



Consumer Goods Supply Chain Landscape: Is Best-of-Breed a Dying Breed?

Executive Summary

Consumer goods manufacturers have traditionally sought large-footprint solutions for their transactional foundation (e.g., order processing, procurement, finance functions, etc.). However, the supply chain space (covering planning functions such as demand planning, production/distribution planning and execution functions such as transportation and warehousing) has always been the forte of “best-of-breed” solutions. These have historically been stronger in their decision-support capabilities and offered richer functionality that accommodates more complex business scenarios.

However, the last few years have brought about numerous changes to this business scenario:

- An increasingly accelerated spate of mergers and acquisitions among leading supply chain best-of-breed solution providers (see Figure 1) has called into question the long-term continuity and roadmap of some of these solutions, as well as the viability of the software companies themselves.
- A tough economic environment has constrained the growth of new license sales. As a result, smaller “best-of-breed” players have moved into the services space to offset the decline of license revenues; in fact, this has happened to

such an extent that in many cases “services” constitute the majority revenue stream. This is a disturbing long-term trend, since it shrinks the system integrator partner ecosystem for these smaller firms and could significantly increase the lock-in effect that these product firms have on consumer goods companies.

- Large-footprint vendors (read: SAP, Oracle) have, meanwhile, built up their arsenal of supply chain capabilities and now seem more attractive because of their purported “ease of integration,” stable architectures and large skill set availabilities.

The impact of a typical merger or acquisition in the best-of-breed space can be quite prolonged, since it is a complex function of market liquidity, size of the merging entities, their organization structures, cultures, etc. It may take several months and even a few years for the resulting merged entity to align and communicate a unified vision for its roadmap. Among the key implications:

- The consolidation period is beset with doubts over the strategies that the solution vendor will adopt in future functionality/architecture, as well as continuity of support.
- In the case of products with overlapping functionality coming together (e.g., JDA and i2), it

- **In most cases, moving away from best-of-breed solutions is a path to tread cautiously.** It poses significant change management challenges in dealing with an organization that has grown very comfortable using these systems and appreciates the flexibility they offer. Especially if the move is to a larger-footprint solution that allows for little customization, the resistance from business can be a significant challenge.
- **In the case of customers evaluating best-of-breed vs. large-footprint solutions,** the aforementioned risks of best-of-breed providers need to be considered. But at the same time, in many functional areas, the large-footprint vendors haven't "caught up" yet with niche providers.

Strategies for Transformation

The following are a few alternatives that consumer goods companies should pursue to address the challenges mentioned above.

1. **Migration to a large-footprint solution:** There are specific areas in which large-footprint vendors have closed the gap with best-of-breed vendors (e.g., Oracle has accomplished this in the demand management space with its acquisition of Demantra and in the transportation space by acquiring G-Log). The large-footprint vendors often offer more stability, a better roadmap and better integration with the transactional environment. If it doesn't come with a significant compromise of functionality, it may make sense to migrate to the large-footprint solutions.
2. **Support scaffolding:** Regardless of the future course taken, it may make sense to sign up with a system integrator to support a best-of-breed solution for a few years. This strategy is more of an insurance policy for consumer goods companies, as it covers them from the risk of internal talent flight and market scarcity of skill sets. These risks are transferred to the system integrator, which is often in a position to handle them better because of scale and knowledge/skill management practices. This model could also potentially result in cost savings and free up internal resources to focus on the future solution.
3. **De-scoping best-of-breed:** In an effort to reduce reliance on best-of-breed vendors with uncertain futures, it is possible to reduce the scope for which best-of-breed solutions get leveraged. The rationale here is, "If it can

be done by my existing ERP/large-footprint solution, then it doesn't need to be done in the best-of-breed solution."

Taking this path reduces the extent to which leveraging best-of-breed solutions is necessary and paves the way for an easy future replacement in a "modular" fashion, either with a large-footprint solution or with custom systems. Of course, should one decide to retain the "core functionality" of the best-of-breed solution, that is also an alternative.

4. **Replace with a "custom-built" solution:**

There may be a limited number of situations in which, especially combined with Strategy 3 above, it makes sense to rebuild part of the best-of-breed functionality in a custom solution and retire the best-of-breed solution. Maintaining a custom-built solution is not necessarily easier than maintaining a highly customized best-of-breed installation, but the financials may work better in a model that avoids annual maintenance contract costs. This alternative could be evaluated in cases where there are unique elements to a customer's business model and, in turn, the best-of-breed installation. Another instance is where leveraging industry best practices embedded in a commercial package solution is not a major consideration.

5. **Status quo:** As unintuitive as it may seem, weighing benefits, costs and risks may in some instances lead to the conclusion that no change is necessary to the current setup or support model. By nature, this strategy is a time-bound one, so it may be necessary to revalidate the setup or support model every six months to a year.

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An Approach To Determine the Best Path

In our experience, many consumer goods companies face several of these previously referenced challenges but are unable to determine the best

path forward due to lack of alignment between the business and IT organizations. This is where it may make sense to have the evaluation done by a “neutral third party.” We have often played this role with consumer goods companies. What follows is a high-level approach for addressing this challenge.

Our SCALER™ (Supply Chain Application Landscape Evaluation & Recommendation) framework evaluates a supply chain application landscape across key dimensions and provides a variety of insightful reports to trigger meaningful actions aimed at making the landscape leaner and more agile. The framework (see Figure 2) is complemented by our team of domain and technology experts, who collaborate with our clients to conduct a comprehensive, top-down (centered around business priorities and industry best practices) and bottom-up (application-centric) analysis. We use a structured approach that involves extensive interviews, questionnaires and secondary research.

The five-phase methodology, which typically spans a period of six to eight weeks, kicks off with a one-day workshop that gathers the overall context and priorities, stakeholder dynamics, objectives and roadblocks. This is followed by inventorying and profiling the application portfolio, as well as conducting a value and dependency analysis. Based on these analyses, opportunities are identified, and a future course of action is recommended. The major activities in each of the stages are shown in Figure 2.

Stage 1: Application Profiling

This phase is focused on collecting information on various supply chain applications, across key dimensions. These applications are then grouped into clusters based on the following:

- Business functions and interdependencies
- Business processes
- Key business areas, IT groups/owners
- Geographical spread
- Technology needs/issues
- The client’s objectives

Stage 2: Application Value Analysis

A value analysis is performed on the applications to determine business, technical, financial and strategic alignment (see Figure 3, next page). Individual applications are modularized as appropriate for this analysis (keeping in mind that some of the final recommendations may apply only to a specific portion of an application).

Stage 3: Application Dependencies

Dependency analysis helps identify the relationship of the application with both internal and external systems. The factors that are evaluated for the internal and external interfaces include the number of interfaces, types of interfaces, data dependency and directional dependency. Dependency analysis provides a view of how easy or difficult it is to upgrade or replace individual applications in the landscape.

Cognizant's Methodology for Application Portfolio Rationalization

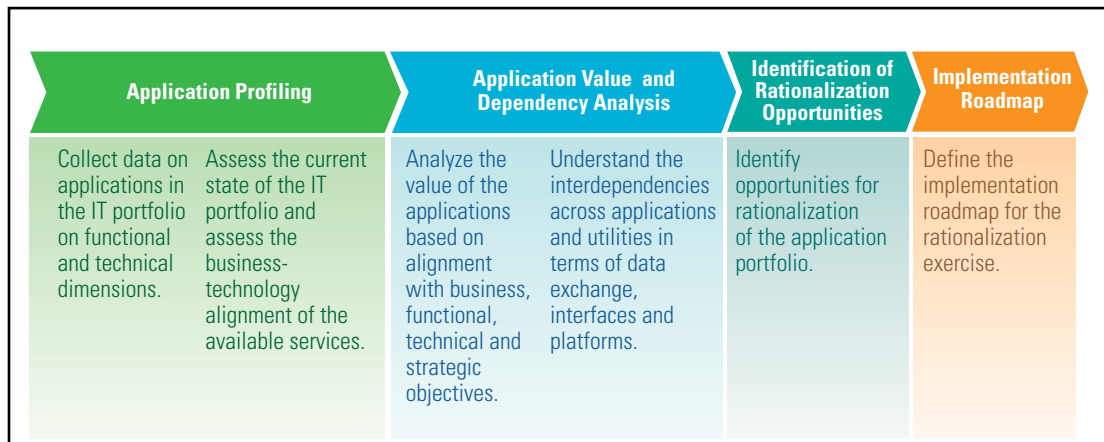


Figure 2

Application Value Analysis

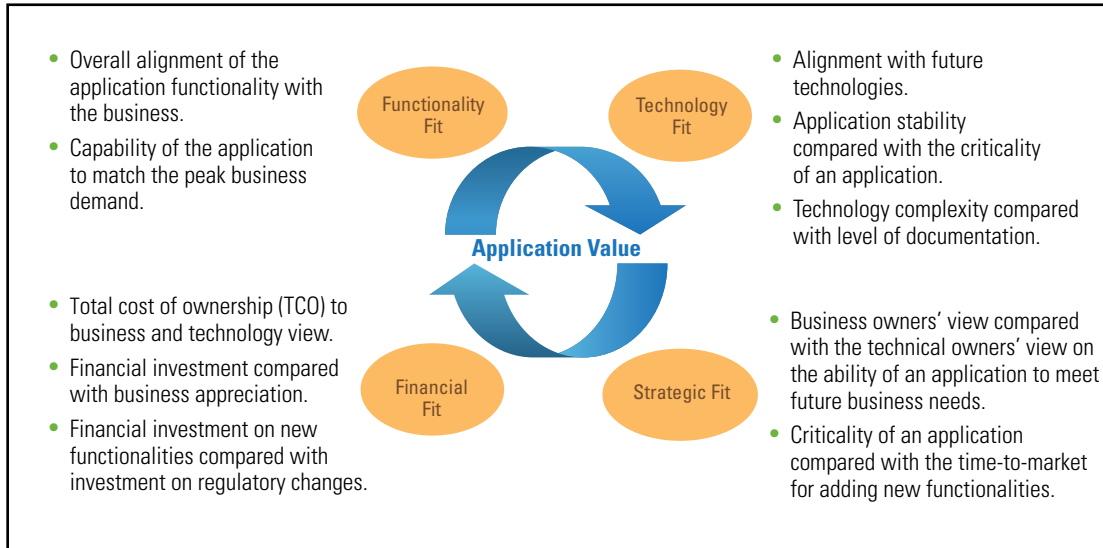


Figure 3

Stage 4: Identify Rationalization Opportunities

The following steps are performed to identify the rationalization opportunities:

- **Evaluate technology health score:** This covers application and technical owner perspectives on dimensions such as stability, complexity, flexibility, availability, support, documentation and security.
- **Evaluate business alignment score:** This covers the business owner perspective on dimensions such as functionality, best practices, business objectives and usability.
- **Compare high-level advantages and disadvantages, supporting information for each application:** This can be done by categorizing each application, as shown in Figure 4.
- **Institute low-level due diligence:** This is required to inform decision-making related to retire/maintain/reposition/reengineer for each application group.

The value analysis and dependency analysis, along with the decision matrix, will help your organization arrive at specific recommendations for each application, as shown in Figure 4.

Stage 5: Develop an Implementation Roadmap

Based on the analyses mentioned previously, a set of recommendations and a risk-minimized migration plan is prepared for rationalizing the

applications. The migration plan for the application portfolio is based on the following guiding principles:

- Determining a target technology platform for those requiring migration.
- Identifying candidates that can be decommissioned.
- Creating a phased comprehensive implementation roadmap.
- Sequencing the roadmap based on application priorities and dependencies.

Decision Matrix

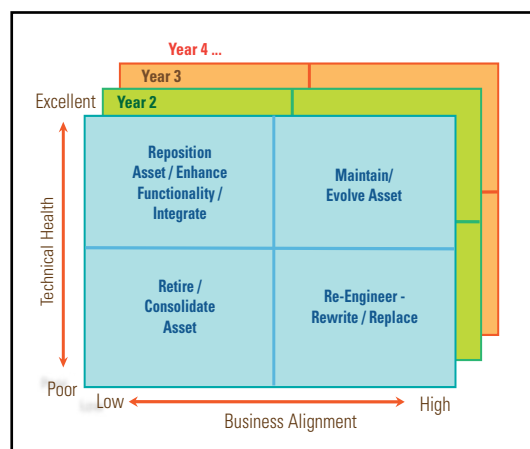


Figure 4

Our Experience

We have worked extensively in the consumer goods supply chain space and have helped many companies achieve substantial benefits through the rationalization of their supply chain IT portfolios (see Figure 5). Our teams are focused on delivering implementation/integra-

tion/maintenance services around best-of-breed packages (e.g., JDA/i2/Manugistics, Red Prairie, Manhattan), as well as large-footprint solutions (e.g., SAP, Oracle). We bring a vendor-agnostic perspective to help consumer goods companies make their supply chain platform choices.

Best-of-Breed Package Experience Summary

Demand Planning	Supply Planning	Supply Chain Execution
<ul style="list-style-type: none"> • Leading maker of branded clothing: Provided technical solution; designed and developed new modules to support new business requirements; significantly reduced cost of providing application services. • Leading cosmetic products company: Completed a Manugistics upgrade in three business regions – EMEA, North America and Latin America; provided JDA application administration, development, production support and enhancement activities. • Leading auto parts retailer: Provided space management for replenishment; integrated data for forecast optimization; provided support and maintenance in coordination with a leading best-of-breed vendor. 	<ul style="list-style-type: none"> • Global leader in household, health and personal care: Conducted portfolio analysis to help improve supply planning process and reduce overall planning cycle. • Global consumer goods major: Re-engineered the sales and operations planning (S&OP) process, evaluated various solutions and provided a roadmap. • Leading consumer electronics retailer: Helped build a centralized inventory management system; implemented Manugistics for forecasting, demand planning, inventory and PO planning. 	<ul style="list-style-type: none"> • Global leader in fragrance and personal care products: Manage client's RedPrairie DLx and DM Plus WMS applications and interfaces. • Leading worldwide brewer: Designed and implemented a product ordering inventory net tool, integrating SAP ERP; implemented reverse logistics solution to improve claims process. • Leading consumer packaging group, the world's leading beverage can manufacturer and a global leader in rigid plastic packaging: First production deployment of the SAP TM solution globally; implemented dynamically push orders and order changes into its transportation optimization and carrier selection planning processes.

Figure 5

About the Authors

Nishanth Vallabhu is a Director in Cognizant's Business Consulting Practice. He has over 12 years of experience in the supply chain space and has worked extensively with leading consumer goods companies. Nishanth has led multiple supply chain programs involving both "best-of-breed" and "large-footprint" solutions. He has worked in a line role in the supply chain space and has also served this area as a consultant and systems integrator. While he has worked extensively across the supply chain planning and execution space, Nishanth's current areas of interest include inventory optimization, deployment planning and supply chain execution (transportation, warehousing). Nishanth has made past contributions to the Supply Chain Council and is a regular speaker at conferences on this subject.

Prior to Cognizant, Nishanth worked with the consumer goods consulting group of i2 Technologies and with the supply chain strategy group of Whirlpool Corp. As a consulting director, Nishanth advises Cognizant's clients on business-IT alignment strategies and is focused on delivering business value to clients through Cognizant's service portfolio. Nishanth has an MBA from the Indian Institute of Management and a bachelor's degree in engineering from the Indian Institute of Technology. He can be reached at Nishanth.Vallabhu@cognizant.com.

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About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world's leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 118,000 employees as of June 30, 2011, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.



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