Case Study: Establish a Global Hub for End-to-End Supply Chain Orchestration (Philip Morris International)

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Chief supply chain officers should use this research to learn how Philip Morris International transformed its supply chain operating model by establishing a global hub to synchronize demand, supply and fulfillment teams, as well as orchestrate the end-to-end supply chain, from suppliers to point of sale.

Company Name: Philip Morris International

Industry: Cigarettes and tobacco

Headquarters Location: New York, New York

Revenue: $76,047 Billion

Employees: 71,000

Overview

Philip Morris International (PMI) is an example of a company that had to reinvent itself. Along with the entire tobacco industry, it is facing an unprecedented change in the marketplace. Traditional tobacco products are declining in sales, while consumers are looking to switch to smokeless products, such as electronic cigarettes. The impact on the supply chain is significant.
In the past, PMI's business-to-business (B2B) model produced predictable demand, while supply was driven by the availability of tobacco. Today's business model is shifting to incorporate an expanded product portfolio, including a range of electronic smoking devices, commonly referred to as “e-cigarettes,” that are delivered to customers through multiple channels, including direct-to-customer, and company-owned physical stores and online fulfillment.

The new business model also leverages circular economy opportunities, as the company recovers the devices and all the electronic components at end of life or that are not functioning properly. Last, but not least, the new business model is also about having a great deal of direct contact and proximity with end consumers.

To support its business model change, PMI conducted an end-to-end transformation of its supply chain to design a new operating model able to serve those multiple channels profitably, to deal with products across multiple categories and to deliver services tailored toward end-consumer needs. It required all aspects of supply chain management to be housed under one roof. PMI’s supply chain organization established a central global hub to synchronize demand, supply and fulfillment teams, from which the company can orchestrate the entire supply chain, from suppliers to point of sale.

The global hub offers the following three key capabilities:

- **End-to-End Visibility** — A data lake provides real-time visibility across the end-to-end supply chain, from suppliers to stores. It enables cross-functional organizational and process synchronization across demand, supply and fulfillment teams, connecting upstream with planning and downstream with order management.

- **Autonomous Planning** — A new planning technology uses autonomous forecasting and artificial intelligence (AI) based algorithms to match demand and supply, based on scenarios. Real-time, no-touch planning capabilities are used across all planning processes, including demand forecasting, automatic replenishment and companywide integrated business planning (IBP).

- **Omnichannel Fulfillment** — An automated order management technology can fulfill orders anywhere in the world by developing omnichannel capability (see Figure 1).
Over the course of five years, PMI successfully made the transition to this new supply chain operating model. PMI achieved this by embracing the digital revolution and undergoing a radical transformation to support new product categories, even while completely upending its traditional business.

PMI continues to reap benefits from the transformation, including:

- The ability to consistently launch new products globally and at scale has improved, as has PMI's ability to deal with market volatility. It is now faster to market with all of its products.
- PMI's ability to handle complexity, bring on new partners, and manage change and innovation has grown.
- PMI has also seen improvement in driving KPIs and keeping costs down, as a result of the changes to the company's supply chain.
- PMI experienced a 50% reduction in labor for planning and fulfillment, while the planning cycle shrunk from 25 days to four days, which resulted in better meeting end-customers' expectations.
About This Research

Gartner developed this case study to describe PMI's approach to transforming its supply chain to a new global model controlled by a single centralized hub. It is based on a video called Video: Creating an End-to-End Supply Chain Planning Control Tower (Philip Morris International), delivered by Ankur Modi, PMI's VP for operations strategy and results delivery, and David Cutter, PMI's VP for supply chain. It is also based, in part, on sections of Supply Chain Executive Report: Competing Against Nontraditional Supply Chains, as well as Video: Philip Morris International Designs a Smoke-Free Future, presented by Fabeo Rubeo, PMI's supply chain integration planning and logistics director.

Recommended by the Authors

Video: Creating an End-to-End Supply Chain Planning Control Tower (Philip Morris International)

Supply Chain Executive Report: Competing Against Nontraditional Supply Chains

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