



SUPPLY CHAIN INNOVATION STUDY



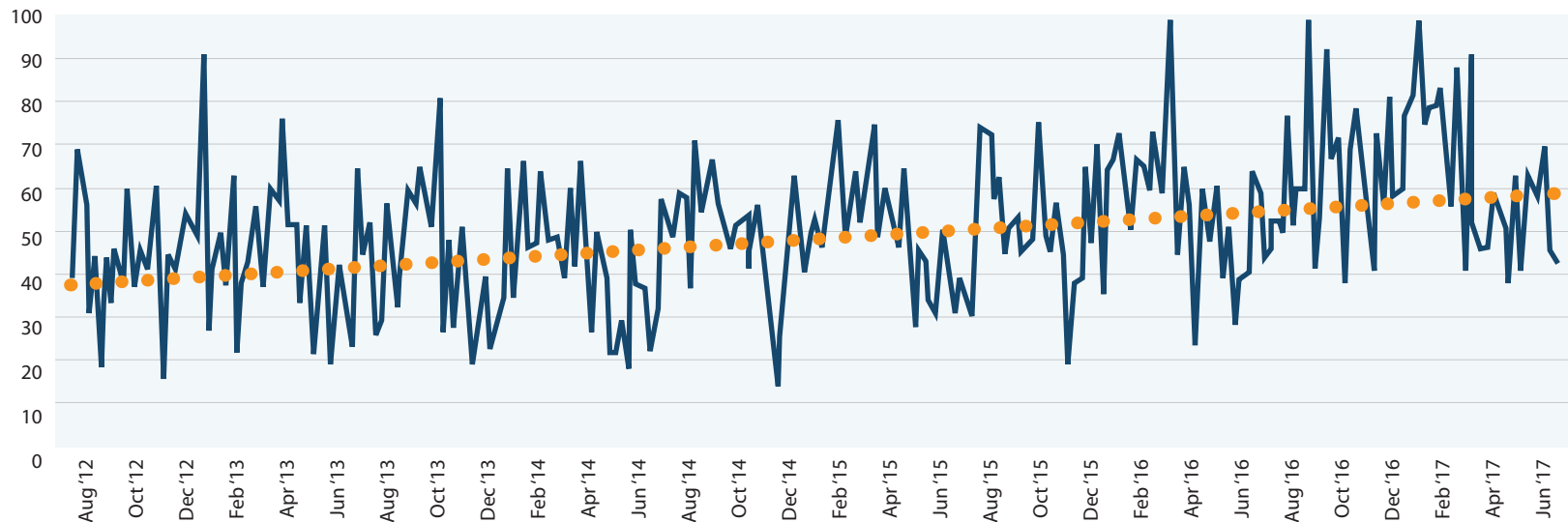
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With contributions from Paul Richardson, Chief Innovation Officer, DHL Supply Chain

Introduction

Innovation has gone from something reserved for start-ups or 'The Big 5' – Apple, Google, Facebook, Amazon, Microsoft – to buzzword du jour. However, in taking over today's business zeitgeist, the concept has also become strategic. That is, innovation has become critical for businesses looking to adjust to modern technology and disruption. As such, despite 'trending', innovation needs to be considered seriously by the industry. This report seeks to spell out the state of innovation across the supply chain. It analyses the input of manufacturers, retailers and logistics providers



Supply Chain Innovation is trending (Via Google Trends)

Methodology

eft surveyed executives from 101 logistics providers and 50 manufacturers and retailers. All respondents were vetted to ensure they were actively working in the industry and for the organization they responded on behalf of. No individual responses were considered for analysis with the exception of the 'definition of innovation' question. For this question, no individual responses were attributed or analysed with consideration or knowledge of the respondent. Respondents were from North America and Europe.

Are supply chains succeeding at innovation?

It turns out, only 48% of manufacturers, retailers and logistics providers have a formal innovation strategy.

Does your organization have a formal innovation strategy?

There are many reasons for this, but these are some of the key drivers:

- **Expensive:** Innovation is often considered expensive as it can involve significant expenditure whether on equipment or hiring in new talent.
- **Aimless:** With no guaranteed ROI, there is a fear that innovation can serve as a bottomless pit of time and money with no real outcome.
- **Intimidating:** Innovation is often associated with cutting-edge technology and brand-new business models.
- **Confusion:** The definition of innovation is inconsistent across the industry.

Are supply chains succeeding at innovation? (what are you seeing from your customers?)

Many organisations are now looking to innovation as the key differentiator when selecting a 3PL, expecting traditional supply chain services as standard. Technology has become so embedded in every aspect of the industry that it is now the product which is sold to customers.

As a result, at DHL we are evolving our operations with both technology and engineering innovation. We are always looking for new ideas, we keep an eye on the markets, talking to customers and colleagues and attend conferences. We are also looking at new technological tools such as predictive data analytics and machine learning to drive new insights in the supply chain, as insights on volumes and consumption trends now define how we operate and allow us to deliver the most efficient service to our customers' customer.

The market for work wear clothes is a good example of where we have supported a customer with innovation. We proposed a completely new business model to the UK government for their tenders, advising them to have only one contact for customers to deal with regarding uniforms. Previously, many different companies were involved in the delivery chain, from procuring the fabric, through design and production, to sales and distribution. By having everything in one hand, we can reduce the sources of errors, and above all it makes everything simpler. This has shaken up a market where nothing has happened for decades.



Paul Richardson, Chief Innovation Officer, DHL Supply Chain



But, can supply chain afford to fail at innovation?

Over 50% of the supply chains industry lacks confidence in the effectiveness of the innovation emanating from their organization. This reflects the lack of a formal innovation strategy in the majority of organizations and speaks to the need to secure one.



Can supply chain afford to fail at innovation?

Failing has to be part of the process, but we use the term “fail fast”. If you don’t do this consistently, it costs you money and it damages your reputation. It often takes only a few weeks to go from initial concept to prototype to field test. That way we minimise the risk to the business. It is also very important that our colleagues accept culturally that change is a necessity to do business and therefore this makes them motivated and excited about the art of the possible.



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**Does your organisation have a formal innovation strategy?
Can you elaborate on how that came about?**

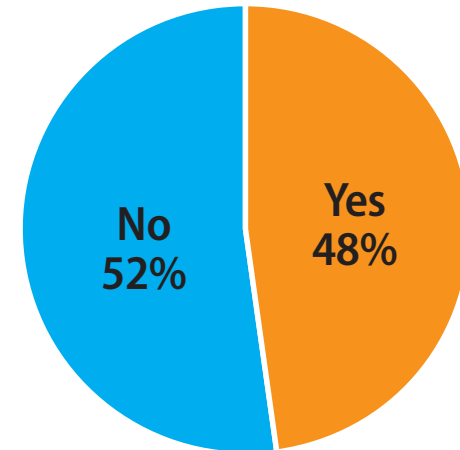
Our customers demand innovation as part of the service we provide which keeps us focused on the future. Our model for delivering against these expectations could be described in line with Clayton Christensen's definitions of innovation in his book The Innovators Dilemma, which references how you successfully manage and apply disruptive innovation, sustainable innovation and efficient innovation.

Our sustained innovation is the incremental improvements we make on an on-going basis to all aspects of our business – this is culturally expected across our organisation and ensures we're delivering consistently high levels of service and keeping one step ahead of expectations. We've made the conscious decision that we need to go further and take a more entrepreneurial approach through disruptive innovation. This is where we focus on delivering market changing ideas that aren't necessarily being demanded of us. We have a specific unit – our Business Venturing team – that specifically looks at how we can co-create and innovate with start-ups.

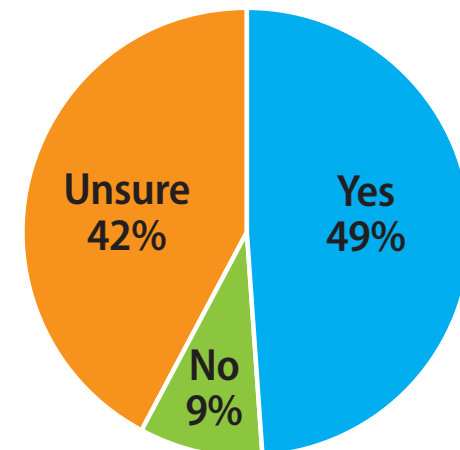
At DHL we also believe that digital-led innovation in general can come from anyone. That's why we have a patents programme that encourages everyone from all levels of the organisation to bring forward great ideas. The person or team who develop an original idea worthy of patenting gets a one off payment then for any future commercialisation of that idea they receive a percentage of the licensing revenue that it brings in.



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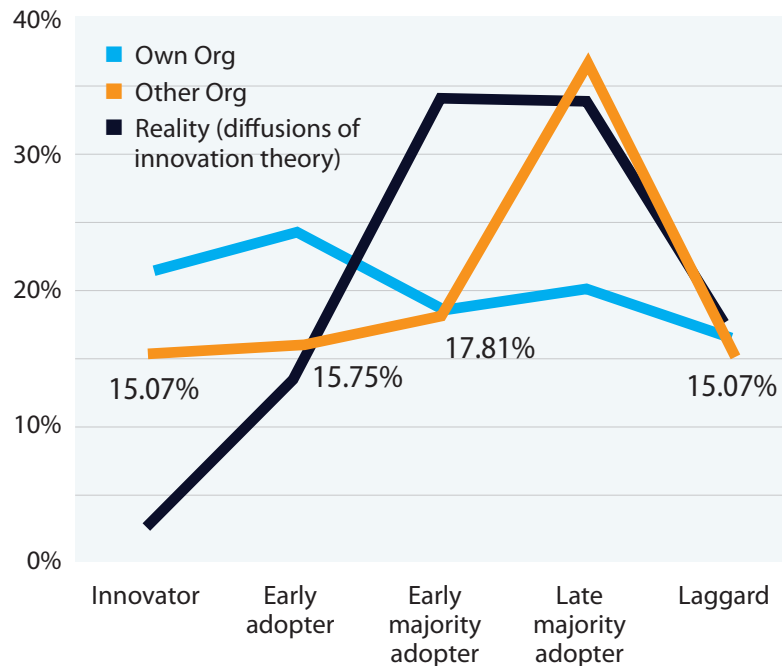
Does your organization have a formal innovation strategy?



Do you think your company's innovations have been effective?

The perception of innovation

It turns out, only 48% of manufacturers, retailers and logistics providers have a formal innovation strategy.



How supply chain respondents classify the innovative nature of their own organization against peers

Another challenge facing supply chain innovators is perception vs. reality. Most survey respondents classified themselves as innovators or early adopters yet classified their peers as late majority adopters or laggards. This discrepancy is further highlighted when you apply this data against the diffusion of innovation theory: the theory that explains the diffusion of new ideas or products throughout a population. The diffusion of innovation theory will not necessarily be a perfect fit when applied to supply chain innovation, but it will certainly be indicative of how the industry sits without bias. Furthermore, this discrepancy highlights one of the big challenges with innovation: what is it?

Innovate /'nəveɪt/ *Verb*:

Make changes in something established, especially by introducing new methods, ideas, or products

Oxford English Dictionary

What does innovation mean?

According to logistics provider, retailers and manufacturers, it means:

'Applying a new process or technology that has not been used in our market/industry'

'Becoming data driven and future proof'

'To implement state of the art developments in processes, products, organisations and strategies'

'Introducing efficiencies which improve productivity and introduces cost reduction within our organisation'

'New products'

'New ways of doing business capitalizing on technology'

'Survival'

'It starts with technology and the ability to attract customers to our offerings'

'Quicker service and cost effective solutions for our clients!'

'Creating new revenue stream'

'Do things different, not better'

What does innovation mean?

Innovation isn't just about the latest technology, it's understanding how trends will change and disrupt the supply chain, thinking differently and finding new and better ways to do things. Everything is changing so rapidly that we can no longer sit back and wait, instead we have to work harder to understand how we can help our customers to transform their businesses.

As part of our commitment to delivering innovation we have a separate business unit called Specialist Services – it's the disruptive part of our organisation driving growth into new markets with new concepts. Specialist Services is enabled to deliver innovation through entirely new business models, not constrained by the financial or operating model of a traditional logistics company. The philosophy of this business unit in particular is to solve problems, not just to think of logistics developments.



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That state of innovation in the supply chain today

How does your organisation measure ROI from innovation?

Innovation is hard to measure due to its wide-ranging definition and application. However, a good indicator is growth, in both new markets and products as well as current markets.

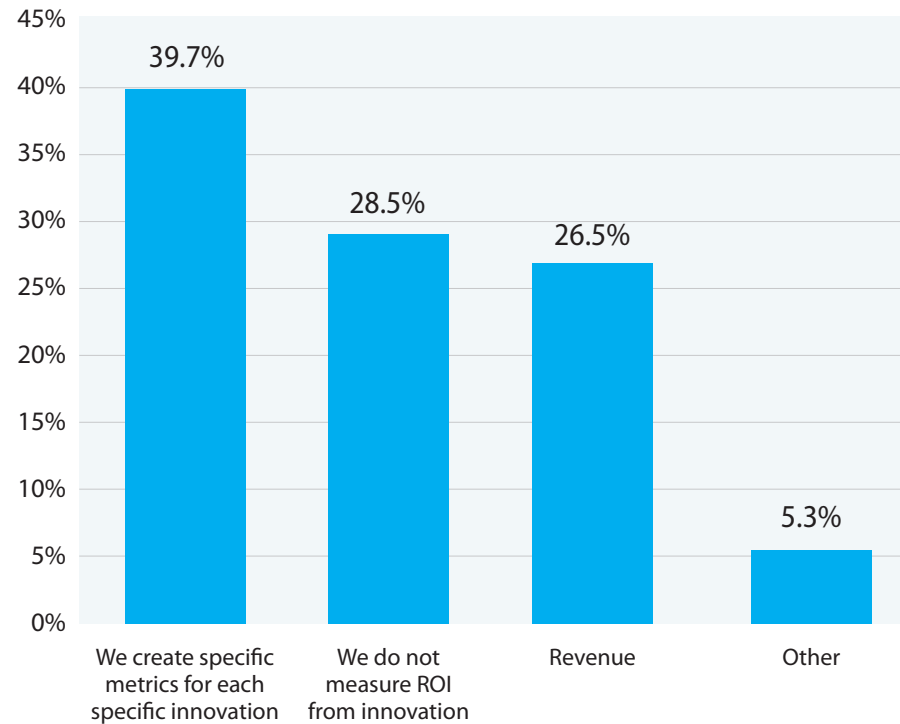


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US\$129m
average spend on innovation in Supply Chain

Companies are spending when it comes to innovation, with an average yearly spend in the low 9 figures. While this speaks to the concern expressed by some organizations of the high cost of innovation, it also speaks to the fact that money is being spent across the industry by most organizations.



How does your organization measure ROI from innovation?

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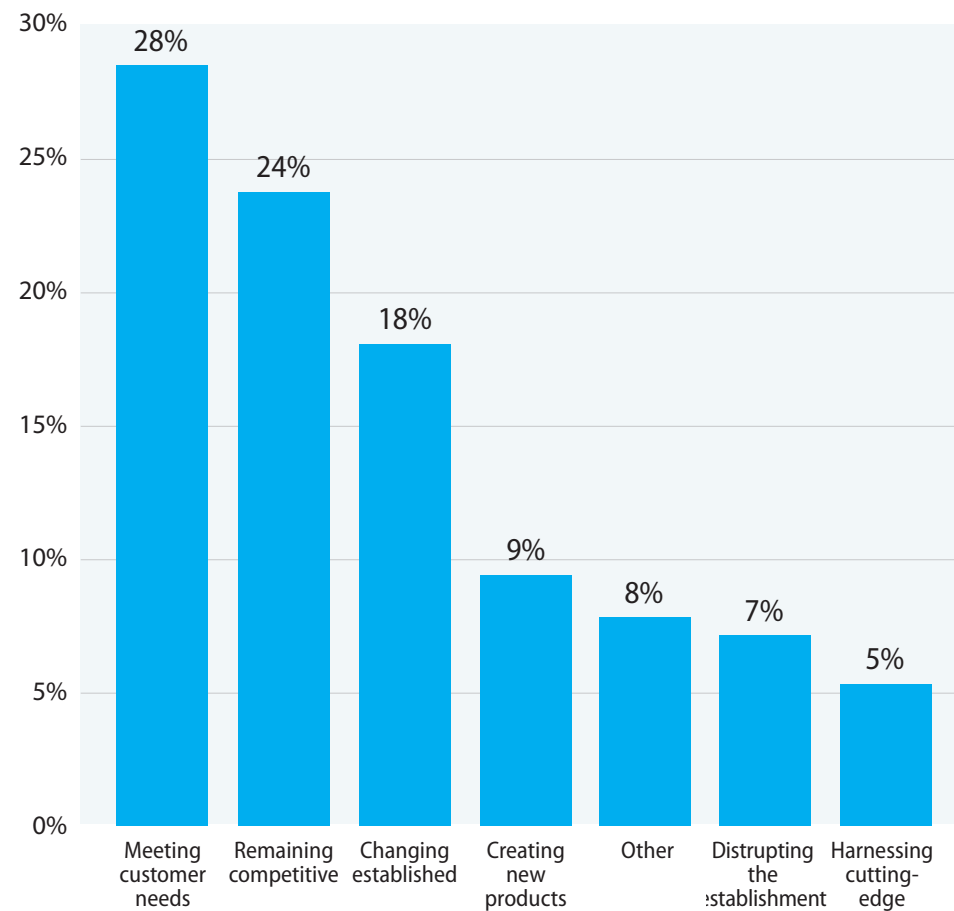
9 figures is not an insignificant amount for most organizations to spend on any activity. It is surprising then to see that 29% of respondents were not measuring ROI from their innovation investments.

However, measuring ROI from investment into innovation can be difficult:

- **There's a high fail rate to innovation**
- **Innovation does not necessarily directly impact revenue**
- **Innovation often requires entirely new metrics to determine its success**
- **Innovation is sometimes necessary just to continue business as usual**

As a consequence, 40% of respondents are utilizing case by case metrics to measure their innovation.

In fact, this last bullet point speaks to one of the main drivers for organizations' innovation initiatives. Innovation is now a critical component of meeting a customers' needs. The speed, agility and disruption in today's supply chains mean that innovation is a necessity in any modern supply chain partnership.



What's the most important aspect of innovation for your organization

Conclusion

Innovation has bridged the gap between buzzword and strategic initiative. Given how much technology and changing consumer behaviour has impacted supply chain in recent years, it is on the front lines of strategic innovation. The question is no longer whether to innovate, but rather how to innovate effectively to ensure continued relevance.

The speed at which innovation has gone from buzzword to strategic initiative has clearly caught a significant segment of the supply chain off guard. The majority of those in the supply chain still have no formal innovation strategy. They are, though, investing in innovation which they deem to be only moderately successful.

What do supply chains need to do to harness innovation?

- **Develop a concrete innovation strategy**
- **Create a system for measuring innovation ROI**
- **Understand customer-centric innovation**

What's one innovation that has particularly impressed you– it doesn't have to just be tech-related!

Lilium's autonomous aircraft is very impressive and stands out as a leading innovation. It's the world's first electric vertical take-off and landing jet, with top speeds of 300km/h and a 300km range. It's an exciting and innovative new means of transportation, and I'm keen to see what the team there do next.

What's the most important aspect of innovation for your organisation?

Digitalisation is key to innovation, as it has so quickly transformed the lives of consumers around the world, and is changing business from both a people and systems perspective. However, innovation and new ideas are only successful if people use and adopt them, so 'people' really are the most important aspect of innovation. Part of this is also about creating an atmosphere where our employees feel inspired and comfortable enough to come up with new ideas.



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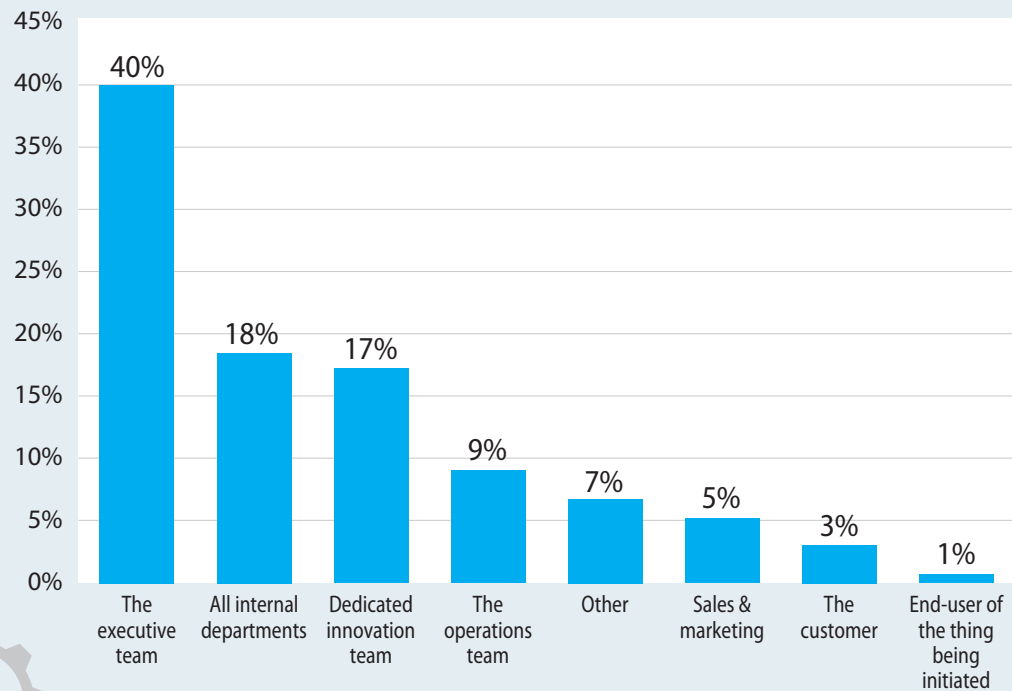


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Who's primarily responsible for driving innovation within your organization?

