Transforming a Tier 1 Industrial Supplier's Supply Chain

How KPMG designed the "what" and then the "how" to drive a successful central supply chain planning transformation

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Contents

The Opportunity

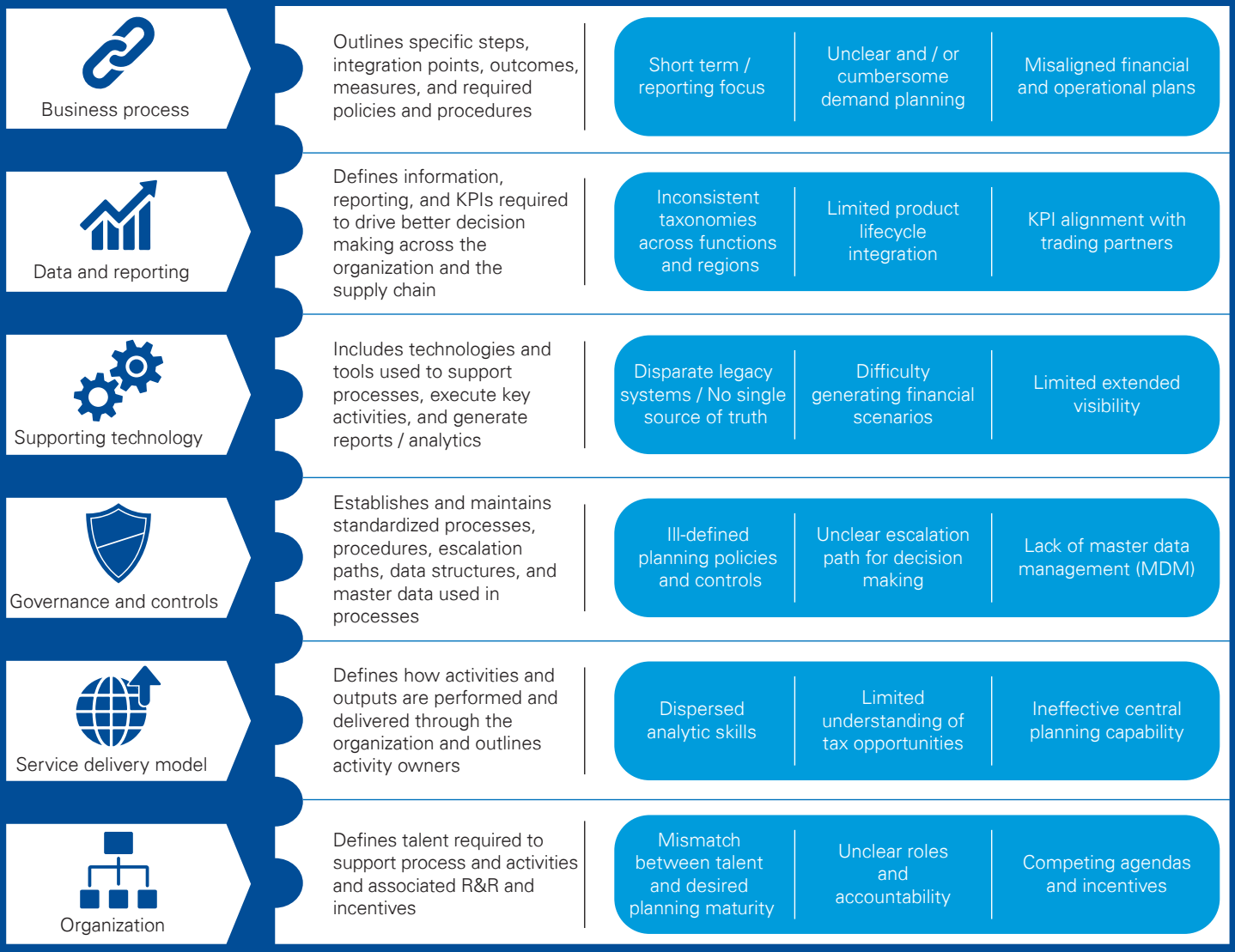
The client is a tier one automotive seating supplier—supporting a global network of more than 200 manufacturing facilities in over 30 countries.

During a broader operating model assessment and design program, KPMG identified opportunities to improve supply chain planning processes, data, technology, governance, service delivery model, and organization.

The company's decentralized and manual supply chain planning processes resulted in disconnected strategy and operations, suboptimal capacity, and increasing expedited freight costs. A critical North American business unit was losing money and premium freight cost had grown astronomically, generating a push to improve margin by cutting cost.

KPMG also identified exacerbating challenges in data and technology. The company was utilizing a variety of excel-based tools and lacked timely and accurate data. The planning resources were not centralized and did not have clear issue prioritization. This was made worse by a service delivery model in which planners were not executing the same processes across the organization. When KPMG reviewed the service delivery model against its value delivery framework for supply chain planning, the client demonstrated 15 of 18 typical planning challenges.

Planning Challenges in KPMG's Value Delivery Framework



KPMG determined the client needed to centralize and harmonize its planning function and implement a new technology suite to enable a data-driven, efficient supply chain supporting demand planning, supply planning, inventory optimization, and supplier exception management. Without these improvements the company risked falling behind its competitors and losing the ability to support current and future growth.

After KPMG identified the business opportunity it was retained as the business partner to support the transformation. KPMG's first step was to determine and communicate what needed to be done using a target operating model (TOM) to align the client to the future state. The TOM laid the foundation for the process and technology workstreams. KPMG then supported a phased implementation of tools and processes across the newly centralized planning function. By the end of the first phase of the implementation, the client realized significant benefits including:

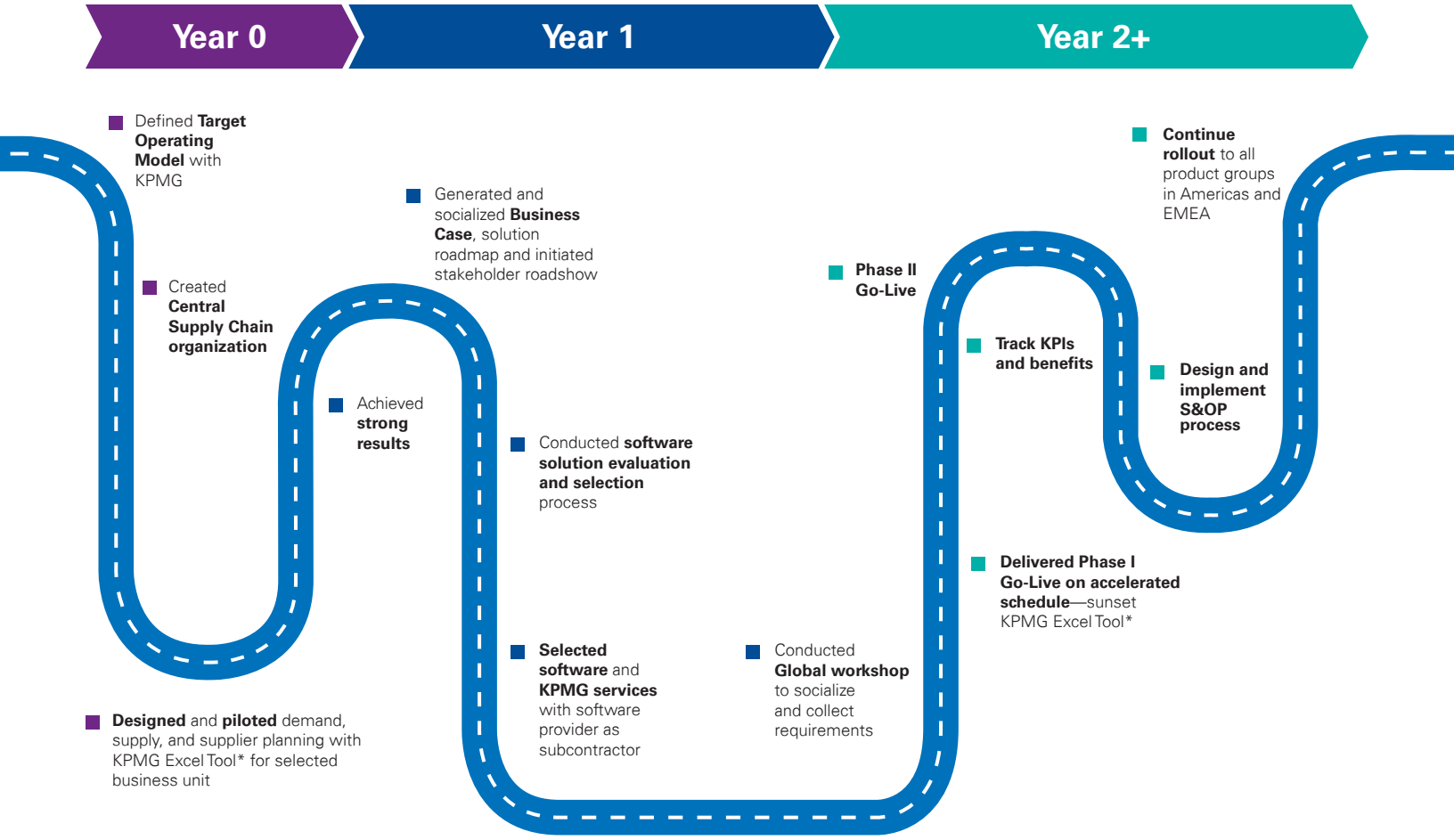
— 75% reduction in premium freight

— 30% improvement in planner efficiency

— 10% inventory offset

The first year of implementation generated over 12 million dollars in savings.

Central Planning Transformation Journey



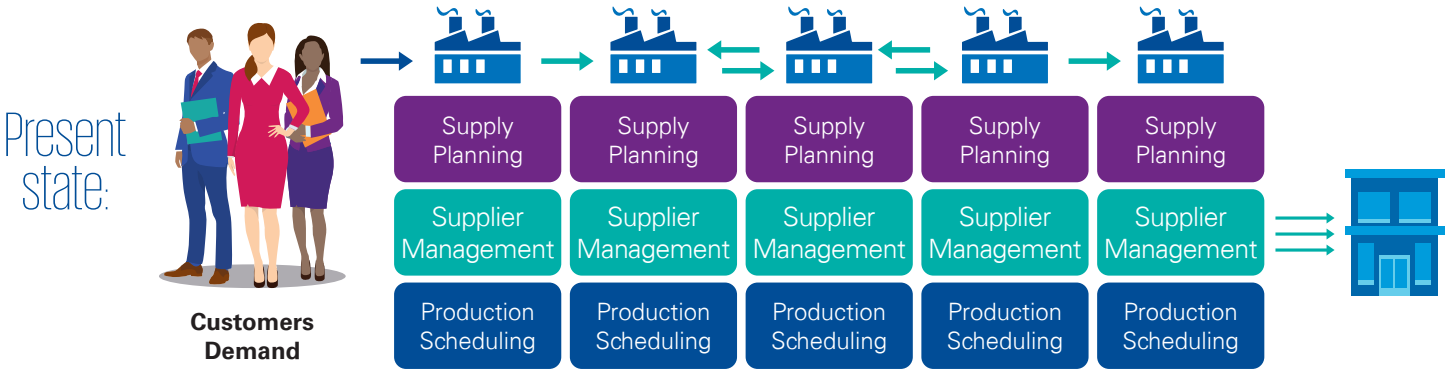
* The KPMG Excel Tool is a proprietary tool for piloting central planning programs

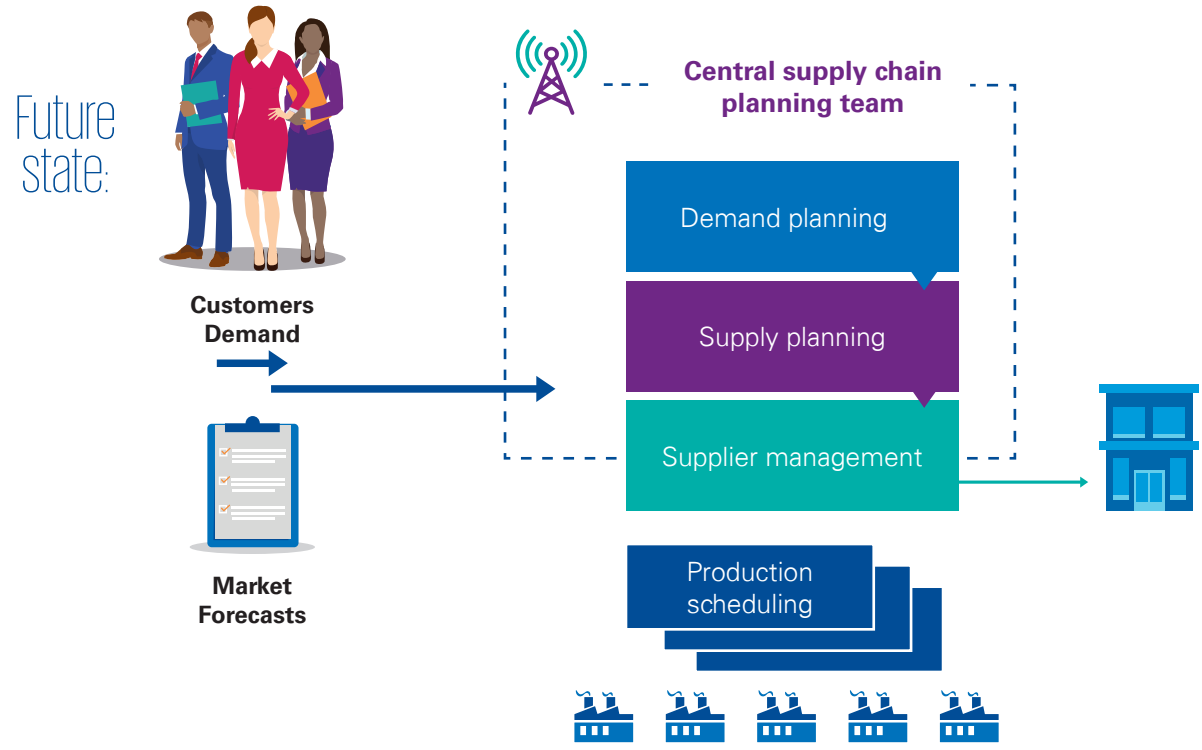
Our Approach and Key Strategies

Effective TOM for Centralized Planning

Centralized planning was a key point of the strategy KPMG recommended to the client. Centralized planning would enable the client to transform from *reactive scheduling* to *proactive planning* and facilitate taking control of many supply chain costs. With the client, KPMG designed the target operating model (TOM) and developed an excel-based pilot program to prove out the future state.

Our Central Planning Vision





Value-Driven Pilot Program

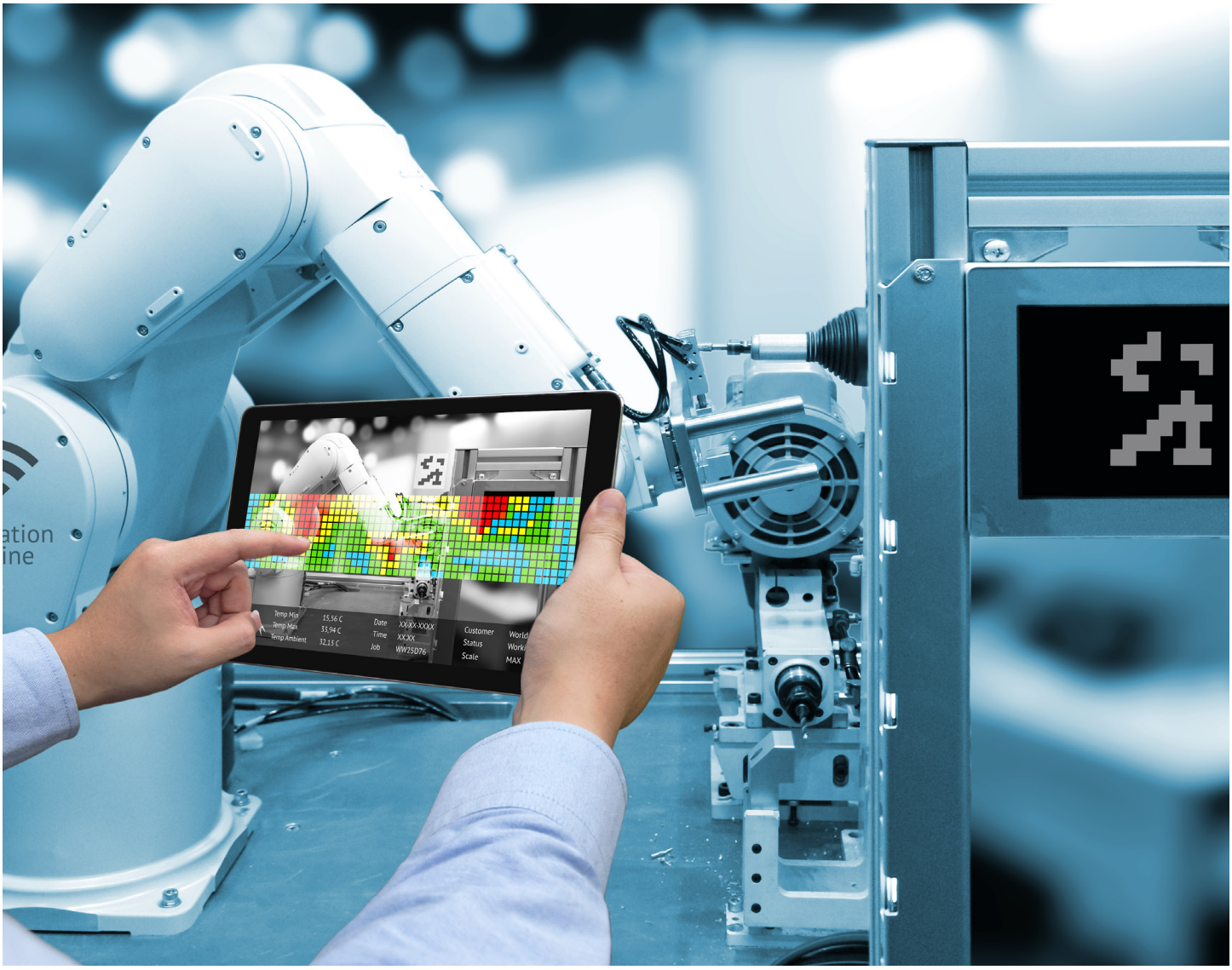
The project team recognized moving from current processes and technologies to the target operating model and a new technology suite would be a considerable change. A key tactic to mitigate the change risk was the use of a pilot program.

KPMG configured its proprietary Excel Supply Planning tool to provide a low risk introduction of the future state to the client. Several users were selected from the target business unit to adopt the pilot tool. The user-friendly tool supported the planners' new daily roles with available data and introduced process changes. This method moved the client towards a harmonized centralized planning team using leading practices that would be standardized across the company using a technology implementation.

Use of the pilot tool improved visibility to inventory, empowered planners to identify issues more quickly, and supported faster issue resolution and prevention.

Throughout the six month pilot phase, the KPMG team worked with users to identify what functions were needed in the technology solution. The team also reviewed data accuracy and availability to identify data management work needed. The pilot phase built credibility with end users and demonstrated the value of the project to leadership.

KPMG used the pilot phase to begin formally gathering business requirements and working with a short list of technology vendors. The pilot also informed the team what scenarios to use to evaluate the technology vendors. After a structured evaluation and negotiation process, the client selected Blue Yonder (formerly JDA). With a baseline of requirements in place and the technology partner identified, the pilot provided a head start on the detailed design phase.



Successful Technology Driven Transformation Program

Executing a technology-enabled supply chain transformation is a daunting task in a legacy environment where systems are not well integrated and there are significant data challenges. KPMG concentrated on five success factors to keep the team focused on issues that could affect project delivery: Executive Support, Technology Strategy, Case for Change, Proven Transformation Methodology, and Effective Governance. Research discussed in *Mastering Change Management for Successful Supply Chain Transformation* demonstrates that focusing on these success factors throughout the project can increase the probability of meeting the business case for a transformation program from 30% to 90%.

5 Success Factors for Transformation Programs

Transformation success factors	Healthy signs	Unhealthy signs
Unflinching executive commitment and championing	— The right executive sponsor and program sponsor are engaged — Regular steering committee meetings are being held — Executives and region leads on the same page	— Executives' support is not visible — Not able to find the right resources with the right skills — No willingness to invest in the project
Enabled-technology strategy	— Clear business strategies before finalizing design — Crawl, Walk, and Run approach based on maturity — No software customization, only configuration	— Lack of experience in large transformation program by sponsors — Automate AS-IS process vs. "improve then automate" strategy — Not driving end-to-end-end thinking throughout all process decisions
Articulating the case for change	— Quick wins while working on longer transformation — Benefits tracking is ongoing and meaningful — After go-live, "monitor, learn & improve" strategy	— Lack of end-to-end comprehensive KPIs and dashboard — "Why are we doing this?" mindset — Solution will appropriately support the desired outcomes and costs
Proven transformation methodology	— Slippage, when it happens, is predicted — Change management activities are part of the overall program plan — Project will contribute to the organization's knowledge and lessons learned	— Uncontrolled—poor plans, controls, tracking mechanisms — Confusion over scope document versions and updates — Risks are not captured or mitigated
Effective governance and maintaining high level energy	— Visible incentives and recognition — RACI to drive accountability and make R&R clear — High evaluation score for communication messages and training	— Stakeholder management plan is not maintained — The tension can be felt and negative remarks about project — Turnover is high

Practical Design Principles

After reviewing the learnings from the pilot program, KPMG, Blue Yonder, and the client entered into several weeks of design sessions guided by five design principles.

Active design sessions were crucial to the success of the program. These sessions detailed how the future state process would be supported by the technology. The team also needed to develop a comprehensive set of business and functional requirements. This was challenging because the client lacked standard processes across business units. The KPMG team used leading practice knowledge to guide the client to better processes and a centralized planning function.

Design Principles for the Program

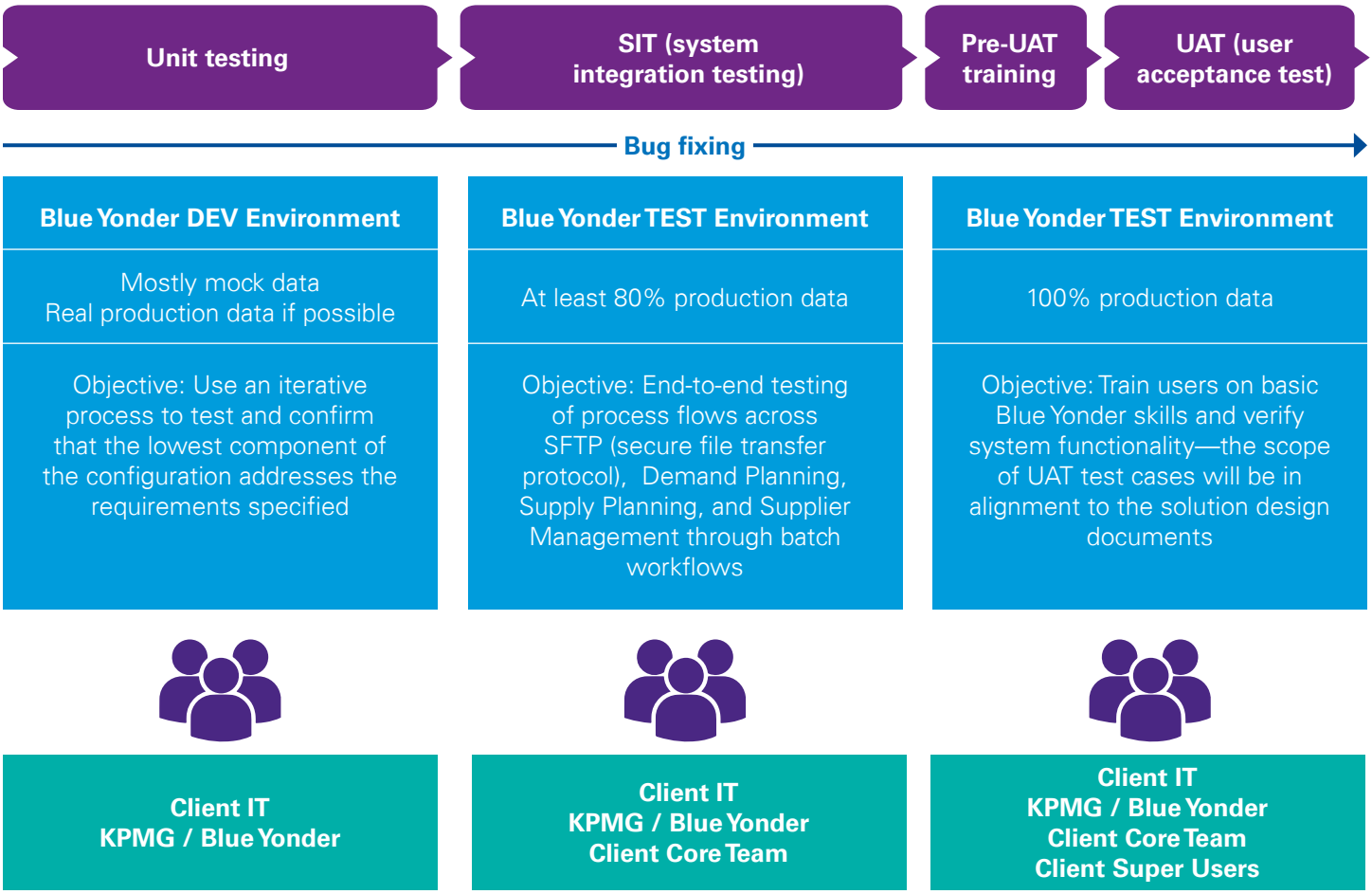
1. **Driving end-to-end-end thinking throughout all design decisions**
2. **Simplify, improve, and standardize before automate**
3. **Crawl, walk, and run**
4. **No software customization, only configuration**
5. **Addressing the business requirements needed to achieve benefits**

The design sessions were focused on end-to-end thinking from the specific data sources and format through to the detailed tasks users needed to complete. The sessions utilized focused agendas as the client had limited project resources and time. The sessions addressed specific requirements which enabled the targeted benefits. They were also focused on standardizing primary processes over adding unnecessary but 'nice to have' configurations. For example, a discussion was raised regarding configuring the tool to support multiple languages and currencies. While this would be nice to have for a global company, it was not a requirement for this initial phase that focused on one business unit in North America. By referring to the design principles, the integrated team was able to clearly assess this as a complex configuration and de-scope it from the current phase while ensuring it would be smoothly integrated into a future phase.

Comprehensive Testing and Training

The design sessions established the functional requirements and KPMG with Blue Yonder developed the appropriate technical solutions. Before testing began, KPMG clearly outlined the types of testing, goals, required participants, and success criteria with the client. KPMG made a point of having a transparent testing process. The integrated team was regularly updated on the status of all testing, technology defects, and specific resolution plans. This transparency facilitated trust, change management, and knowledge transfer. The end users knew KPMG and Blue Yonder were working to support their business needs and enable the centralized supply chain planning function.

Test Plan Overview



After testing was completed, the integrated team moved onto formal training. The UAT phase had introduced the workstream leads to the tool but the training gave them a detailed understanding of how they would use the tool in their daily work. The KPMG team created tailored training which detailed the planner's future state processes. These documents carefully explained each aspect of the process and how the tool would support it. In addition to developing comprehensive training deliverables, KPMG also conducted in person training with a train-the-trainer approach. After these sessions, trainees educated their team members using the materials KPMG developed.

The train the trainer approach was critical for this client because it is more efficient and cost effective. It drove client ownership of the process and tool and reduced program investment. The KPMG supply chain team also partnered with a resource from KPMG's change management practice. Together they used leading change management practices to conduct a change impact analysis, facilitate training, and develop launch communications including both paper and video media. These communications kept users aligned to the program timeline and helped generate excitement for the business go-live.

Business Go-Live

The integrated team determined they would execute a business go-live rather than a technical go-live. KPMG views a business go-live as essential because it activates the tool and users immediately work in the new environment. A technical go-live demonstrates that a tool can function but does not facilitate significant change in behavior or structure. By executing a business go-live, the team enabled the functions of the new technology and, more importantly, had users executing the central planning processes.

Before the business go-live was initiated all testing was completed and a back-up plan created in the event of a technical failure. A structured readiness assessment was conducted and a formal go decision was recommended and approved by the Steering Team.

Summary Go-Live Readiness Checklist

Go-Live Category		Criteria Example	Conf. Level
1.0	Data	Data is loaded, verified, and complete	
2.0	Organization	Users have received training and understand the new processes	
		Mitigation plan in place for identified operational/organization risks	
3.0	Functional	In-scope functionalities are in place to run new planning processes	
4.0	Go-live plan	Go-live plan is understood and contingency plan is understood	
5.0	Environment	The system performance and user response times are acceptable for proceeding	
6.0	Quality	Process to raise and escalate issues is understood	
	Decision	Should we GO?	

This initial business go-live focused on the pilot-phase business unit which also had the greatest cost improvement opportunity. The goal of this launch was for the selected segment's users to enable the TOM created at the beginning of the program with clear understanding there would be enhancements in future launches. After the initial business go-live, the pilot phase resources became corporate change agents to both their teams and other business units.

Phased Roll Out

Following the initial successful go-live, the project plan included a lessons learned process to inform next steps. The team proposed enhancements to the tool that were ranked by priority of function and feasibility of the technology and resources to support the modifications. The next three North American launches added functionality to the solution and more firmly established the centralized planning function. To address high working capital costs, KPMG developed best in class inventory optimization processes and implemented the Blue Yonder Inventory Optimization technology in a subsequent phase.

Successful Digital Control Tower Pilot

After KPMG transitioned the program to the client, the client continued its rollout of improved processes and technology. The planning model and technology have been implemented successfully in North America and Europe is next. This client is also looking to other Blue Yonder solutions to continue its maturity journey. KPMG successfully conducted a Blue Yonder Luminate digital control tower proof of concept and educated the client on its functions and benefits.

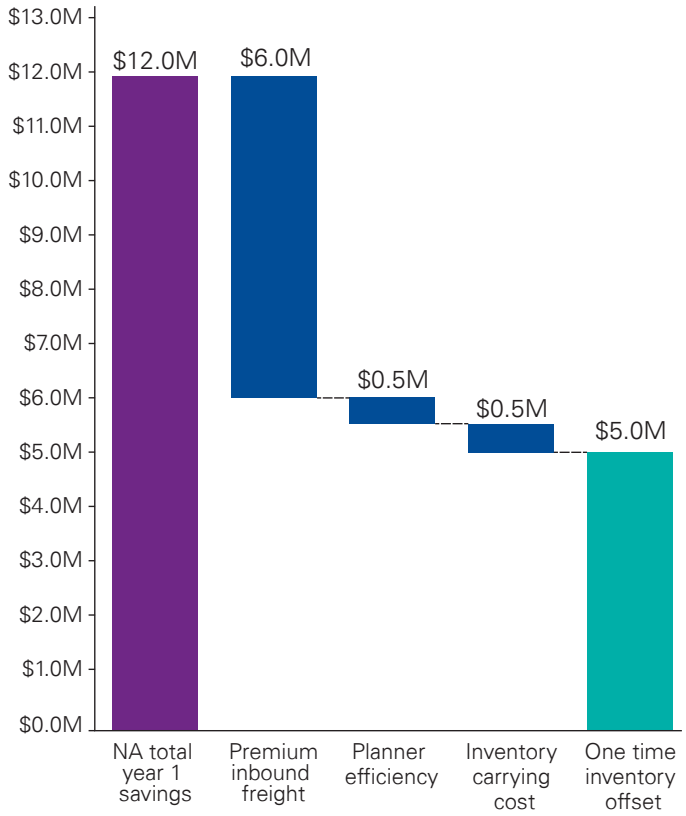
How KPMG Helped in Achieving Substantial Benefits

KPMG's project transformed the client's planning processes, implemented a technology suite, and created a centralized planning function. After go-live for the critical first business unit, annual inbound premium freight cost decreased over 75% and planner efficiency increased 30%. Additionally, the client realized an annual reduction in inventory carrying cost from a 10% one time inventory reduction. In year 1, the client saved over twelve million dollars.

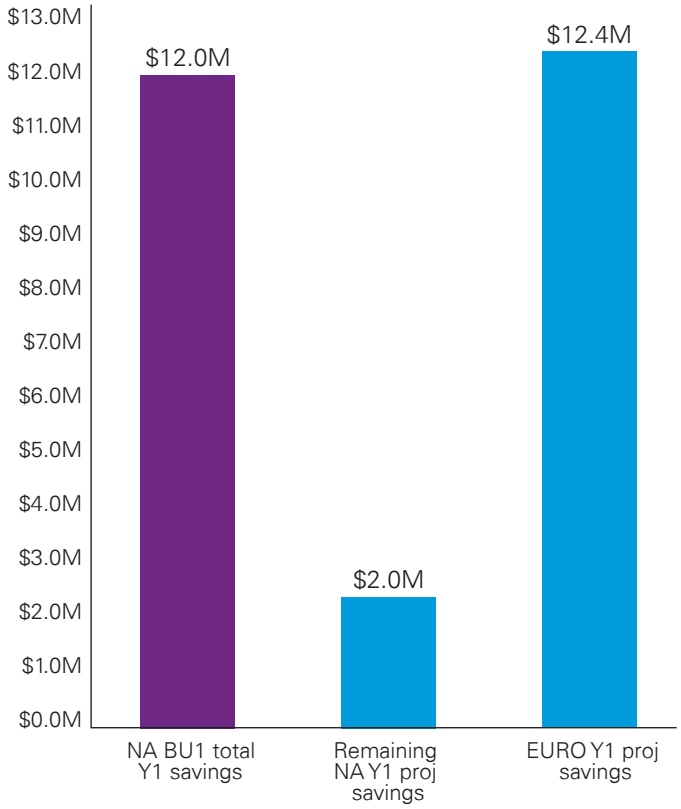
Numerous process and organizational benefits will support future growth. The most important is centralized planning. The client has moved from working in disparate systems with siloed planning groups to a centralized planning function working in one system. The team helped manufacturing sites successfully transition to the new centralized planning structure by incorporating four key enablers: KPIs, system write-back, change management, and governance. The client also benefited from improved data quality and the ability to identify long term capacity issues.

Other North America business units are rolling out the centralized planning solution and the client extrapolated their expected benefits and those of the European locations.

North America BU 1 Benefits



Extrapolated Future Benefits



The benefits exceeded KPMG's initial estimate and the client went public with the results at several supply chain conferences where they shared this transformation journey. The phased approach to deliver benefits early and often was essential to maintaining momentum through recurring executive leadership changes. The benefits were clear, even to those that did not begin the journey with the integrated team.

Benefits

- Improved supply chain visibility
- Expedited freight reduction
- Inventory reduction
- Improved work life balance for our people

Demand Planning

- Increase reliability and extend horizon
- Plan demand at the point closest to the customer
- Calculate and cascade demand through all tiers

Supply Planning

- Model and orchestrate the client's global supply chain (control tower)
- Provide End to End supply chain visibility including capaciy constraints
- Optimize inventory turns and assest utilization

Supplier Management

- Increase efficiency leveraging exception management dashboard
- Enable one planner to effectively manage work across multiple sites
- Earlier detection of issues facilitates proactive mitigation

KPMG brought this client to leading, harmonized processes in demand planning, supply planning, inventory optimization, and supplier exception management. The integrated team supported improved processes by implementing a Blue Yonder technology suite that enabled daily effective, data-driven decisions. This multi-year global endeavor improved the client's profitability and prospects for future growth and demonstrated KPMG's ability to enable technology-based supply chain transformations on a global scale.

Contact us

Mark Levy
Managing Director
T: 949-295-2912
E: marklevy@kpmg.com

Peter Yu
Managing Director
T: 847-643-6470
E: pjyu@kpmg.com

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