by Demand

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According to exclusive KPMG LLP (KPMG) research, companies that have instituted demand-driven supply chains (DDSC) have a distinct financial edge over their industry peers. Indeed, among participating organizations in KPMG's study, 58 percent that have instituted collaborative visibility along with a demand-driven focus outperformed their peers on revenue growth, and 55 percent did so on margin growth.

In a DDSC, companies use information on actual demand or real-time consumption as the basis for replenishment or production.

At present, many enterprises using DDSC concepts still operate in a linear fashion. Instead of evaluating the supply chain as a single system, each supply chain partner operates asynchronously such that each node has its own view of demand with no visibility beyond the next tier. Because each supply chain partner receives demand signals sequentially, it can take suppliers a week or even a month to react to changes, promotions, or stock-outs impacting the customer.

The value of a networked DDSC model

The key to leveraging the full benefits of DDSC lies in utilizing a networked approach. This allows the synchronized, simultaneous sharing of critical information with all partners in the network, thereby supporting collaboration among supply chain partners to address supply disruptions or shifts in demand.

In a networked model, supply chain partners can connect to a collaborative platform—even one that is cloud-based—allowing them to operate as a single, virtual organization. This eliminates information latency, enabling demand and supply information to propagate across the supply chain instantaneously. The result is real-time visibility into changes in demand and supply.

This singular view of customer demand for all companies in an extended supply chain not only supports tighter collaboration and leads to lower inventory levels; it can also increase sales and profit margins.

While this sounds theoretical, KPMG's research, conducted among 250 companies in the fall of 2013, validated that the networked DDSC approach enabled improved financial performance.

> “Because a network model provides a singular view of customer demand for all supply chain partners, it supports tighter collaboration.”

Common characteristics of companies utilizing collaborative DDSC

KPMG found that enterprises with collaborative DDSC ability had three critical characteristics. First, participants throughout the extended supply chain had real-time access to all relevant data and information on physical and financial flows. Second, the organization leveraged planning systems and tools to integrate customer and supplier operations to improve forecasting, inventory performance, and responsiveness. Third, the business leveraged planning systems and tools to align cross-functional, internal operations (e.g., sales, production, inventory, sourcing, product development, and finance/budgeting).

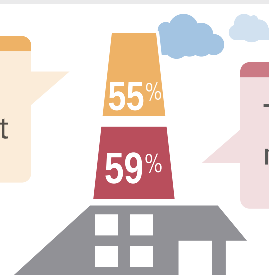
The research segmented companies into four groups, either by revenue growth or margin. Companies in the highest quartile for either revenue or margin were more likely to have the above-cited DDSC characteristics.

For example, of the companies that had implemented DDSC, 55 percent in the top quarter for revenue growth said participants throughout the extended supply chain had real-time access to all relevant data and information on physical and financial flows. That was also true for 59 percent of companies in the top quarter for margin. (See Chart 1 below.)

> “A network DDSC can convey demand signals instantaneously. The result is real-time visibility to changes in demand and supply.”

Companies that leverage real-time access to all relevant data on physical and financial flows:

Top quartile of peers in revenue growth – 55 percent



Top quartile of peers in margin – 59 percent

Similarly, 62 percent of top quartile respondents for revenue growth said they leverage planning systems and tools to integrate customer and supplier operations to improve forecasting, inventory performance, and responsiveness. Sixty percent of those in the top quartile for margin growth also utilize planning systems and tools.(See Chart 2 below.)

> “Fifty-eight percent of surveyed companies with a network DDSC outperformed their peers on revenue growth, and 55 percent of surveyed companies did so on margin.”

“In KPMG’s experience, companies with a networked DDSC have a more balanced cash flow,” said Amit Gupta, a KPMG partner and one of the study authors. “They also experience a 1 to 4 percent improvement in sales, a 5 to 10 percent reduction in operating expenses, and a 20 to 30 percent reduction in inventory.”

Moreover, 65 percent of the companies KPMG surveyed said that having visibility and collaboration via a networked DDSC approach helped to create resilient supply chains. KPMG will discuss the relationship of networked model DDSC to supply chain resiliency in a separate paper.

Companies with the highest **revenue** growth place more importance on DDSC and DDSC capabilities.

Companies with highest **margin** growth place importance on DDSC and have more DDSC capabilities.

When looking at companies that had placed more emphasis on and developed more capability for DDSC, the survey found that a high percentage of this group outperformed their peers.

Companies with real-time access to all relevant data on physical and financial flows

% in top quartile of peers in revenue growth – **55**

% in bottom three quartiles of peers in revenue growth – **45**

% in top quartile of peers in margin growth – **59**

% in bottom three quartiles of peers in margin growth – **41**

Organizations leveraging planning systems and tools to integrate customer and supplier operations to improve forecasting, inventory performance, and responsiveness

% in top quartile of peers in revenue growth – **62**

% in bottom three quartiles of peers in revenue growth – **38**

% in top quartile of peers in margin growth – **60**

% in bottom three quartiles of peers in margin growth – **40**

Organizations leveraging planning systems and tools to align cross-functional, internal operations such as sales, production, inventory, sourcing, product development, and finance/budgeting

% in top quartile of peers in revenue growth – **57**

% in bottom three quartiles of peers in revenue growth – **43**

% in top quartile of peers in margin growth – **55**

% in bottom three quartiles of peers in margin growth – **45**

What's collaborative, demand-driven visibility?

In a demand-driven model, the supply chain flow starts with the buyer, who pulls a product through the supply chain. Buyer purchases provide the demand signal to determine production and replenishment.

By adopting a network model, in which all parties share information in concert, retailers, distributors, manufacturers, and suppliers can collaborate on how to respond to market fluctuations in product demand.

The research construct

In October and November 2013, KPMG conducted a series of in-depth interviews with 250 executives across a mix of FORTUNE and Global 500 corporations in the United States. The firm asked them detailed questions about the importance and capabilities of their demand-driven supply chain. Respondents were asked to rate on a five-point scale their organization's real-time access to information on physical and financial flows, their use of systems and tools to integrate customer and supplier operations, and their utilization of planning systems and tools to align cross-functional, internal operations such as sales, production, inventory, sourcing, product development, and finance/budgeting.

The companies spanned a cross-section of industries, including medical equipment, pharmaceutical, automotive, consumer packaged goods, heavy equipment, high technology, and light manufacturing.

The DDSC industry leaders and laggards

Per KPMG's research, companies in five industry sectors lead the adoption of demand-driven concepts. Industries ahead of the curve for networked DDSC are medical equipment, pharmaceutical, consumer packaged goods, high-technology and light manufacturing. Other industry sectors such as automobile and heavy equipment manufacturing lag behind.

“In KPMG's experience, companies with a networked DDSC have a more balanced cash flow. They also experience a 1 to 4 percent improvement in sales, a 5 to 10 percent reduction in operating expenses, and a 20 to 30 percent reduction in inventory.— **Amit Gupta**”

“Companies that have adopted a networked DDSC have a financial advantage in terms of higher revenue and margin growth.”

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