The Self-Funding Supply Chain

Building a self-funding portfolio of initiatives is the surest way of achieving supply chain-driven profit growth.

By David Bovet

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Today's successful supply chain manager needs to be two steps ahead of the CFO and CEO. It's no longer enough to run a successful operation where costs are controlled and disasters averted. Sooner rather than later, senior management wants to know what supply chain management is doing to foster *future* profit growth and why corporate resources should be invested.

This pressing demand can arise at any time. Change at the top—a new CEO, a merger, or a private equity takeover—is a typical triggering event. Or it can come out of the blue: Gene Richter, IBM's late and legendary chief procurement officer, was once asked by his CFO, "How do I *know* we're the best, and what *else* can we do?"

The savvy supply chain executive pre-positions himself to meet this challenge. He articulates a compelling future vision and then builds a pipeline of short- and medium-term initiatives to fund long-term transformation. A self-funding portfolio of projects is the most cogent argument in the fight for resources and bottom-line impact.

Here are five steps to building the vision, the project pipeline, and the organizational support for successful supply chain-driven profit growth.

1. Set an inspiring goal for the journey. A bold vision for supply chain management will motivate change. The future state must offer unprecedented performance for customers and the company, even if it lies years ahead. The key lies in aspiring to a quantum leap rather than incremental progress.

Radical supply chain models can have a major impact on revenue growth. Herman Miller, the Michigan-based office-furniture pioneer, transformed itself into a service powerhouse by reinventing its value chain to deliver built-to-order office suites in two weeks vs. the traditional three months. Or take Apple, where Tim Cook led the supply chain charge for Steve Jobs, dramatically reducing inventory from 27 days to two days. No wonder Cook was recently promoted to COO at the revitalized, very successful company.

2. Generate quick wins to fund the transformation. With the goal clearly in mind, a pipeline of initiatives must be built that generates savings and service gains while moving toward a realization of the vision. These should be tangible projects that focus on low-hanging fruit and lay essential groundwork for future performance. The net financial impact should be positive on a year-by-year basis to gain the CFO's support. Effectively, this results in a balanced portfolio of initiatives.

Opportunities for efficiency gains always exist but have to be identified, quantified, and implemented. The following list identifies types of efficiency opportunities that supply chain managers can look for and provides examples of companies that have benefited from addressing them.

- Redesign demand/supply balancing processes and tools (ConAgra).
- Start direct sourcing in low-cost countries (Geberit, the Swiss sanitary and piping systems manufacturer).
- Source logistics and other indirect spend categories across divisions (Hewlett-Packard).
- Centralize slower-moving inventory (IKEA).
- Deploy new technology to optimize field service delivery (Fresenius).

These moves can pay off rapidly as they don't require major cultural or organizational change.

3. Establish the right team. A successful, multiyear program of transformation requires the right sponsorship, alliances, and core cross-functional team. Team members should represent the major global regions of the business. Assuming that the easiest fields have already been plowed, active and visible support from top management is needed to resolve conflicting objectives and overcome bottlenecks.

For a year-long transformation of sourcing capability at one company, the CEO chaired monthly steering committee sessions. Functional VPs were present, ranging from manufacturing to marketing and finance, and conflicts were rapidly resolved. As a result of this strong leadership, the effort delivered annual savings of $8 million in the first year and $30 million by the third year.

On the other hand, at a global telecommunications operator, efforts to create worldwide synergies from sourcing to inventory management led nowhere for years because the country heads resisted incursions from corporate. A new chairman imposed a stronger central model, several resisters retired, and supply chain progress surged forward.

Global teams are increasingly common in supply chain management. IBM has been an early adopter in this regard, managing procurement via global commodity councils for more than a decade. IBM has recently taken this notion of a worldwide perspective even further—its chief procurement officer, John Paterson, is transferring from Somers, New York, to Shenzhen, China, reflecting the growing importance of Asian markets and suppliers.

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4. Address risk. Supply chain management is increasingly about managing complex operational risks. The potential for supply-side shocks increases with the physical distances involved in global sourcing, the expanded use of outsourced providers, the congestion of distribution nodes, and new types of disruptions. These issues are magnified by customers' growing demands for rapid lead times, precision delivery windows, and product customization.

As a result, the supply chain manager should include risk assessment and contingency planning as part of the future roadmap. The goal is to show the CFO, chief risk officer, and CEO how the business can keep going despite potential disruptions.

Examples of supply chain risks include a port disruption, a fire at a critical supplier, or a major delay in a planned systems implementation. It could come from a performance problem with a third-party logistics provider. Or the supply chain risk could simply be the result of market dynamics such as an unexpected downturn in demand.

What can be done to squeeze risk out of the global supply chain? The astute manager will proactively address risk, as part of any new initiative, by:

- Identifying and quantifying supply chain risks.
- Including multiple scenarios within business cases to better manage downside occurrences.
- Building an "early warning system" to monitor critical developments.
- Redesigning the supply chain network to add in redundancy and flexibility.
- Applying postponement, build-to-order, shorter lead times, component standardization, and product complexity-reduction techniques.

5. Share performance online. "How we're doing" must be transparent to bosses, colleagues, and partners. This means actions and results must be rapidly tracked and reported. Today's rising supply chain executive must be able to demonstrate the financial impact of project initiatives and provide frequent operational updates. "In God we trust, all others bring data" is a useful guide.

Intranet-based tools can be used to update progress on complex, multiyear supply chain transformation initiatives. These tools should provide metrics that track planned actions and milestones as well as the benefits achieved. Monthly or quarterly frequency is reasonable for this purpose.

For ongoing performance reporting, leading grocery chains have developed impressive Web-based scorecarding for their suppliers. They share performance data on a weekly or even daily basis. Pioneered by Wal-Mart with its RetaiLink, these systems are now emulated by other retailers such as Wegmans, Meijer, and Kroger. A supplier can log on and see daily, weekly or monthly data on fill rate, on-time delivery, and days of supply, and it can view its own performance relative to its competitors' for a given category and location.

Online data like this can be powerful in driving supply chain behavior. The forward-thinking supply chain executive can extend this concept with a 360-degree approach: How are our suppliers doing, how well are we doing, and how well are we serving our customers? Key elements of availability, cycle time, stocks, and costs can be channeled to external and internal audiences to great effect.

The supply chain executive today has an unprecedented global, cross-functional field to play on. Just as in the soccer World Cup, multiple elements must be aligned to win. Chances can be maximized by setting a compelling vision, delivering modest gains along the way, building the right team, considering risk, and constantly measuring effort and results. This approach to self-funding "pipeline performance" can make an operations star out of a mere mortal player.