

## WHAT IS THE CURRENT THINKING IN INDUSTRY LEADING SUPPLY CHAINS AS WE HEAD INTO 2012?

*This article is based on the global research by three leading industry research organisations on the subject of what are the attributes of supply chain excellence and what are the requirements for sustainable success.*

The increasingly complex and challenging business environment has increased the pressure on supply chain management and information systems to provide more timely and more appropriate information to improve command and control of the supply chain.

In this article the definition of the supply chain includes all operational and process activities from the time of order acquisition to customer payment – the customer order, customer service, planning, production / procurement, warehousing and distribution and invoicing with the appropriate support functions.

The increasing global nature of the supply chain requires organisations to understand the nature and implications of the major influencing factors that impact performance, such as:

- Getting a better understanding of what being demand-driven means in your industry.
- Understanding how your supply chain currently creates and delivers your value proposition.
- Doing a risk analysis of your supply chain to find out where your exposure is to potential disruptions or market weaknesses. Developing a supply chain strategy that allows you to mitigate those risks.
- Taking a closer look at the emerging markets and how your supply chain operates in them. Looking forward, consider how you will meet the demands of local customers.

The key therefore to business performance excellence is a demand-driven supply chain.

### **What Is Demand-Driven Excellence?**

The concept of being demand-driven is at the heart of business performance excellence. Much has been written about the importance and value of being demand driven. Many unfortunately see or interpret this as better forecasting and typically place this under the sales and operations planning (S&OP) process. This approach in fact becomes the constraint to developing a demand-driven organisation.

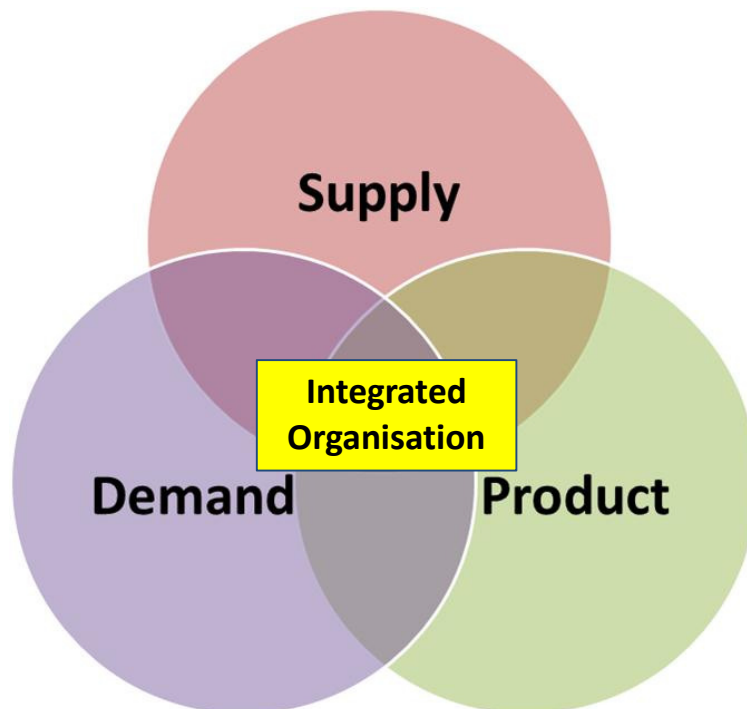
The organisational ideal of demand-driven principles as applied to the global supply chain is a model that has three overlapping areas of responsibility:

Supply management — Manufacturing, logistics, supply planning and sourcing

Demand management — Marketing, sales, demand planning and service

Product management — R&D, engineering and product development

This then forms the model for integrated business planning where all business improvement activities are linked to a demand driven strategic performance improvement action plan.



When these processes work together, the business can respond quickly and efficiently to opportunities arising from market or customer demand. The defining characteristics of supply chains built to this design include the ability to manage demand, rather than just respond to it; a networked, rather than linear, approach to global supply; and the ability to embed innovation in operations, rather than keep it isolated in the laboratory.

Of course, operational excellence has value only if customers want what's being made and shipped. To address this, we look at innovation excellence. Although far harder to measure reliably, this dimension can also be managed with a hierarchy of metrics, in this case, topped by time to value and return on new product development and launch (NPDL). The key is to find the right balance on both these dimensions. Too much emphasis on one at the expense of the other either squashes innovation or hampers growth.

### **Operational Excellence and Innovation Excellence**

Two basic dimensions of measurement capture the totality of the best-in-class, demand-driven, global supply chain: operational excellence and innovation excellence. To measure operations,

including delivering as promised to customers and keeping costs under control, we recommend a hierarchy of metrics, with perfect order performance and total supply chain costs at the top (see Supply Chain Metrics for Excellence below).

### **Resilience**

First, of course, is the impact of the recovering economy. Companies are starting to invest again in resources and assets, and although we haven't fully recovered, the trend is certainly looking up. At the same time, leaders took some very clear lessons from the events of the past couple years, with one of them being the need for supply chain resilience: the ability to deliver predictable results, despite the volatility that many have pointed out is now here to stay. Speed, agility, efficiency, responsiveness and innovation — all remain critical, but equally important is a resilient supply chain. Companies like Cisco, Dow Chemical, RIM, Unilever and others are actively designing in structures, processes and methodologies to create and expand this resiliency not only in their own supply chains, but in those of their trading partners as well.

### **Value Chain Network Integration**

The current world-wide trend is toward value chain network integration. What we are seeing is more focus on choosing the right set of value chain network integration strategies that allow better control of the end-to-end value chain. What this means is that there's no one answer that's always right. We see companies like Samsung, which have always been vertically integrated, weathering the ups and downs through ownership of supply, and others like The Coca-Cola Company and PepsiCo becoming more vertically integrated with the acquisition of their largest bottlers. On the other hand, we see companies like Microsoft and Cisco managing an extensively outsourced network of trading partners. The key isn't whether a company owns all the pieces of its network — it's how well it controls the outcome of the activities that take place in the network that end in the delivery of a final product to a customer. As such, each company needs to figure out the right strategy for sustainable differentiation given its unique business goals, and design the tactics and processes that will best ensure the quality and efficiency of the end-to-end output and response to the end customer.

### **Vision and Sustainable Execution**

Leaders are setting their sights beyond the articulation of a clear vision to the need for sustainable execution against that vision. These companies understand that, although a long-term supply chain vision is critical to communicate future value, the ability to replicate, scale and continually build on best practices across the organization in a sustainable way — going beyond a one-time success or pockets of excellence — is just as critical. It often requires fundamental shifts in organisation and governance, as well as an unshakeable commitment to effective change management.

### **Doing Better Things**

Leaders have been moving steadily up the demand-driven maturity curve over the last several years. What differentiates the companies that are true “innovators” is that they go beyond simply borrowing and adapting others’ best practices, or doing things better. They create new ones altogether, often defying “conventional wisdom” to rewrite the rules and increase the gap between themselves and others, doing better things.

### **Supply Chain Metrics for Excellence**

There are a number of key measures that will provide the essential command and control information for supply chain excellence.

*Delivery Performance* – covers on-time performance (to request and actual) and fill rate

*Cycle Time* – covers lead times (promised and actual), supply chain cycle time, and return rate

*Inventory and Cash Management* – covers inventory days of supply, days sales outstanding, and days payables outstanding, the cash-to-cash cycle

*Supply Chain Cost Management* – covers order management and material acquisition systems; stocking and material handling programs; rent and utility efforts; inventory carrying, counting, shrinkage, and obsolescence management; and supply chain cost management relating to these efforts, along with related finance, planning, and information technology initiatives.

*Productivity Initiatives* – covers Collaborative Planning, Forecasting, and Replenishment, Available-to-Promise, Supplier Managed Inventory, and Build-to-Order programs.

*Innovation* – covers time to value and return on new product development and launch (NPDL), supply chain improvement activity implementations

### **Recommendations**

Develop supply chain processes and methodologies throughout your trading partner network that will provide the resiliency to deliver predictable results in the face of ongoing volatility.

Supplement a clearly articulated, long-term value chain vision with strong, agile, and sustainable execution capabilities. Push your team to think differently and go beyond conventional wisdom to push the boundaries on performance levels.

Measure your supply chain as your customers experience it. Develop the capability to internalise customer needs, and proactively build customer feedback into your supply chain design.

Step back and consider the basic supply chain capabilities you need, as well as the innovations that will differentiate your performance. Ensure the sustainability of your efforts and initiatives through a constant focus on governance, change management and culture.

### **Conclusion**

This paper has been developed from material produced by three global research organisations who carried out extensive supply chain surveys in 2011, therefore they provide current thinking and experience, plus we have added Intellog's experience and thinking as well as the integration of the various research paper content.

- Business Intelligence Command and Control Center for the Chief Supply Chain Officer; June 2011 - Aberdeen Group
- Supply Chain Management Best Practices - Best Practices, LLC
- The Gartner Supply Chain Top 25 for 2011; June 2011 - Gartner, Inc.

Intellog is passionate about assisting organisations improve their business performance. As a leading business performance improvement consulting and training group we are committed to sharing knowledge and experience, as well as providing our performance improvement capability, to organisations that aspire to profit driven performance excellence. Incorporated with this is the thinking and material of Steven Spear, particularly from his publication *The High Velocity Edge – How Market Leaders Leverage Operations Excellence to Beat the Competition*.

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