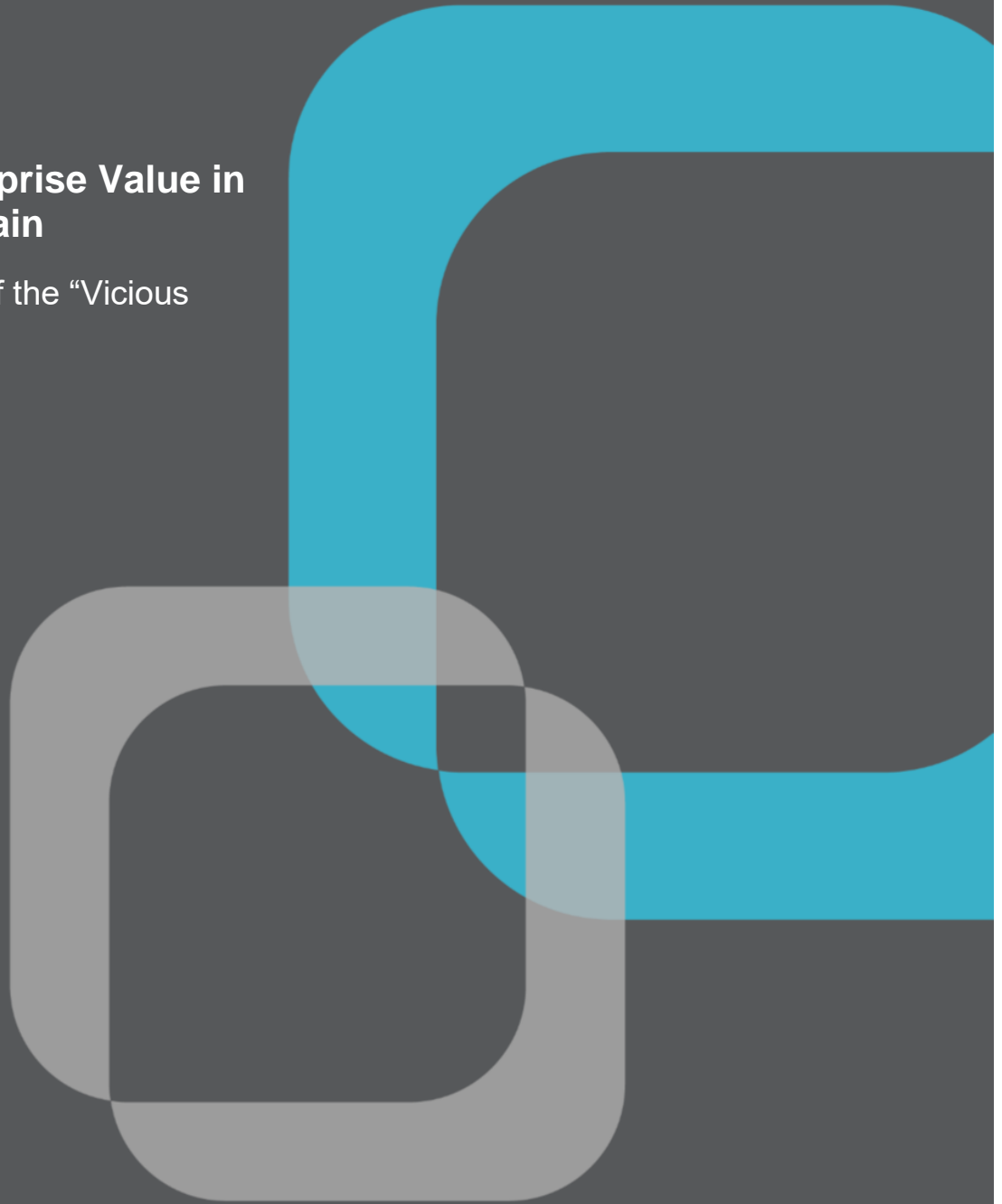


Unlocking Enterprise Value in Your Supply Chain

How to Break Out of the “Vicious Cycle”

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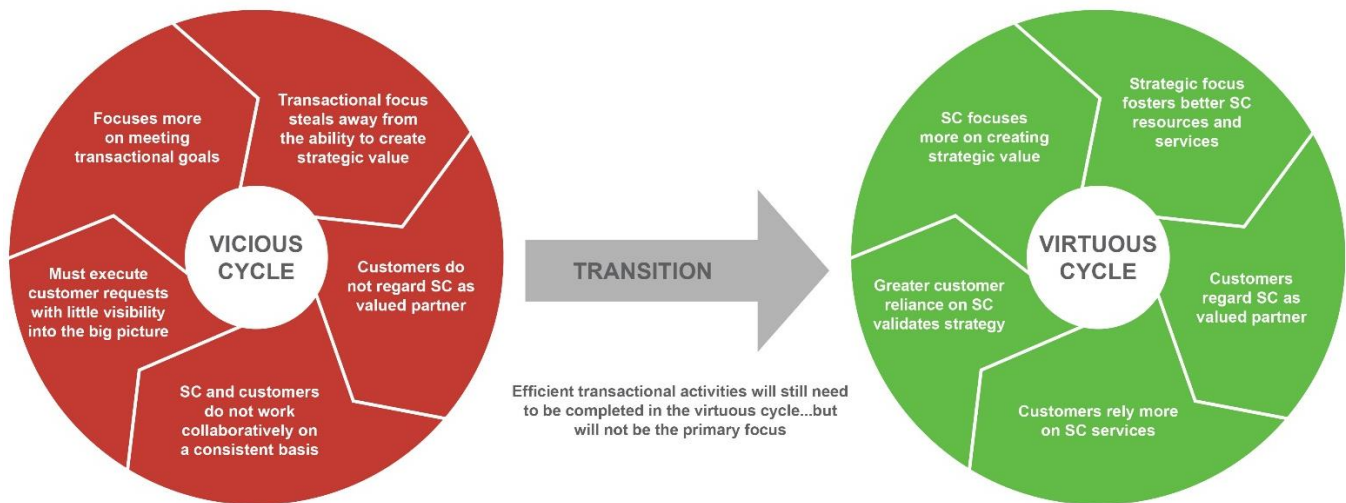


INTRODUCTION

Many supply chain organizations lack a clearly defined strategy that is aligned with the internal business unit customers they serve. Too often, the supply chain organization is in an “order taker” role, which significantly impedes its ability to achieve a competitive advantage in the marketplace and to provide significant savings for the larger enterprise. Additionally, the lack of consistent business unit planning capabilities or siloed planning practices can create a reactionary supply chain that can, at best, only expect to meet minimal service requirements, while leaving money on the table.

How does one get out of such a “vicious cycle”? The answer lies in aligning what all key parties in a company—corporate, business unit, and supply chain—expect to achieve and what is required from the larger enterprise to enable a particular outcome. Without this alignment, there is little hope of transitioning to a more “virtuous” cycle.

Transitioning from a Vicious to a Virtuous Supply Chain (SC) Cycle



For a supply chain organization to provide competitive, valued services for its internal business unit customers, it must:

1. Ensure Strategic Alignment
2. Understand Internal Customers' Businesses and the Supply Base
3. Differentiate Between Value-Added and Transactional Activities
4. Create Meaningful Service Levels and Value-Driven Metrics

Ensure Strategic Alignment

Many supply chain organizations suffer from “paper tiger” strategies—the right words are listed on the page, but they are hollow. Each business unit customer either has a different view of what supply chain

is to them or acts in a manner that limits the supply chain organization's ability to accomplish anything more than taking an order.

Achieving a more effective outcome requires corporate, business unit, and supply chain leadership to agree on what the supply chain will do for the company (what are the key "pain points" it will address) and how the internal business unit customers it supports will enable it to perform to that standard. This may sound like a simple task, but without significant management commitment to clear alignment, business units and supply chain organizations will fall back to their transactional roots.

Once alignment is in place, it is critically important to reevaluate supply chain processes (and in some cases impacted business unit(s) processes) to ensure consistency with the new strategy. These processes should in turn drive the supply chain organizational design, roles and responsibilities, and required skill sets. Finally, an ongoing plan for creating active engagement between the supply chain organization and its business unit customers is a must to ensure key obstacles and issues are addressed, operational initiatives are effectively prioritized, and performance levels are appropriate.

Understand Internal Customers' Businesses and the Supply Base

When a supply chain organization lacks a foundational understanding of its internal customers' businesses, the two groups may act at odds with one another. To truly become a value-added partner for its internal customers, the supply chain organization should pursue any and every opportunity to learn the key aspects of its customers' businesses and the markets and suppliers that serve them. With such an understanding, the supply chain organization can partner with its internal customers as a consultant, helping them to craft improved operational plans, react more quickly to supply disruptions, negotiate more favorable terms with suppliers, and ultimately ensure that the right materials and services are in the right place, at the right time, and for the right price.

In short, the supply chain organization must become a reliable knowledgebase for internal customers—collecting and disseminating information about new technologies, components, and materials, as well as the larger macro-environment that feeds the supply base. It should leverage this "business intelligence" by reporting out to internal customers how new products, price fluctuations, supply disruptions, and raw material demand may impact customer operations and be ready with alternative strategies to satisfy its customers' needs.

Differentiate Between Value-Added and Transactional Activities

An inability to differentiate between value-added and transactional activities often leads to a myopic focus on tactical efficiencies rather than addressing more strategic opportunities across a larger corporate enterprise. To effectively pursue these strategic opportunities, additional effort and skills are required. Often, supply chain organizations create cross-functional category teams to leverage buying power and bring relevant expertise and planning focus to the competitive sourcing process. Although transactional work will always be a necessary component of any supply chain, it does not mean management cannot establish clear decision rights to direct strategic opportunities to the right resources while still maintaining transactional efficiencies for the types of routine purchases and activities required.

Create Meaningful Service Levels and Value-Driven Metrics

Supply chain organizations often excel at data capture, but without clearly defined, value-driven metrics, the wealth of data that an organization collects can become a burden rather than a tool to drive performance. Supply chain organizations should not only strive to monitor internal key performance

indicators, but should identify targets that align internal business unit customers and supply chain with shared goals to achieve higher value results. This “customer-focused” approach should extend into the establishment of a consistent method to engage business unit management to review metric results, clarify expectations, and resolve issues—the value of any performance metric program is not the metrics themselves, but the dialogue surrounding them.

CONCLUSION

To compete effectively in today’s world, supply chains must be flexible and exert an integrated capability to understand business needs and obtain visibility into the markets that serve them. Configured as such, supply chains can be in a unique position to provide value in an uncertain business climate. Senior management’s effort to drive this integrated approach will allow it to leverage its collective capabilities to create competitive advantage and drive significant cost savings. With clear alignment across a company for one supply chain vision and strategy, an enterprise can unlock the full value of supply chain.

MORE INFORMATION

For more information on this or other supply chain related topics, please visit www.scottmadden.com or contact Andy Flores, partner, at 3495 Piedmont Road, Building 10, Suite 805, Atlanta, GA 30305; call 404-814-0020; or e-mail info@scottmadden.com.

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