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WHITE PAPER

ORDER PROMISING IN A COMPETITIVE WORLD

A HOLISTIC AND AUTOMATED APPROACH TO FULFILLING ORDERS RELIABLY

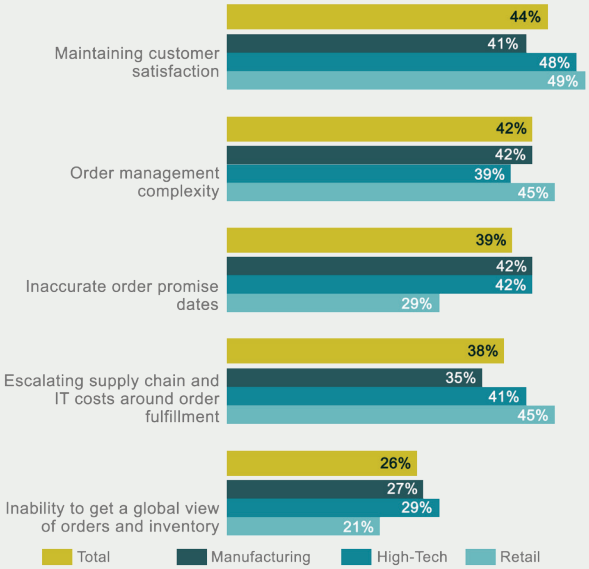
KEY TAKEAWAYS

Order fulfillment is the foundational building block of customer service. Promising customer orders with greater reliability through a holistic and automated approach enables companies to reduce expedites, improve on-time delivery and increase customer satisfaction.

CUSTOMER COMES FIRST

Changes in customer expectations mean that companies can no longer rely on product attributes alone to keep customers coming back. All aspects of customers' interactions with the brand are important to create meaningful and relevant customer journeys – for business-to-business (B2B) sales,[1] as well as for companies selling to end-consumers. According to a survey by Supply Chain Management Review, 'maintaining customer satisfaction' is the number one concern for companies in today's most competitive industries, such as High-Tech, Manufacturing and Retail. Customer service therefore is not just nice-to-have – it is crucial for maintaining and increasing market share.

Top Order Management Challenges



Source: Supply Chain Management Review

Order fulfillment is the foundational building block of customer service – it is worth noting that the survey also finds 'order management complexity' and 'inaccurate order promise dates' as major challenges in these industries. Let us explore what it takes to promise and serve customer orders reliably.

While you as the brand-owner may compare a sales order against the available supply, the customer compares it against what he thinks he should be able to get. This important difference has not been factored into the traditional Available-to-Promise (ATP) process that just compares requested product, delivery date and quantity with what is currently in stock. This simplistic and widely used approach falls short of meeting customers' expectations in real-world conditions. At issue is the reliability of your word.

MANAGING CUSTOMER EXPECTATIONS

Let's say before you received the sales order from a customer, the customer gave you a forecast and you committed to deliver on this forecast by making sure sufficient supply would be available when the order came in. The normal way to ensure this is to procure and maybe even manufacture and store according to the agreed upon forecast. This works well if you have just one customer, but if you have multiple customers, the following situations may pose additional challenges.

UNBALANCED OVER-ORDERING

One of your customers orders more than what they forecasted. If supply is available, you may promise and ship this upside order. But, this may cause the remaining supply to drop below what was agreed upon with another customer – you may not even realize this while promising the order. Now, if the second customer places their order as per the agreed upon quantity, you will have to de-commit relative to forecast, and fall short of their expectation.

Over-reserving may not be the simple answer either – if the second customer in our example over-forecasts often, you may actually like to service the upside orders to still hit your revenue targets. So, some care and a well-defined and flexible process will be required to successfully resolve this scenario consistently.

TOTAL OVER-ORDERING

Multiple customers order more than what was forecasted in total. Now you don't just want to check for what's in stock, but check for the ability to manufacture or source more of the requested products. If the requested delivery dates are far out enough, you may be able to accommodate them in time. This Capable-to-Promise (CTP) check, as opposed to just ATP, must happen quickly and consider a potentially complex distribution, manufacturing and procurement network. This requires up-to-date information – not just about the materials and operations that you control internally, but potentially also information on inventory, capacity and lead-times from suppliers, outsourced manufacturing partners, and third-party distributors. With this data at hand, you can promise the upside orders with a high degree of confidence and book the additional business. This situation is equally important for products that may be on allocation or fulfilled in a Build-to-Order / Configure-to-Order (BTO / CTO) approach.

SUPPLY CHANGE

Typical order promising techniques assume existing and projected finished goods supply either stays fixed or is restated with weekly MRP runs. So, what happens if some raw material supply arrives later than anticipated, or manufacturing capacity yields less than planned? You may need to quickly reassess the complete open order backlog against a full re-plan of the entire supply chain to see which customers you can continue to service and which customers you must put on backorder. If not done with care or in a simple first-in-first-out (FIFO) manner, you may de-commit to a top-tier customer and violate important service level agreements (SLAs).

TYPICAL WORKAROUNDS TO MANAGE ORDER COMPLEXITY

Over all these years working with customers, we have seen some very common, but also some exotic, workarounds to address the above challenges. All of them are highly manual and sometimes involves touching hundreds or thousands of individual sales orders one-by-one. Typical workarounds include:

- Placing dummy orders for reservations – when real sales orders are received, these need to be removed manually
- Hiding stock in dummy reservation buckets – a cumbersome and manual process
- Turning off ATP in ERP and processing orders manually
- Manually creating an allocation in ERP to gate initial ATP
- Punching everything out to Excel and overwriting delivery dates manually

Rest assured, these workarounds do not scale at all – sometimes the only thing that keeps customers from switching is the realization that your competitors may not be able to do any better.

WHEN WORKAROUNDS FAIL

"URGENT, Please Expedite! Rush Order" reads too many order forms! The purpose of these unnecessary rush orders from customers is to create inventory buffers at customer sites, because customers are not sure if they can rely on a company's order promise dates. Learning a lesson from poor supply performance in the past, they hope that "if we yell the loudest, maybe we will get our order on time." However, while expediting orders can be a short-term fix, this approach isn't sustainable for the long-term, as it adds unnecessary costs for all parties involved in the fulfillment process (including the customer) and strains customer service resources. To end this perpetual guessing game between the company and its customers (where poor past performance guarantees poor future performance), companies must be able to provide accurate shipping and delivery promises to their customers, and do so reliably.

EVIDENCES OF A BROKEN ORDER PROMISING PROCESS

- Slow or delinquent response to customer inquiries
- Poor customer service due to unreliable order promises
- Increased expediting costs
- Slow inventory turns
- Manual process of determining allocations
- Violating previous commit dates to serve the "squeaky wheel"
- Inability to respond to changes within lead-time
- Inability to model and compare a variety of what-if scenarios
- Inability to reserve inventory for top-tier customers
- Inability to systematically and consistently execute to business strategies

HOW TO PROMISE ORDERS RELIABLY

Reliable order promising starts with data that can be trusted. In addition to internally-acquired data, such as shop-floor and warehouse inventory balances and manufacturing capacity, this also includes real-time externally-acquired data, such as raw material supply commitments from suppliers and capacity of alternate outsourced manufacturing sites. Also essential, is a flexible and easy-to-use business rules engine running on this good, clean data. The business rules should be comprehensive enough to represent strategic priorities, as well as easy to adapt to changes in the business environment. These rules are the secret ingredients for successful and automated order promising in line with company strategy. Without them, lower priority customers might get a top-tier customer's forecast allocation or a profitable upside may be missed. Lastly, what-if analysis can be used to refine the rules engine by trying out many different scenarios in advance, so that when large volumes of orders come in, they can be processed without unnecessary manual intervention. Let us look at these building blocks one by one.

RELIABLE DATA

Committing to customers with confidence that their high-priority order will arrive on a given date, requires confidence in the data across your entire internal supply chain and external trading partner network. Data that arrives late or out-of-sync (or not at all), may lead to unpleasant surprises and expensive recovery efforts. Data accuracy is key when you need to tightly align demand, supply and capacity in a fast-paced environment.

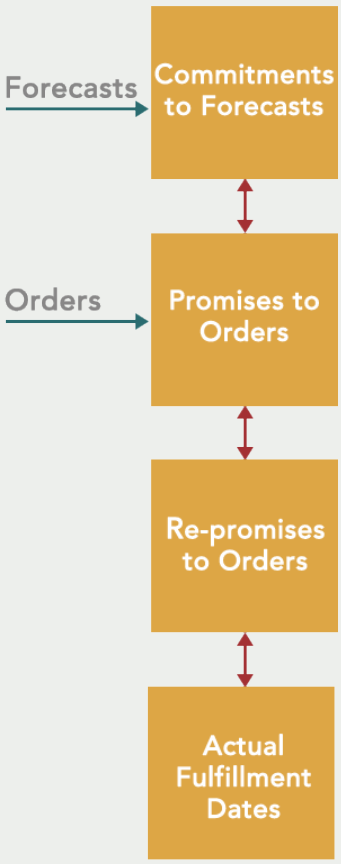
FLEXIBLY PRIORITIZING ORDERS (THE SECRET TO SUCCESS)

Is your order promising strategy aligned with strategic corporate goals? Is it flexible enough to respond tactically to upsides and quarter-end urgencies? By deploying a systematic order prioritization strategy, companies improve customer satisfaction by increasing on-time delivery performance. Responding to changes in demand becomes easy when inventory can be reserved for top-tier customers or others as per business objectives. Planners can decide to ship FIFO if they need to lower inventory levels at specific stages of the quarter. Business rules can be applied to demand segments so that operational strategies can be adapted to unique business needs. Finally, planners can respond to material or capacity shortages by prioritizing the most profitable products or servicing strategic markets first.

Modern order promising approaches have the following characteristics:

- **Business Rules Management** to automate order promising strategies as per profitability and business goals
- **Forecast Consumption** to merge forecasts with customer orders as orders drop-in out of line with forecasts
- **Demand Classification** based on previous commitments, forecasts and allocations, to ensure proper demand / supply matching and to prevent de-committing
- **Demand Allocation** to associate orders and forecasts to various classes of demand so that prioritization may be done by demand segments
- **Priority Management** to sequence the matching of supply and demand. The higher in the priority sequence a demand signal lies, the faster it will obtain supply to ensure on-time delivery

How Customers Perceive Reliability of Order Promises



MASTERING ORDER PROMISING WITH WHAT-IF ANALYSIS

Planners need to be able to run what-if scenarios for different priority strategies, demand and supply upsides/downsides, and capacity changes or risk evaluation. They must be able to see exactly which orders will be affected if a new one is accepted. Trade-offs can be managed efficiently when metrics highlight the impact on key business indicators before confirming the promise. In addition to analyzing the orders at hand, with the aid of what-if scenarios rule-sets can be created and refined for many different real-life situations in advance, so that these rules may be quickly applied when business exigencies arise, avoiding the need for laborious manual effort in a short time-frame.

Note: There is a difference between the use of what-if scenarios for refining automated planning strategies, versus what-if simulations as the primary planning mechanism. The latter requires continuous planner involvement, and results in a large number of scenarios that seldom converge to a plan of action that makes sense for all constituents, constraints and considerations.

BENEFITS OF INCORPORATING FORECASTS, PAST PROMISES AND CUSTOMER PRIORITIES INTO ORDER PROMISING

- Improved customer satisfaction through reliability in going from forecast-commitment to order promise to re-promising to order fulfillment
- Fast response to demand upside opportunities
- Preservation of original commit dates for top-tier customers
- Automated order promising strategies reflecting business objectives
- Improved on-time delivery performance
- Reduced expedite time and costs
- Optimized use of materials and capacity
- Faster convergence to an actionable plan
- Ability to drive complex omni-channel fulfillment (direct, dropship, replenishment) with one holistic approach

HOLISTIC ORDER PROMISING WITH E2OPEN

Manual processes don't scale in face of changing demand, shifting constraints and multiple alternatives. Therefore, approaches to order promising must be holistic and automated to succeed. This reduces the number of exceptions in the supply chain, saving time and cost and resulting in better customer service.

E2open's powerful order promising algorithm not only finds the best use of materials and capacity as per demand priorities, but also considers forecasts, reservations, allocations and previous promises, for promising customer orders with greater reliability. The Order Promising & Allocation solution benefits from E2open's intuitive Harmony User Experience and robust connectivity to network data via E2net.

When your data is correct and timely, your intelligence is reliable and you can commit to orders with confidence.

E2open's Supply Chain Operating Network facilitates putting plans into action, letting companies make the link from order promising to order fulfillment. Through the unique convergence of planning and execution, this enables companies to differentiate themselves with better customer service, because, as we know, the customer comes first.

Contact us today to speak with one of E2open's supply chain experts and learn how your company can create a more holistic approach to order promising.

[1]McKinsey & Company: Finding the right digital balance in B2B customer experience, April 2017, Nicolas Maechler, Adina Poenaru, Thilo Rüdt von Collenberg, and Patrick Schulze

ABOUT E2OPEN

E2open is the one place, in the cloud, to run your supply chain. Powered by the world's largest direct business network and a broad portfolio of next generation solutions, E2open enables the world's largest and most complex supply chains to better plan, execute and collaborate. We understand supply chain. Bring us your challenges and E2open will deliver better outcomes. **e2open.com**.

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