

How Unilever Saved Millions Through Cost-to-Serve Insights

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Cost-to-serve models are an increasingly used capability to drive supply chain improvements and customer value sharing opportunities. This research follows Unilever's path to value and use of CTS, from exploration to pilot and broad-scale implementation.

Key Challenges

- When justifying investment in cost-to-serve (CTS) analytical capabilities, estimating the future benefits of adjusting internal and customer-facing supply chain policies is a challenge.
- Many companies would like to understand how specific customer requirements drive supply chain costs, but they often struggle to obtain and transform the data required to perform this type of analysis.
- Building, leveraging and proliferating CTS models are typically uncharted territories for the program teams involved.

Recommendations

- Initially sell CTS analytical capabilities to management with a tangible, realistic return on investment (ROI). Then, allow enough flexibility in the ROI calculation to leverage creative, new ways to drive value across your company.
- Enlist finance, customer account and logistics teams as key partners in creating, validating and leveraging your CTS analyses.
- Consider a scalable off-the-shelf technology solution to accelerate progress on your CTS initiative.

Introduction

Gartner has spoken with numerous companies to learn about their supply chain CTS exploration activities, pilots and broad-scale deployments. We advise on the best practices identified in this

area, based on a relative comparison of the types of teams, models and change programs they have put in place (see "Understanding Trade-Offs: A Practical Supply Chain Cost-Service Analysis Framework and Maturity Model"). Unilever is one company that we see demonstrating leading practices in the area of supply chain CTS.

Unilever is a leading, fast-moving consumer goods company selling more than €50 billion worth of food, beverages, cleaning agents and personal care products annually. The Anglo-Dutch multinational manages over 400 brands, which are sold in over 190 countries. Unilever is committed to halving the environmental footprint of its products while helping over a billion people improve their health and well-being through a positive social impact.

In 2010, Unilever began its journey to better understand and leverage insights around the total cost to serve its customers. At the time, there was high demand for this type of information across the company, in line with a desire to maximize ROI with customers and channels. As far as actual capability, Unilever had a disparate set of local tools to perform subsets of this type of analysis, but nothing comprehensive.

Gartner spoke with Ettore Piccirillo, operations lead for Unilever's CTS program, and Ramy Rasmy, program manager for global CTS implementation, to learn how Unilever moved from an initial CTS proof of concept with data from one country to a corporatewide transformation program, yielding the benefits below.

Increased Turnover by Optimizing Trade Terms

- Transparency of the current Efficient Operating Trade Terms Structures (EOTTS) discounts offered to customers, including insights on the customer behavior that Unilever wishes to invest in and incentivize with CTS-based EOTTS
- Ability to measure actual customer performance and reward them accordingly
- Incremental turnover as a result of being able to provide additional service to customers

Increased Profit by Reducing Supply Chain CTS

- Optimized pricing decisions by checking whether the turnover of products is aligned with product complexity and warehouse and transportation costs.
- Reduced warehouse and transportation costs from optimized processes, such as picking, handling and transporting. More specifically, this meant establishing minimum drop size, delivery frequency and minimum order quantity (MOQ), as well as monitoring EOTTS adherence.
- Clarity on the portfolio and associated costs of the different service-offering solutions, such as vendor-managed inventory (VMI) and slip sheeting, and charging customers accordingly.
- Maximized ROI from each route to market and development of differentiated, but standardized, service offerings tailored to customer groups, aligned with EOTTS discounts.

Analysis

Several Critical Success Factors Are Involved With Running a CTS Program

For Unilever, these success factors included the following:

- **Initially sell CTS analytical capabilities to management with a tangible, realistic ROI.** Then allow enough flexibility in the model to leverage creative, new ways to drive value across the company while maintaining a standard level of reporting on a global and regional scale.
- **Clearly define the scope, use a "template" approach to implementation,** and share both ahead of the analysis to save time and frustration. The Unilever team, for instance, saw huge productivity gains between first and second implementations.
- **Architect flexibility into the cost allocation model.** Despite having a standard way of reporting, the model and business processes will differ across geographies and individual countries or business units. The Unilever team dug deeper into modeling different areas of supply chain CTS, depending on the country and the needs of local operational partners. One enabler of this was having a technology solution that provided flexibility, in addition to enterprise scalability.
- **Use an experienced implementation partner.** In Unilever's case, there was a lot of joint learning between the company and its partners, Avisen and Acorn. Specialized resources were required to build CTS models in a not-so-well-documented domain. The Unilever team also recognized the need for a knowledge capture and training plan to transfer knowledge from external to internal resources.

Lessons Learned Thus Far by the Unilever CTS Team

- **Involve all supply chain and commercial functions** in the creation and use of CTS models for improved decision making. The program team felt that one area it might have put more emphasis on was upfront enlistment, particularly with the finance organization, since the program started out as a supply-chain-centric effort.
- **Don't rush the analysis phase.** This should be conducted using a very structured process rather than just focusing on "low-hanging fruit" opportunities.
- **Be selective.** It took some trial and error to move away from a focus on activity-based cost drivers for all areas of the model to focus on the highest impact areas, based on a trade-off between the benefit and the resources required.
- **Build the data extract as generically as possible.** Because several data filters will be required, data must be analyzed at the right granularity to add value.

Case Study

Challenge

In 2010, Unilever began actively pursuing a supply chain segmentation program to align end-to-end supply chain capabilities with the service and cost requirements of various customer types. For example, some customers prioritized responsiveness, and others were more concerned about cost-efficiency and pricing.

Although it was possible to set high-level performance targets for each of these supply chain types, without an accounting model based on activity drivers, determining a precise cost target for each combination of supply services off of the company's menu of options was not achievable.

There was an initial need to justify the investment to build CTS analytical capabilities, without knowing in advance how the models would actually drive different behaviors in operations and with customers to lower overall supply chain costs.

Even with proper funding and resourcing, the team still faced the daunting task of obtaining and transforming the data required to link supply chain service activities to allocated costs. The team conducted a benchmarking study to comprehend the value propositions and implementation best practices associated with CTS programs, but could not find anyone in the market who had created models outside of logistics or who, at least, claimed end-to-end supply chain savings on a global scale.

Approach

As part of the Unilever team's exploration process, it evaluated several of the CTS best-of-breed solution providers. By 2011, Unilever decided that it had enough knowledge to move forward with two pilots, one in America and another one in Europe, using Acorn's solution with assistance from one of Acorn's EMEA implementation partners, Avisen.

At the end of 2011, the program went live with a CTS model for all the products sold in France and the United States. Contingent on the successful pilots, the team agreed with Unilever management to implement comparable models utilizing Acorn's solution for customer service, customer delivery and finance users over the next three years in the top countries, as measured by turnover, and from there, as justified by ROI.

Match and Then Differentiate the Financials

The team included the majority of the Unilever product portfolio in the CTS model for each deployed country. A key aspect of building model credibility was matching the overall costs included with the Unilever country-level profit and loss (P&L), which required close alignment with the finance organization.

From the outset, the program team felt that the CTS model should be end to end in scope. Finance played a key role in guiding discussions across four levels of model design. It uploaded all cost data, modeled it and aligned it to the P&L. The first three levels were globally defined and exactly

matched the Unilever Financial P&L model. The fourth and most granular level was defined at a country level. The model also matched aggregate levels of spending in each supply chain function and trade spend category. The approach to individual allocations to customers, products and other cost drivers was made in a more flexible and activity-driven fashion than in the global model. Instead of eliminating some items from the model, the program team is merely less granular in terms of how it models out those areas. Finance assisted with the analysis by verifying all of the results and ensured that there was proper integration with financial systems of record. Finance analysts that have the CTS model in their countries now actually prefer it to the global model for operational cost control.

Focus Where It Counts

The pilot, which was conducted in a single European country, initially focused on specific logistics areas before moving on to other supply chain costs linked to the direct delivery model and promotional spending. Afterward, in another country in Asia, the pilot had a bigger team and worked many areas in parallel, including logistics at the same time as customer contract terms. Another country started the pilot in late 2012 and is using work streams aimed at improving sales force understanding of customer distribution-related costs.

The source systems used for the CTS model differed, depending on the country. In regard to data granularity, the team was able to understand profitability at same level of customer contribution, although each country had a different level of CTS maturity. In some countries, logistics were the business drivers for the program. For instance, in one of the countries, the team focused on minimum order quantity terms, the item distribution network, network changes and optimization, which entailed a huge learning curve for the operations.

In other instances, the team added customer inventory elements into its model to understand the financial impacts to both Unilever and retail channel customers. By understanding negotiated trade terms including minimum order quantities, the CTS analysis team could formulate tangible proposals for joint business value. In one country, it analyzed why Unilever is so efficient with one retailer versus others in the same category, as driven by independent account teams. The team also used the model to identify potential problems in the supply chain due to lower-than-expected performance.

Results

Several countries in Unilever's organization are now live with CTS models. Each country has a different profile, depending on the reality in its locality and its relationship with customers. The program team has learned to focus where it counts most. Some models focus on trade terms, and some focus on logistics or other supply chain costs. It has been challenging to standardize and project the benefit of the program since there may be new benefits realized postimplementation, based on the additional visibility to activity cost relationships. Figure 1, represents the business case details of many of the countries that deployed CTS models.

Figure 1. Unilever CTS Use Cases

Analysis	Use Case	Functionality	Insights	Benefits	Financial Impact
Extended Network Optimization	Model customer distribution service requests	<ul style="list-style-type: none"> Simulate impacts of changes to distribution strategies for centralized and decentralized distribution centers (DCs) by customer 	<ul style="list-style-type: none"> Identified the most cost optimized distribution strategy across value chain rather than in company silos Model service-level differentiation 	<ul style="list-style-type: none"> Collaborative planning of extended demand network Shared value through cost reductions Value-added service differentiator 	<ul style="list-style-type: none"> Unilever distribution costs savings from reorganization Customer stock optimization
	Proactively model extended distribution networks	<ul style="list-style-type: none"> Active network simulation of multiple distribution paths to customers to identify opportunities for consolidation to create greater efficiency 	<ul style="list-style-type: none"> Most efficient strategy to service regions and countries Opportunities to better utilize capacity 	<ul style="list-style-type: none"> Proactively engage customers with joint value opportunities to reduce cost Align "best fit" service models with standard offerings 	<ul style="list-style-type: none"> Unilever distribution cost savings from joint categories' deliveries Customer stock optimization through delivery frequency optimization Plus improvement of service level
	Model specific network capabilities	<ul style="list-style-type: none"> Model impacts of cross-docking shipments 	<ul style="list-style-type: none"> Demonstrated that increase in picking cost offset by lower distribution costs 	<ul style="list-style-type: none"> Shared efficiency with customer Reduction in in-transit inventory 	<ul style="list-style-type: none"> Improved inventory turnover
Service-Level Optimization	Model cost/service options during negotiations	<ul style="list-style-type: none"> Rapidly model differences in distribution options as part of pricing negotiations 	<ul style="list-style-type: none"> More accurate data on cost deltas across service offerings 	<ul style="list-style-type: none"> Increased efficiency while retaining direct delivery when value of shorter lead time outweighed cost 	<ul style="list-style-type: none"> Shared cost avoidance
	Improve customer case fill	<ul style="list-style-type: none"> Improve customer case fill by modeling impact of variation on order quantities 	<ul style="list-style-type: none"> Identified the optimal minimum order quantities 	<ul style="list-style-type: none"> Fewer shipments with higher service levels 	<ul style="list-style-type: none"> Improved customer case fill

Source: Gartner (September 2013)

Looking forward, Piccirillo and Rasmy expect that more value will be derived from Unilever's CTS models, as operations in countries with existing customer P&L models get creative with use cases and as new target countries come online with CTS capabilities.

Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"Unilever Demonstrates That Demand-Driven Actions Speak Louder Than PowerPoints"

"Understanding Trade-Offs: A Practical Supply Chain Cost-Service Analysis Framework and Maturity Model"

"How to Analyze the Cost and Benefits During Supply Chain Segmentation Implementation"

"Case Study: Intel Tackles the First Phase of Cost-to-Serve Enablement With a Quantification Framework"

"Case Study: How One Medical Device Manufacturer Optimized Its Inventory While Lessening the Mystery of Account Value Analysis"

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