

Redefining Digital KPIs for the CPG Industry

Abstract

The digital wave has disrupted the consumer packaged goods (CPG) industry – driving companies to transform into leaner, data-centric enterprises, by leveraging cloud, mobility, the Internet of Things (IoT), pervasive analytics, and automation. Industry players are already investing heavily in these technologies as they recast their existing business capabilities, such as product placement, marketing content development, customer connects, supply chain, and sales operation, to align with market needs. Before embarking on this journey, they need to take into account the new set of key performance indicators (KPIs) to align enterprise transformation with organizational strategies.

With high expectations on the benefits disruptive technologies promise, we delve into the guiding principles and new ways of measuring enterprise changes across the CPG value chain processes and functions. The paper emphasizes the need for a KPI-driven approach with the changing face of key metrics, while working toward achieving enterprise-wide standardization, simplification, and digital excellence.

APQC's Open Standards Benchmarking¹ reveals that taking a holistic view of process performance is far more effective than a siloed view for organization level strategic decisions.

Measuring Process Performance

In an increasingly competitive market, implementing and expecting results from point solutions for select business and IT processes could be detrimental for an enterprise. For example, launching e-procurement channels for suppliers, without a proper channel collaboration and logistics plan in place, would lead to poor inventory management.

However, this has not deterred leading CPG companies from embarking on largely disruptive digital transformation journeys. The intent is to not just change their overall IT environment, but also the way they do business – through new channels, targeted commerce, insight-driven forecasting and sales, distributor and retailer collaborations, to name a few.

For organizations to realize the desired outcomes from such initiatives, they need to take control of all the changes that are impacting specific CPG processes. Failing to do so will not only increase program costs and process inefficiencies, but also result in revenue and market-share depletion. The world has seen multiple such instances where some an enterprise has had to abort a multi-year digital initiative after failing to realize desired benefits in an organized manner.

To start with, let's focus on the more critical CPG value chain processes – Procure-to-Pay (P2P) and Order-to-Cash (O2C). The functional coverage of these processes is illustrated in Figure 1.

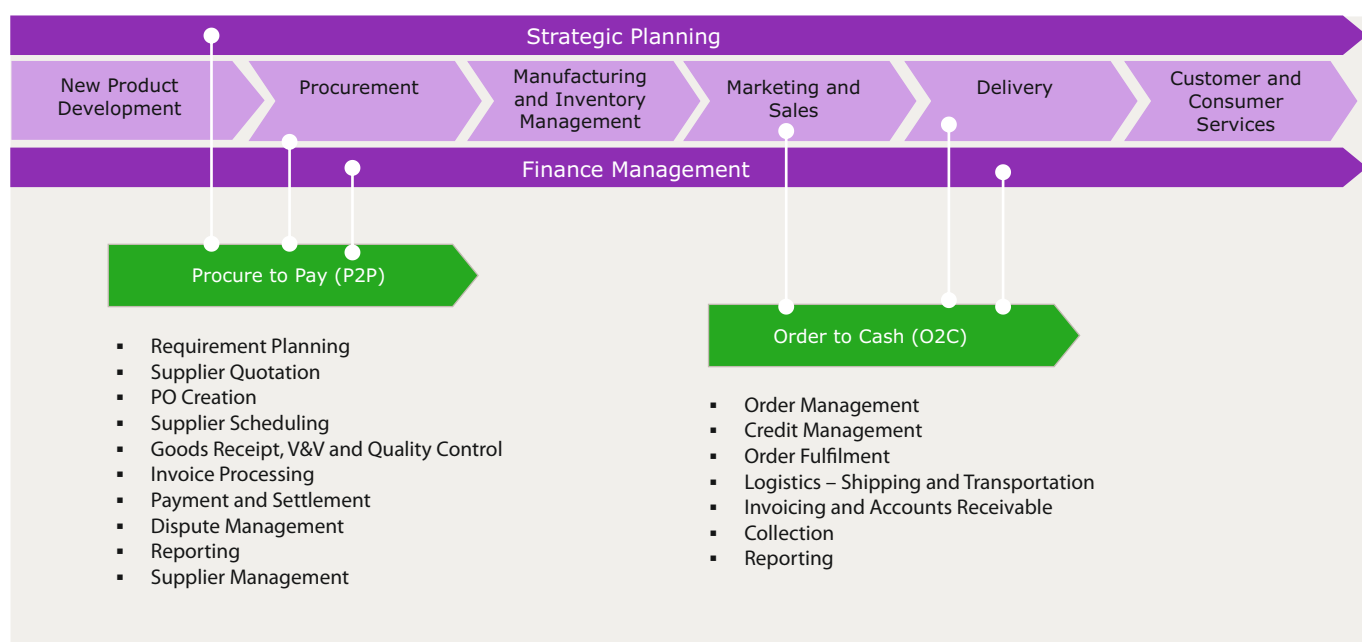



Figure 1: Functional Map of P2P and O2C Processes with CPG Value Chain



Digital business KPIs are designed to evaluate the degree of progress in becoming a digital organization — which in turn leads to a change in business performance that is reflected in the enterprise KPIs measured at the corporate level.


Selecting the Right Indicators for Measurement

When measuring the progress of a digital transformation initiative, CPG enterprises need to track the impact of changes in both existing operations and on the required outcome. An initial set of KPIs is required to assess the progress in digitalizing the CPG value chain – R&D, sales and marketing operations, procurement, logistics, and customer service. The second set of business KPIs is required to assess the impact of these changes on new digital business models – sales and revenue, market share, brand equity, and customer satisfaction— that will clearly differentiate the new state from the non-digital ones.

Organizations should therefore change their current outlook to KPI measurement and deploy a new model to keep the journey on track. Broadly, these KPIs can be categorized into digital and enterprise KPIs.

- **Digital business KPIs** depict the degree of optimization that the disruptive initiatives will have on the current business model
- **Enterprise KPIs** are re-casted business performance indicators that measure the impact on the business outcome

Along with the right set of KPIs, organizations would also need a robust KPI measurement framework rigorous enough to not only measure the KPIs against benchmarks, but also identify the improvement levers for an organization to meet and cross those benchmarks.



According to APQC's Open Standards Benchmarking, Procurement automation has been adopted by a majority of the organizations with 82% of them already using e-procurement, while 6% plan to adopt it within next two years, and 12% have no plans to engage in e-procurement

Performance Indicators for the Procure-to-Pay (P2P) Process

The P2P function has a considerable impact on the bottom-line – 5% reduction in procurement costs can increase around 3% in net profits for an organization. While operating in a complex multi-vendor environment, companies can hope to improve efficiency through strategic collaboration and digital automation across processes.

We worked with a leading CPG enterprise to digitalize its P2P processes. Figure 2 illustrates the next-gen business KPIs and the benefits the company accrued. The future-ready procurement function was reimagined leveraging the following five digital solutions:

- **Digital supplier collaboration** – to improve collaborative demand planning, real-time inventory visibility at different CPG nodes as well as predictive analytics-based supply data management.
- **Procurement self-service** – to facilitate category and tactical procurement through self-service capability that enables process efficiency and cost reduction.
- **Global process standardization** – to improve procurement results and decrease operating costs through spend visibility, inventory visibility, and supply chain control.
- **Digital supply chain integration** – for global access to centralized information as well as real-time update of inventory movements throughout the value chain (for the ease of business operations and to improve productivity through process agility and flexibility).
- **Automated invoicing and validation** – with robotic process automation (RPA) to help automate repeatable processes, resulting in cost savings as well as reduction in invoicing errors.

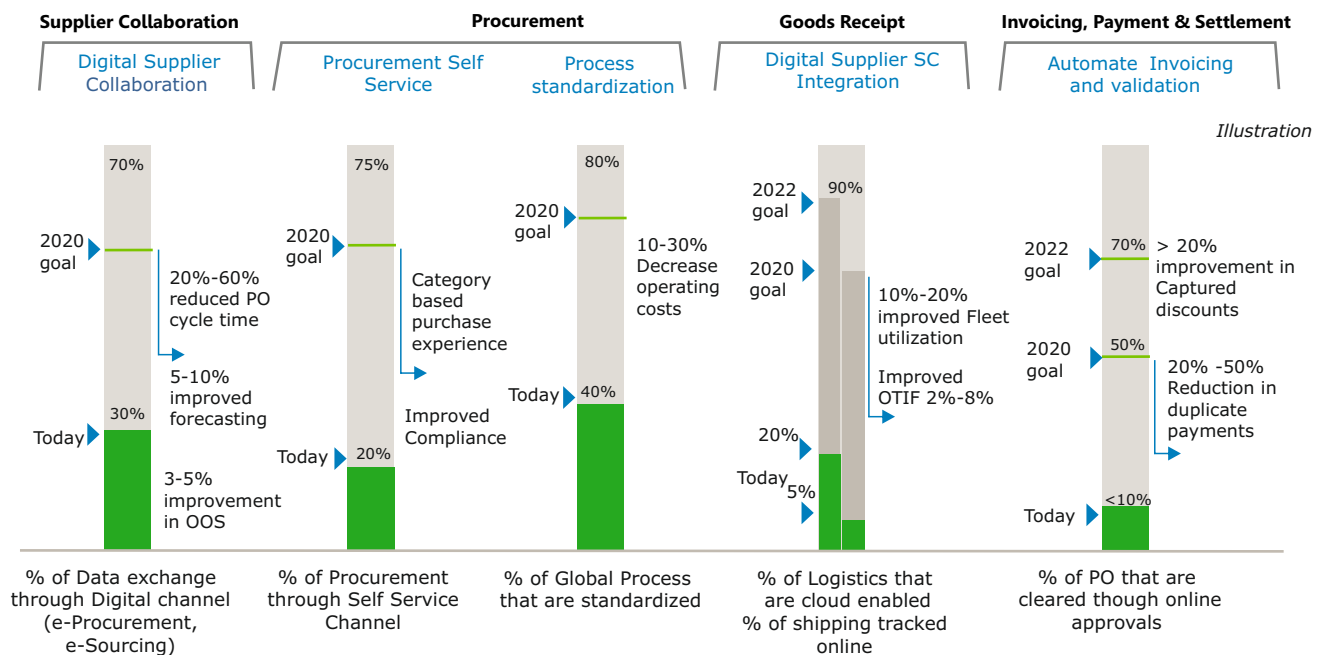


Figure 2: Digital KPIs and benefits for P2P Process for CPG (illustrative)

Performance Indicators for the Order-to-Cash (O2C) Process

Digital automation and data dissemination is rapidly changing the O2C operations for CPG enterprises. A leading global electronics major introduced omni-channel fulfilment and revamped its ecommerce and digital channels, resulting in some 8% increase in sales and 10% improvement in inventory turnover. Figure 3 illustrates some of the digital solutions and corresponding KPIs in the O2C process:

- **Order management through digital channels:** Consistent experiences at customer self-service portals is critical for driving online sales. Supported by targeted marketing, this ensures comprehensive improvement in sales for an organization.
- **Data-driven sales force enablement:** An integrated and digitally-enabled sales force is going to close a critical gap in the overall CPG value chain, playing an important role in terms of brand development and sales growth. Data-driven sales will also help align the supply chain with manufacturing to enable leaner operations.
- **Digitalizing logistics and its control tower:** Digitalizing supply chain logistics with a focus on data management, visibility, and usage will bring in predictability to overall inventory movement.

A leading CPG major improved its sales force productivity by 15% using a guided order management solution.

- **Digitally integrated finance management:** Organizations are already shifting away from monolithic ways of operating toward cloud based, loosely-couple micro-services capabilities for ensuring seamless information flow. Finance is the middle man for such initiatives as it connects both the demand and supply side to elevate customer experience.

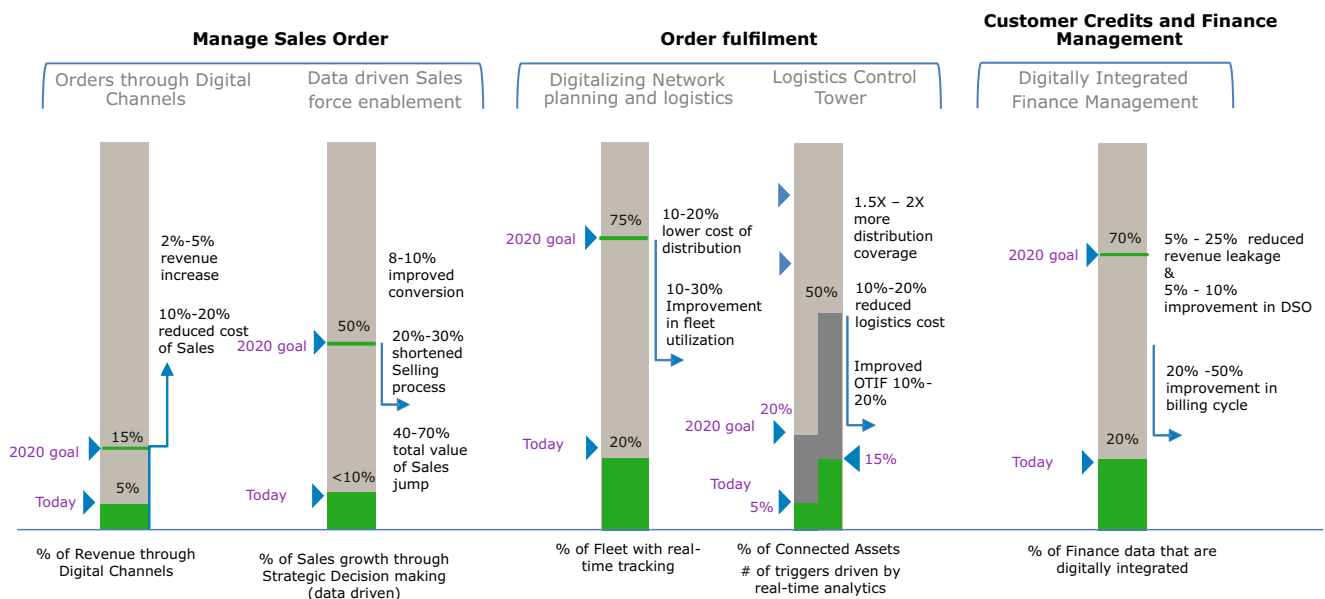


Figure 3: Digital KPIs and benefits for O2C Process for CPG (illustrative)

The Road Ahead: Enabling Growth with an Effective Reporting Framework

Our on-the-ground observations of how the industry is progressing lead us to believe that most leading global CPG firms have already embarked on digital journeys. Some of the key solutions being leveraged in this regard are:

Digital marketing and ecommerce channels – to revamp product marketing through microsites and offer ecommerce channels that are homegrown or partner-supported.

- **Next-gen supply chain operation:** through integrated distribution management systems, omni channel fulfilments, control towers, integrated warehouse management, and automation.
- **Data aggregation and pervasive analytics:** for information-based demand sensing and forecasting.
- **Manufacturing automation** and digitization

- **Sales force automation:** for real-time visibility to enable improved order capture and customer satisfaction.

- **Workforce automation**

Setting up a KPI-value framework will give CPG organizations the leading edge during any disruptive enterprise transformation, helping them take control of activities and tasks in a systematic and inclusive manner. Figure 4 below provides the broad level guidelines – highlighting the primary activities to be considered when establishing such a framework.

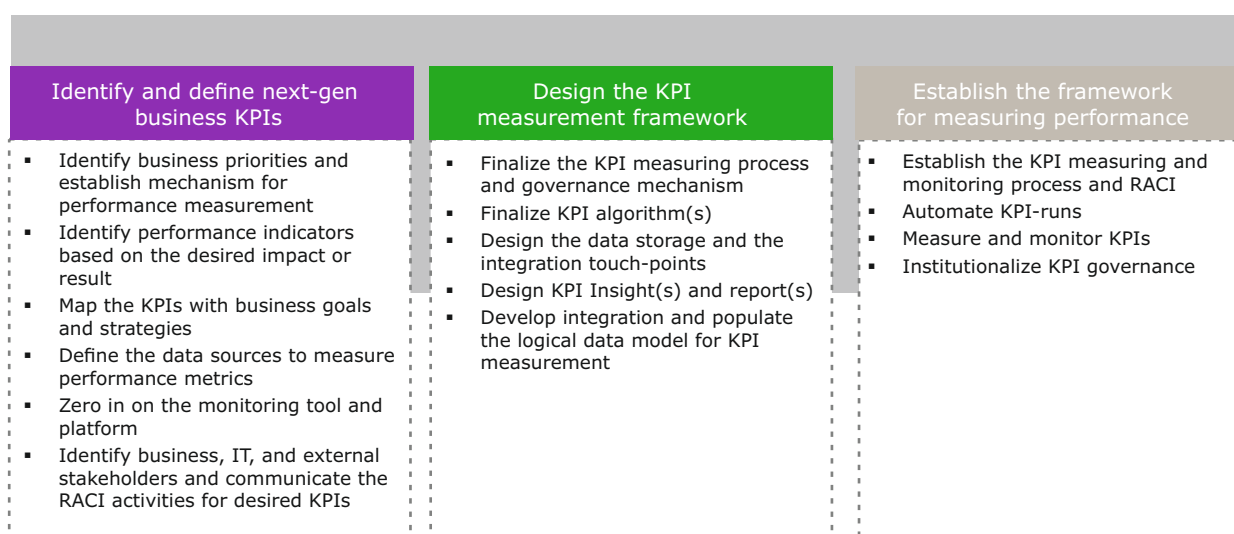


Figure 4: Guidelines to set up the KPI-Value Framework

Digital is not a new concept, and CPG majors are already at the cusp of making the transition. However, it is recommended that enterprises take a holistic view of the changes across an organization and more specifically, across the CPG mega-processes. While initiating any transformation program, organizations need to have the right measures aligned to their goals in order to ensure success using a KPI-driven approach.

References

1. APQC Process Classification Framework, accessed on January 15, 2018, <https://www.apqc.org/knowledge-base/documents/building-process-maps-how-use-process-classification-framework>

About The Author

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Sombit Neogi is a senior functional consultant with TCS. He has over 20 years of experience in providing advisory services and IT solutioning support to CPG enterprises across the globe. Neogi has led multiple consulting engagements across IT strategy for mergers and acquisitions, divestitures, IT transformations, and simplification. He has also authored several position papers and thought leadership articles on domain-led innovation and productivity improvement across CPG value chains. Neogi holds a Bachelor's degree in Mechanical Engineering from Jadavpur University, India.

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