

Supply Chain Excellence

A Business Imperative



Passion for Supply Chain Excellence

Abstract

Achieving Supply Chain Excellence is critical in competitive environment, no matter which industry you operate in. Here are our thoughts about how to align the customer value and achieve supply chain operational excellence

Insight

Supply Chain Excellence

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Supply Chain Excellence – A Business Imperative



Understanding and fulfilling customer value is critical, no matter which industry you operate in. Supply Chain Management plays a pivotal role in delivering the value and ensuring customer satisfaction. It is impossible to achieve this objective, at an optimal cost, without attaining the excellence in supply chain operations. Strategy, alignment, lean processes, analytics, seamless technology and skilled people are six essentials in achieving supply chain excellence.

An innovative product is only as good as its marketability and delivery execution capabilities. Many innovative products could not realize their promised potential due to failed execution. A recent example is the botched launch of OnePlus 2, a promising smartphone. Large number of disappointed customers opted for other smartphones, losing millions in lost revenue for the phone maker OnePlus. Other companies had to endure the negative PR as they could not meet the customer demand due to poor supply chain execution. A glaring and stark example is Toys R Us who had to apologize to the customers in 1999 as they were unable to

deliver the products to customers during Christmas.

Customers now have multiple options and they make their buying decisions only if their requirements are met. Product innovation, buying experience, overall service, price, quality, availability, total cost of ownership and after sales service are just a few criteria applied in making a buying decision. In a dynamic marketplace, one does want to ensure customer satisfaction and loyalty to retain and grow the market share. Being a crucial customer facing function, supply chain operation has a critical role to play in managing such expectations. Having said that, there are a few basic areas that need to be addressed:

- Customer value
- Supply chain excellence

Customer Value

Individuals make buying decisions every day. People buy products and services if their intrinsic expectations are met. Price, quality, availability, speed of delivery and service are



some of the key considerations while making the buying decision.

Customer and customer value is of paramount concern for a business. A sale may not take place if customer expectations are not met or if the benefits do not outweigh the cost a customer is willing to incur.

Customer value can be defined as ***the worth in monetary terms of the technical, economic, service, and social benefits a customer company receives in exchange for the price it pays for a market offering***¹. Simply put, there are four basic attributes of value i.e. price, time and speed, quality and service. Nevertheless, each customer has a different perception of value and businesses must understand and exceed those expectations to succeed.



While an innovative product and marketing strategy is key to grab customer attention, supply chain management plays a critical role in delivering customer value. Seamless operations and cost effective processes are essential to meet customer expectations. Supply Chain Excellence is the key in fulfilling customer value and driving customer satisfaction.

Supply Chain Excellence

Supply chain operation is a complex set of processes that span the interactions from supplier's suppliers to internal operations thru customer's customers. Supply chain network

can be simple or extremely complex depending on the company size, product characteristics and industry type. It involves the interactions between a large number of trade partners, i.e. suppliers, customers, internal stakeholders, distributors, retailers, re-packagers, sub-contractors, 3rd party logistics providers and many more. It involves managing the flow of raw materials, components and finished products through many plants, warehouses, distribution centers and retail stores before reaching end customers. A massive amount of data is generated in the process that must be managed and interpreted to gain the business insights. Supply chain management orchestrates this intricate interplay of interactions and transactions.

Supply chain excellence entails managing this orchestration seamlessly, through a myriad of collaborative processes, at an optimal cost.

SCOR (Supply Chain Operational Reference framework) is a universally accepted concept, endorsed by APICS, that defines five attributes of supply chain excellence.

SCOR supply chain attributes

1. **Reliability:** The ability to perform tasks and provide value per customer expectations, measured by On-Time In-Full Delivery, Perfect Order
2. **Responsiveness:** The speed at which a supply chain provides products to the customer, measured by Process Cycle Times.
3. **Flexibility:** The ability to respond to marketplace changes to gain or maintain competitive advantage.
4. **Cost:** The cost of operating the supply chain processes, measured by Labor, Material, Administrative and Transportation costs.

5. **Asset Utilization:** The ability to efficiently utilize supply chain assets, measured by Inventory Turns, Plant Capacity Utilization.

Achieving supply chain excellence is to exceed customer expectations by delivering value and improving customer satisfaction while optimizing operational capabilities and minimizing total supply chain cost. In the process, many trade-offs between service levels and cost must be made. Realizing excellence is not a one-time project but a journey in continuous improvement, steered by an inspiring vision and strategy, led by a forward thinking leadership and supported a motivated team.

Six Imperatives for Supply Chain Excellence

Supply chain reliability, responsiveness and flexibility are the essential attributes to ensure customer satisfaction and to realize customer value. Although poor processes, combined with high inventories and excess capacity can ensure this objective, it can adversely impact the cost structure. While high inventories and idle capacity may not be a major issue in industries that experience little competition and low cost of goods sold (COGS as % of revenue), it can be devastating to the businesses that operate in a highly competitive environment and high COGS. E.g. automobile and retail industries are quite diligent in managing their capacities and inventories as their COGS can be 80% or higher. Operational cost savings and cycle time reduction in such environments contribute a positive impact on the bottom line. On the other hand, higher inventories can result in waste such as obsolescence, shelf life expiration leading to inventory write-offs. Higher carrying costs and idle capacities skew product costs and profitability, affecting the long term financial viability of an enterprise.

Lean operational processes facilitate flawless execution and ensure employee engagement in continuous improvement. Lean processes are synonymous with shorter cycle times, improved productivity, minimal defects, improved quality and reduced cost. Poor processes necessitate constant firefights that can result in employee burn-outs and low morale. Employee engagement and satisfaction are critical to flawless supply chain execution.

Solid foundation of lean processes, supported by efficient IT systems and aided by an empowered workforce is crucial in achieving supply chain excellence.

Here are the six drivers of Supply Chain Excellence;



Six Imperatives

1. **Supply Chain Strategy:** A visionary, well-defined and attainable operational strategy outlines the long term operational, financial and customer focused objectives. Supply chain strategy is formulated based on the analysis of future impacts in following key areas²:
 - a. Evolving customer expectations
 - b. Future internal capabilities

- c. Evolving processes and technology best practices
- d. Market disruptors and game changers
- e. Competitive forces
- f. Potential global risks
- g. Changes in supply chain organization and talent.

A solid supply chain strategy is the foundation of supply chain excellence

2. **Strategy Alignment:** Strategy not supported by disciplined execution is just an intent. Strategy must be valued and translated into quantifiable strategic goals and then cascaded into functional and individual objectives. Measuring and benchmarking performance, identifying the gaps between current and desired future state and building a prioritized portfolio of improvement initiatives are the essential steps in strategy alignment. Strategy alignment helps in communicating strategy, assigning accountability and preparing a robust strategy execution roadmap.

Strategy alignment is a pre-requisite in achieving supply chain excellence.

3. **Analytics and Performance Measurement:** As Peter Drucker said, "If you can't measure it, you can't improve it". A clearly defined set of strategic measures and a performance dashboard that enables anytime and anywhere access is essential to monitor and mitigate supply chain risks. Inability to respond rapidly to evolving risks can impact success of the strategy. The jargon SMAC (Social, Mobile, Analytics, and Cloud) has gained the momentum and will drive the business innovation. Advent of cloud based applications, automated processes, social networking, regulatory compliance, transaction volume and increased collaboration between the stakeholders

leads to data deluge. This data must be leveraged to gain deeper customer knowledge and business insights.

Analytics can help in data discovery, understanding customer behavior and adapting supply chain responses. Analytics provides end to end visibility, better control and facilitates supply chain excellence.

4. **Lean Supply Chain Processes:** Lean supply chain processes enable rapid response to changing market dynamics. They facilitate perfection in supply chain operations and support on-time, in-full shipments. Perhaps, processes should be treated and maintained as tangible assets, just like plant or equipment rather than an afterthought. If neglected, even the well-defined and agile processes depreciate in long run as non-value added waste can build-in.

Five tenets of LEAN i.e. **a.** Customer Value, **b.** Value Stream, **c.** Flow, **d.** Pull and **e.** Perfection, must be incorporated in supply chain processes. It has been observed that, from customers' standpoint, almost 90% of the process activities are non-value added. Achieving supply chain excellence requires eliminating such non-value add waste that contribute to inefficiency. They are:

- a. Unnecessary transportation
- b. Unwanted inventory
- c. Unnecessary motion
- d. Wait
- e. Over-production
- f. Over-processing
- g. Defects
- h. Unutilized skills

A healthy foundation of Lean processes is essential to supply chain excellence.

5. **Lean Business Systems:** Lean supply chain processes can be further accelerated and enhanced with automation and technology. Nevertheless, it can't be emphasized enough that lean processes are the prerequisite for automation. Poorly defined processes can render critical applications like ERP and advanced planning systems ineffective and frustrate business users. Supply chain systems must be customized to enable well defined lean processes rather than the other way round. Highly integrated, collaborative, scalable and seamless systems, that facilitate uninterrupted collaboration between stakeholders, can significantly improve supply chain reliability and responsiveness.

Lean business systems are the enablers of supply chain excellence.

6. **Supply Chain Talent:** Lean processes and systems can be rendered ineffective without a motivated, skilled and knowledgeable workforce. People must be adequately trained in supply chain processes and systems to effectively execute the operations. Employee engagement in Lean Six Sigma based continuous improvement initiatives improves employee satisfaction, facilitates innovation and creativity, and eliminates firefights and burn-outs.

It is difficult to achieve supply chain excellence without a motivated and skilled workforce.

Cause and Effect – Drivers & Outcomes

Per Balanced Scorecard³ concept, internal operations and people perspectives are the performance drivers, while customer satisfaction and financial results are the strategic outcomes. A cause and effect relationship exists between the performance drivers and strategic outcomes. Skilled supply chain talent facilitates efficient internal operation that in turn drives customer value, satisfaction and loyalty. Finally, financial results cannot be achieved without satisfied and happy customers.

Conclusion

In summary, realizing supply chain excellence is a long journey in continuous improvement that starts with operational strategy. It needs active engagement by leadership and participation from a motivated workforce. Six key imperatives discussed above are crucial factors in achieving the supply chain excellence to ensure customer satisfaction and healthy bottom line.

References:

¹ *Understand What Customers Value:*
<https://hbr.org/1998/11/business-marketing-understand-what-customers-value>

² *Supply Chain Transformation – Building and executing an integrated supply chain strategy* – by J. Paul Dittmann.

³ *Balanced Scorecard – Translating strategy into action* – by Kaplan & Norton