

A white paper about: **Customer insight**

An efficient Supply Chain must always be based upon in-depth understanding of what drives the customer. Taking customer insights as the starting point makes it possible to prepare credible forecasts, put together the right range in relevant channels, formulate an attractive customer promise and establish a sustainable logistics vision. It has to do with establishing customer insight and applying it as a strategic tool at management level.



Find out more!

PostNord has prepared a set of five white papers that describe the new reality that companies are encountering in the digitalized world.

In addition to the white paper you are currently reading, the set covers the following topics:

Consumer-driven logistics:
Assuring the customer experience

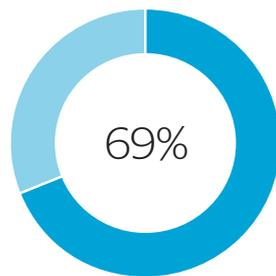
Product availability:
Assuming a new perspective on the Supply Chain

Visibility:
Generating overview and control in the Supply Chain

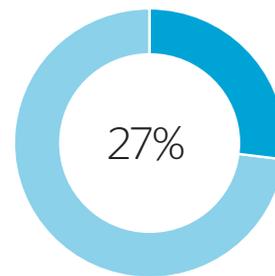
Logistics for physical stores:
The rapid pace of change is making new demands on the Supply Chain

Customer insight: The driving force for an efficient Supply Chain

The rapid growth of e-commerce is opening up new opportunities to address end customers directly. Building up an in-depth understanding of what drives end customers, and what they expect, is therefore essential for all conventional retailers and e-retailers with ambitions of being front-runners. It has to do with establishing customer insight and applying it as a strategic tool at management level. The right insight makes it possible to generate the right forecasts, develop the right assortment and optimize the customer experience. This, in turn, is a fundamental driving force in building up an efficient, smoothly functioning Supply Chain.



More than 2/3 of companies that are considered front-runners deal with customer insight issues at management level.



For slow-starters, the ratio is reversed: fewer than 1/3 deal with customer insight issues at management level.

Customer insight = success

The concept of customer loyalty is being redefined at a rapid pace. Thus far, it has largely been based on quantitative historical facts. Today and in the future, however, the path to elevated customer loyalty primarily entails understanding and fulfilling expectations. It is now a question of looking to the future - and not to the past - to satisfy purchasers.

Developing an in-depth understanding of the end customer and what drives him or her is therefore a challenge facing all conventional retailers and e-retailers who want to be numbered among tomorrow's winners. It is no accident that more than 80 percent of consumer businesses consider customer insight to be one of the key strategic factors (CapGemini: Consumer Insight Survey, 2016). The majority of American and European studies also clearly demonstrate that companies that work consistently and consciously with customer insight are significantly more successful than companies that do not. Customer insight is the hub that the

business of conventional retailers and e-retailers will rotate around. The Supply Chain must therefore be synchronized with this mindset.

The new customer logic ...

The conventional business model was based on the assumption that customers would seek out products themselves. The opposite applies today: products must find their own way to customers. Consumers have assumed power over the purchase process, which almost immediately changed the rules of the game for all consumer goods companies. Above all, consumers' opportunities to make choices have expanded at exponential pace. According to a report from the World Economic Forum, consumers already have access to more than a billion different products on the global marketplace - and the number continues to rise unabated. Added to this, consumers are making more and more stringent demands on faster deliveries, increased transparency and more convenience - at

the same time as they want the purchase process to be exciting and inspiring.

This change is laying the foundations for new terms of business, which have to be addressed at different levels within the company. Companies have to become more innovative and make sure they utilize the new opportunities that technology is progressively offering.

... demands a new logic for the Supply Chain

As a direct consequence of changes on the market, completely new demands now apply to how companies need to work with their Supply Chain setup. This has to be reconstructed step by step, and swiftly, so that it matches the new world. The traditional internal silo thinking within the company simply does not work in the digital world. All work in the area of the Supply Chain should be based on an outside in perspective, based on the motto that “the customer is always right.”

It has to do with organizing the logistical set-up to ensure it is consumer-driven. Important areas to focus on include product availability, ensuring the opportunity for visibility throughout the delivery process, how logistics for physical stores are organized, and the capacity to benefit from and act on customer insight. This white paper focuses specifically on the concept of customer insight. The problems and opportunities in other areas are examined in separate white papers.

From a single channel to a holistic perspective

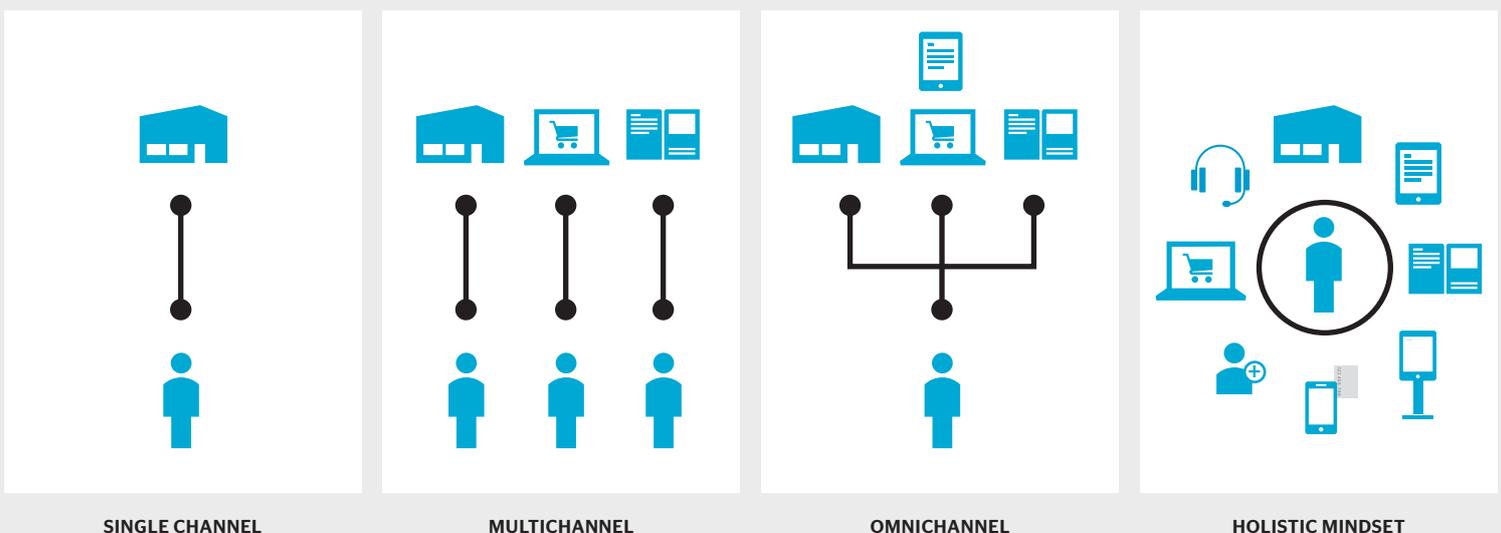
Customer insight is the tool that many e-commerce companies and retailers consider to be perhaps the most important strategic driving force for success.

What is customer insight? According to The Institute of Direct and Digital Marketing, it is the capacity of the company to collect and analyze consumer data that establish conditions for making better decisions in the areas of sales, marketing and the Supply Chain.

Taking an in-depth understanding of what drives the customer as the starting point makes it possible to prepare credible forecasts, put together the right range, formulate an attractive customer promise and establish a sustainable logistics vision. In other words, customer insight is the catalyst that every retailer and e-commerce company needs to achieve success. The right insight triggers the right decisions at every stage.

This is even more important taking into account developments in how commerce is actually conducted. It has developed from a single channel, via multichannel and omnichannel incarnations, to a holistic perspective that makes radically altered demands on companies. They have no choice but to modify their organizations, business processes and technologies to bring them in line with customer expectations. In order to be able to adopt this holistic view, companies must have the capacity and the resources to integrate all appropriate platforms and the data these generate so as to be able to reach the relevant conclusions.

This approach requires cohesive communication with the end customer - irrespective of channel. By continuously analyzing the customers' degrees of profitability, the company can optimize its efforts



The way people buy goods is evolving rapidly. What was, for a long time, simply a matter of a single channel has gradually developed into a multichannel mindset, while today the omnichannel concept is predominant. Extrapolating from here, we are moving toward a holistic concept where the customer is clearly placed front and center.

Source: CapGemini, Consumer insights - Finding and guarding the Treasure Trove

and direct them toward those channels that generate the best return per customer. At the same time, the company must work actively to establish new customer relationships. According to a recent report from Gartner (*2017-2018 CMO Spend Survey Highlights Demands for Results*), companies are currently spending twice as much on retaining existing customers as on recruiting new ones. This ratio should be re-assessed on an ongoing basis and viewed in relation to both short and long-term goals.

Seven key steps toward customer insight

In-depth, detailed and regular surveys and measurements of customer needs - both current and future - are essential to maintaining ongoing development of all parameters in the value chain, including product development, sales, customer service, aftermarket and - in particular - Supply Chain. Digitalization and new technology are now presenting companies with completely new opportunities to aggregate and analyze data, but they are still not doing so to the extent that they should. Nordic companies are perfectly placed to take the lead, thanks to their long and proud tradition of making appropriate use of the opportunities opened up by digitalization.

The following section of this report sets out some of the key steps to take in order to create a Supply Chain based on relevant customer insights.

STEP 1:

Take as your starting point the “new” customer

The rapid growth in e-commerce has fundamentally changed the rules of the game, especially for companies specializing in consumer goods. Conventional retailers are at risk of being overtaken. New OBG (Own Brand Goods) are constantly seeing the light of day. And innovative startups are continually introducing new business concepts.

Newly started companies have the advantage that their “original” business model is based directly on the new reality. They can usually start with a blank sheet of paper and build their business up from the ground, rather than having to take their lead from a given organization or an existing internal agenda.

The process is more complicated for established companies, as it demands an injection of innovation, and means that old structures and processes will most likely have to be reviewed and remodeled. Looking at customers and the market with new eyes can often help launch a new start. This, in turn, can result in the realization that it is necessary to drop existing ideas about how things have been done in the past, or how the organization is currently set up. You can learn a great deal by analyzing successful competitors, but what is needed above all is a deeper, more intimate understanding of what drives the “new” customer. Old facts no longer apply.

STEP 2:

Build up a better understanding of what drives customers

The capacity of the company to identify relevant sources of data, to systematize data collection, and to integrate the sources and perform relevant analyses is fundamental to customer insight. It is true that conventional customer satisfaction surveys provide interesting information, but they generally reflect an historical perspective - i.e. what has already happened. Today, customer loyalty can only be built up by fulfilling expectations and living up to customers’ future requirements. That is why the quantitative surveys should be backed by qualitative, in-depth interviews - performed by the company itself or a third party - that provide more nuanced and future-oriented insight. It is often a question of using the mapping of customer journeys, holding focus groups, or running other types of personal communication to learn more about how customers behave and what they expect. Predictive analyses are also likely to become more common. These are based on huge volumes of data about behavior, preferences, other external factors (insight from social media, but also weather forecasts and the like), and serve as foundations for predicting future needs and what implications these will have for the Supply Chain.

B2B companies are not immune from challenges either - especially when they need to transform their business to fit into a digital context. It is a question of building customer journeys and simplifying the range destined for different types of customers. No matter where the company is placed today, relevant data and customer insight are critical factors in building up a competitive and profitable business for the future. Maintaining maximum relevance toward your customers is the only viable path to success.

STEP 3:

Reinforce the role of the logistics manager in the company

By taking customer insight as the starting point for how the business is to be run, you can create a new platform for your activities. Precisely how this is to be done in practice is a management issue. It may not be necessary to rejig the internal team, but it is important to remember that the playing field is new and the game tactics have changed, so the roles are likely to be redefined. Everyone in the management team must agree on the direction to take, and the company will have to be (re)organized accordingly.

It is also crucial to ensure that logistics issues - along with sales and marketing matters - are elevated to management level. Adding the logistics manager to the management team helps integrate logistics issues naturally and seamlessly into business decisions. The link between customer insight

and how the Supply Chain functions helps to power business decisions.

PostNord has interviewed 657 logistics managers employed at the biggest retail companies in the Nordic region, asking them how they work with logistics, how they view development and what they consider to be the biggest challenges. A key question had to do with how logistics is prioritized at companies that are experts in the area in comparison with other players, and what emphasis was placed on logistics internally within the organization. The survey reveals that 68 percent of companies that are experts in logistics have logistics represented in their management teams - whereas only 49 percent of other companies do. This points toward a clear trend.

STEP 4:

Tear down the silos!

Internal silo thinking should be consigned to history. Success can only be achieved when everyone in the company works as a team and sticks to the game plan adopted. This naturally demands close collaboration and cross-boundary thinking. Different units and departments at the company need to work together and speak the same language if the Supply Chain is to function as intended. All activities should, as far as possible, be coordinated and planned to help goods supply and management run seamlessly. Conventional ways of measuring no longer apply either. New and relevant methods need to be prepared for measuring the modified way of working. (For more information about this, see Step 7).

Marketing activities and the sales range must, of course, be synchronized with goods supply, and checked with the heads of finance and economy. Goods supply must, in turn, be coordinated and planned to make sure that products are always at hand when customers send in orders, and that relevant delivery options can be presented. In many cases, this may require the involvement of partners and suppliers, which naturally ramps up requirements on planning and collaboration.

STEP 5:

Test different hypotheses

Building up customer insights is the start of a process, but it is not a solution in and of itself. Taking the insight gained as its base, the company management has to ask itself a number of important, decisive questions:

“What customers do we want?”
“What requirements do they make?”
“What experiences are important to them?”
“Which channels do we need to use to communicate with them?”
“Which channels do they want to use to make purchases?”
“Which channels can we provide?”
“Which regions do we need to cover?”

On the basis of the answers to these questions, it is possible to put together a number of different hypothetical business concepts. These, in turn, must be linked to forecasts:

“What effect will the different options have on our business?”
“How do they affect our costs and our capital binding?”

Only then can a customer promise be formulated. This must then manifest in a logistics vision. The lead time in the logistics range determines which strategy the company is to adopt for product accessibility. This must relate to all channels, no matter how customers choose to purchase their goods. Consumers are not concerned with channels or different types of logistics solutions. They want choices, problem-free deliveries and positive experiences. This is where the major challenge is to be found for company management teams who want to make their business a success.

STEP 6:

Make sure to be a front-runner!

In its report entitled Consumer Insights: Finding and Guarding the Treasure Trove, CapGemini presents survey findings which show that there is

The four biggest obstacles to omnichannel thinking

67%

Shortage of cross-channel customer analyses

48%

Silos in the organization

45%

Poor data quality

45%

Inability to follow customers through the different channels

a clear difference between companies that actively utilize customer insights to create a competitive advantage (front-runners) and those that still haven't got out of the starting blocks (slow-starters).

Front-runners invest significantly more in building up customer insights. They have established their own internal professional resources in the area, and consider it to be a key tool for maintaining their leading position. This stems from viewing customer insight as a strategic question that improves the decision-making process. According to the report, more than 2/3 of companies that are considered front-runners deal with customer insight issues at management level. For slow-starters, the proportion that do this is less than 1/3.

Another distinguishing feature of front-runners is that they use customer insights to build bridges between specialist functions within their organization – sales, finance, marketing, customer service and Supply Chain. This bridge-building also includes different types of partners who constitute supplementary links within the logistics chain. Having everyone acting on the same customer insights is the glue that keeps successful front-runners together.

STEP 7:

Use KPIs as governing instruments

Introducing and actively using KPIs (Key Perfor-

mance Indicators) lays down conditions for clarifying how the Supply Chain is functioning in relation to the stated goals. KPIs also send out clear signals about when changes have to be made, allowing companies to operate proactively and develop their Supply Chain so that it aligns with customers' expectations.

A fundamental aspect is an insight about the overarching importance of logistics for product availability and the customer experience. On the basis of this platform, relevant KPIs can be formulated that make it possible to trace developments within the most important areas. This is not reserved exclusively for logistics staff, however, as it is a management issue that demands consensus at the highest corporate level. Using KPIs properly helps avoid sub-optimization and reaching misleading conclusions at function level.

Which KPIs should a company use? There is naturally no "one size fits all" answer to this question; it has to be answered individually. The section below presents a summary of the different measurements that can be introduced to measure performance in different disciplines. What is important is to make sure KPIs are really used in a professional manner. They should be introduced at a pace adapted to the development taking place in the Supply Chain. Action and measurements must go hand in hand.

Efficiency	Customer value	Sustainability
<p>Cost to Serve (CTS)/turnover (Customer profitability) <i>Unit: % of turnover</i></p> <p>Number of handlings per unit (Number of handlings per unit – operative interface) <i>Unit: number per unit</i></p>	<p>Net Promoter Score (NPS) (Recommendation grading)</p> <p>Satisfied Customer Index (SCI) <i>Unit: Scale/grading</i></p> <p>Customer Retention Rate – Customer loyalty (Inflow of new customers less outflow of customers during a given period) <i>Unit: %</i></p> <p>Customer Lifetime Value CLV (Customer's life income) <i>Unit: %</i></p> <p>On Time In Full (OTIF) (How many deliveries are made on time without any items missing) <i>Unit: % of total number of deliveries</i></p> <p>Order Cycle Time (OCT) (Order cycle time)</p> <p>Return Lead-Time (Lead time, returns) <i>Unit: time per order</i></p>	<p>CO₂ emissions Qualitative or quantitative information in the fields of environmental responsibility and anti-corruption. For example:</p> <p>Social aspects Sick leave, accidents at work, gender equality and diversity</p> <p>Environment and climate Opportunity to follow up on climate impact to improve logistics efficiency, for example. Possible KPI: Carbon emissions per year or unit, alternative fuel</p> <p>Supplier Chain Possible KPI: Number of subcontractors who have had requirements made on them/been followed up concerning social and environmental requirements linked to goods or services.</p>
Capital utilization		Risk management
<p>Days Inventory Held (DIH) (Average number of days in warehouse)</p> <p>Days Sales Outstanding (DSO) (Average number of days, trade receivables)</p> <p>Days Payables Outstanding (DPO) (Average number of days, trade payables)</p> <p>Cash conversion cycle (CCC) (Cash flow cycle)</p> <p>Working capital (Operating capital) <i>Unit: Days or %</i></p>		<p>On Time in Full (OTIF) (How many deliveries are made on time without any items missing) <i>Unit: % of total number of deliveries</i></p> <p>Missed Sales Opportunity (Missed sale) <i>Unit: % of leads</i></p>
Profitability		
<p>EBIT Margin Operating margin <i>Unit: %</i></p> <p>Profitable growth in turnover <i>Unit: %</i></p>		

By using KPIs actively in different areas, companies can proactively develop their Supply Chain. The summary shows the most important measurements within different disciplines.

Summary:

An efficient Supply Chain must always be based upon an in-depth understanding of what drives the customer. Taking customer insights as the starting point makes it possible to prepare credible forecasts, put together the right range in relevant channels, formulate an attractive customer promise and establish a sustainable logistics vision.

Genuine customer insights can only be created by systematically collecting and analyzing accessible data. In many cases, these must be supplemented with own surveys. Qualitative data are more important than quantitative data. Today, customer loyalty can only be built up by fulfilling expectations and living up to customers' requirements. That is why the quantitative surveys, which in many cases reflect an historical perspective, must often be backed by qualitative in-depth interviews or other types of analysis that provide more future-oriented customer insights.

Start-ups look at their business with open eyes and open minds, and can often build their companies up on the basis of customer insights.

The process is tougher for established companies, given that old, ingrained processes and structures need to be reviewed and remodeled. All internal silos must be torn down. Success can only be achieved when everyone in the company works as a team and sticks to the game plan adopted. This naturally demands close collaboration and cross-boundary thinking. It is directly crucial to elevate logistics issues to management level. The link between customer insight and Supply Chain is mission-critical.

Surveys reveal that companies which actively base their business on customer insights are more successful than other enterprises. Customer insight is the glue that holds the activities in various internal specialist functions together, and it also helps build bridges to external partners within the Supply Chain.

KPIs can be used to maintain a constant check on the company's Supply Chain to make sure it is functioning as intended. KPIs also provide indications of when changes have to be made, and provide an incentive for proactive measures.

Sources

Over and above the sources cited in the text, the following specialists have contributed input:

Petra Björkeson,
Director Business Development, PostNord Insight

Mats Lindgren,
Director, Management Consulting PostNord Insight

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