Strategic Supply Chain Management
The five disciplines for top performance

Food & Consumer Products of Canada Webinar
Toronto, February 24, 2014
Section 1

Why is strategic supply chain management important?
Section 1  Introduction

About the book

All-in-one guidebook and reference targeted to:

- Senior executives seeking an understanding of the importance of the supply chain for the management agenda
- Supply chain operations professionals seeking insights into practices that can make a difference
- Executives interested in getting a better view of how their functions affect supply chain performance
- Students of business eager to supplement their knowledge of how companies operate

Supply chain knowledge that will help your company create value and achieve competitive advantage

In-depth profiles of six leading companies from the energy, healthcare, agricultural, consumer, and high tech sectors

Numerous examples of how companies applied the techniques detailed in the book to achieve results
Strategic supply chain management is more important than ever

Increased pressure on companies and their supply chains

- Shorter economic cycles
- More frequent natural disasters
- Rising costs in low-cost countries
- Reduced access to working capital
- Competition for talent
- Greater focus on sustainability
- Increased competition
- Shorter product life cycles
- Multiplication of channels and segments

1990’s → Today

Strategic supply chain management is more challenging — and much more critical to the bottom line
Consumer goods CEOs are reshaping their organizations

Use and management of data and data analytics
Customer growth and retention strategies
Talent strategies
Technology investments
R&D and innovation capacity
Organisational structure/design
Channels to market
Approach to managing risk
Investment in production capacity
Supply chain
M&A, joint ventures or strategic alliances
Corporate governance
Location of key operations or headquarters

Q: To what extent are you currently making changes, if any, in the following areas?
Base: All respondents (Consumer goods, 199)
Note: Don't know/refused not shown.
Source: PwC 17th Annual Global CEO Survey 2014
While cost, profitability, and service remain critical, CPG executives see other trends growing in importance.

### Significant Supply Chain trends in 2013 [%]

<table>
<thead>
<tr>
<th>Consumer Goods</th>
<th>Significant Supply Chain trends in 2013 [%]</th>
<th>In 2013-2015 [%]</th>
<th>% Increase by 2015 vs. 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing profitability of total supply chain</td>
<td>86</td>
<td>3</td>
<td>(+4%)</td>
</tr>
<tr>
<td>Reducing total supply chain cost</td>
<td>79</td>
<td>7</td>
<td>(+9%)</td>
</tr>
<tr>
<td>Meeting increasing customer requirements</td>
<td>78</td>
<td>4</td>
<td>(+6%)</td>
</tr>
<tr>
<td>Preparing supply chain for up/downwards volume flexibility</td>
<td>66</td>
<td>8</td>
<td>(+12%)</td>
</tr>
<tr>
<td>Acquiring and developing supply chain talent and skills</td>
<td>60</td>
<td>11</td>
<td>(+18%)</td>
</tr>
<tr>
<td>Responding to competitive pressures</td>
<td>62</td>
<td>9</td>
<td>(+15%)</td>
</tr>
<tr>
<td>Assuring supply and supplier performance</td>
<td>53</td>
<td>9</td>
<td>(+16%)</td>
</tr>
<tr>
<td>Implementing techniques to automate and increase transparency</td>
<td>54</td>
<td>5</td>
<td>(+10%)</td>
</tr>
<tr>
<td>Supporting demand growth in emerging markets</td>
<td>51</td>
<td>7</td>
<td>(+13%)</td>
</tr>
<tr>
<td>Managing supply chain security and risk</td>
<td>43</td>
<td>11</td>
<td>(+26%)</td>
</tr>
<tr>
<td>Making the supply chain more sustainable</td>
<td>39</td>
<td>15</td>
<td>(+38%)</td>
</tr>
<tr>
<td>Responding to changing regulatory requirements</td>
<td>32</td>
<td>6</td>
<td>(+19%)</td>
</tr>
</tbody>
</table>

### Cross Industry Average

- **Top 4 Supply Chain trends**
  - ≥ 20%
  - 10% and < 20%
  - ≤ 10%

### Remaining Supply Chain trends

**Note**
1) % participants who judged trend as critical or significant in 2013
2) % participants who think that trend is significant, critical or moderate in 2013 and who think that importance will increase by 2015 or who have indicated critical or significant for 2013 and indicate that it will stay same for the next 2 years

Source: PwC Global Supply Chain Survey 2013, Next-Generation Supply Chains: Fast, Efficient and Tailored
Leaders reap significant benefits from strategic supply chain management as ...

... it improves the top line
Best-in-class companies’ (BICC) sales growth is almost 50% higher than non-BICC

Sales growth

... it improves the bottom line
Best-in-class companies have 20% higher profitability than non-BICC

Profitability
Section 2
Strategic supply chain management’s five core disciplines
First—what is the Supply Chain?

- End to end—not just sourcing and suppliers
- Not just physical goods – services have a supply chain
- The ideal: seamless, integrated flow of materials and information
- The value chain includes supply chain, but is much broader!
The book details the five core disciplines that drive performance

Section 2  The five core disciplines of Strategic Supply Chain Management

1. View your supply chain as a strategic asset

Design the supply chain around a defined basis of competition to enable the overall business strategy

2. Develop an end-to-end process architecture

Develop integrated supply chain processes and systems that interface efficiently with the rest of the enterprise

3. Design your organization for performance

Develop and maintain organizational structure and skills to define and manage the supply chain of the future

4. Build the right collaborative model

Understand core competencies and choose partners to maximize focus and profitability

5. Use metrics to drive supply chain performance

Use metrics to measure the health of each core supply chain process and identify problem areas
Retail & Consumer challenges and the five core disciplines

Challenges

Retailer expectations for efficiency + greater end-to-end management

Simultaneous retail consolidation and fragmentation

Consumer demand for multi-channel capability

Increased pace of innovation in retail supply chains
Core Discipline 1: View your supply chain as a strategic asset

Four primary bases of competition

**Innovation**
- time to market
- and time to volume

**Quality**
- procurement and production excellence and quality control

**Customer experience**
- interactions designed from the customer’s perspective

**Cost**
- efficient, low cost supply chain configurations and processes

Align your supply chain with your business strategy and your primary basis of competition

Consider customer service proposition, sales channels, value system, operating model and asset footprint in your supply chain strategy

Re-evaluate the supply chain strategy regularly
Core Discipline 1: View your supply chain as a strategic asset

Case in point: Luxury menswear company

- Custom orders in US, fabrics designed in Italy and garments made in China
- Operates with the philosophy that “custom-fitted clothes can be provided at the cost of off-the-shelf garments”

Core Discipline 2: Develop an end-to-end process architecture

Ensure the supply chain process architecture encompasses Plan, Source, Make, Deliver, Return, and Enable processes

Integrate the supply chain with the other core enterprise processes

Use your basis of competition to choose and prioritize specific activities and practices
Core Discipline 2: Develop an end-to-end process architecture

Case in point: Global on-line retailer

- Offers “the Earth's Biggest Selection”
- Seeks to be world's most customer-centric company, where customers can find and discover anything they may want to buy online

Core Discipline 3: Design your organization for performance

Designing a Supply Chain Organization

Ensure the talent mix and pipeline cover execution, planning and enabling activities.
Consider context, culture and complexity when designing your supply chain structure (centralized, decentralized and hybrid).
Insist on clarity in accountabilities, with a priority on cross-functional roles & activities.
**Core Discipline 3:**

**Design your organization for performance**

**Case in point: Multinational consumer goods company**

- More than 400 brands focused on health and wellbeing
- Global scale, local agility seen as a key source of competitive advantage

<table>
<thead>
<tr>
<th>Category Vice Presidents</th>
<th>Corporate Supply Chain team</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Product Innovation</td>
<td>• Global Sourcing and Procurement</td>
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<td>• Brand building</td>
<td>• Logistics Hubs</td>
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<tr>
<th>Cluster Operations</th>
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<tr>
<td>• Demand and Supply Balancing</td>
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<tr>
<td>• Customer order management</td>
<td></td>
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<tr>
<td>• Manufacturing and logistics</td>
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</tbody>
</table>

*Source: Strategic Supply Chain Management: The 5 Disciplines for Top Performance, second ed., McGraw-Hill, 2013, pp.100-102*
Core Discipline 4: Build the right collaborative model

The Collaboration Spectrum

Master internal collaboration as an enabler for collaboration with external partners
Segment supply chain partners to determine the needed type of relationship
Trust your partners while ensuring that you manage your interests
Core Discipline 4: 
**Build the right collaborative model**

**Case in point: Retail delivery specialist**

- Company orchestrating a network of collaborative relationships with independent couriers and high street retailers
- An option at checkout that offers a rapid, point-to-point delivery service in the one-hour window chosen by the consumer
- Company’s aim is to be “the world's fastest, most convenient and best-loved delivery option enabling you to get what you want, when you want it”

**Core Discipline 5:**
*Use metrics to drive supply chain performance*

### Level 1 Metrics

<table>
<thead>
<tr>
<th>Performance attributes</th>
<th>Focused on the customer</th>
<th>Internally focused</th>
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<tbody>
<tr>
<td>Reliability</td>
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<td>Responsiveness</td>
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<td>Agility</td>
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<tr>
<td>cost</td>
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<tr>
<td>Assets</td>
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<tr>
<td>Level 1 metrics</td>
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</tbody>
</table>

- Perfect order fulfillment
- Order-fulfillment cycle time
- Upside supply chain flexibility
- Upside supply chain adaptability
- Downside supply chain adaptability
- Total cost to serve
- Overall value at risk
- Cash-to-cash cycle time
- Return on supply chain fixed assets
- Return on working capital

Measure from your customer’s perspective

Choose the metrics that will drive your supply chain strategy forward

Ensure your metrics are balanced and comprehensive

Benchmark to understand potential performance levels

*Source: Supply Chain Operations Reference Model, Supply Chain Council*
Section 3
Transforming the supply chain
Transformation starts with executives who understand how to use the supply chain

CXO-level stakeholders in the Supply Chain

CEO “SC is a source of innovation and differentiation”

CFO “SC performance drives overall business outcomes”

CIO “SC data is secure, robust and available”

CMO “SC enables our customer value proposition”

COO “SC performance helps us attract top talent and partners”

CSO “SC strategy is aligned to the overall business strategy”

CTO “SC supports time-to-market and time-to-volume”
Leaders begin with a clear understanding of the type of change needed

Types of Supply Chain Change

- **Supply chain improvement**: Making incremental year-on-year performance improvements
- **Supply chain excellence**: Achieving industry-leading performance in service, cost, or quality
- **Supply chain innovation**: Introducing new ways of competing in your industry or changing your basis of competition—typically part of a broader operational transformation

Impact on Business Performance vs. Effort / investment required
Strategic supply chain management – a different mindset and a focus on making change happen – can enable superior performance and industry leadership.
Thank you