Companies with consistently high-performing supply chains have something in common. They respond quickly to market shifts with innovative products and services. To do this, they utilize a variety of business strategies and models, coupled with leading management practices, and they consistently measure their performance based on a handful of key indicators, including:

- perfect order attainment
- demand management accuracy
- time to value
- cash-to-cash cycle time
- supply chain cost

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FOLLOWING THE LEADER:

Scoring High on the Supply Chain Maturity Model

by Tig Gilliam

These indicators of supply chain performance are the gauges used to monitor the efficiency of the business. Leading supply chains have taken what many companies believe is a back-office function and have transformed it into a competitive weapon.

Several months ago, AMR Research, a leading analyst firm, issued its second annual supply chain report that lists what it considers the top 25 manufacturing and retail supply chains in the world. It determines the ranking based on its own Demand-Driven Supply Network (DDSN) framework, which it believes illustrates the model of what a supply chain should look like for the 21st century. According to AMR, the top five supply chains (in order) are Dell, Procter & Gamble, IBM, Nokia, and Toyota, each having several characteristics in common, including less inventory, shorter cash-to-cash cycle times, and profitability.

IBM transformed its own $40 billion supply chain over the past several years by moving from being static and isolated, to functional, focused, and horizontally-integrated within the company, and to its 35,000 innovative partners. Yes, innovative partners! Suppliers should not just be whipping posts where procurement managers try to squeeze costs. In this era of on-demand business, the supplier relationship needs to be trusted, collaborative, and essentially, an innovative extension of the buyer.

IBM’s Institute of Business Value and APQC, a third party research organization, recently surveyed 650 supply chain professionals across several industries including consumer and industrial products. The goal of the study was to gain perspective on where supply chain management is today, and the direction in which it is evolving in leading companies.

According to the survey, the top three concerns for supply chain executives are increased profitability, reduced costs, and improved responsiveness. Let’s follow the leaders and take a closer look at several best practices that can do just that:

• The perfect product launch: product introduction and lifecycle management
• Synchronizing supply, conditioning demand: customer-driven planning
• Global buying power through strategic sourcing: dynamics of global sourcing
• Logistics excellence for superior customer fulfillment: perfect order attainment

The perfect product launch

A resounding 61% of executives interviewed for the survey said that their primary strategy for new product development was to release products that best fit the requirements of their target market. These leaders know to do this quickly requires integration and coordination among a variety of functional areas, including research, innovation, product design, procurement, sales and marketing, planning, and manufacturing/process, not only internally but with partners.

Synchronizing supply, conditioning demand

When companies can move away from reacting to market dynamics to taking a more proactive position, they create a significant competitive edge. Responsive or on-demand supply chains can enable market conditioning through trend analysis and supply and demand information—using order trends and market demand to provide early warning signs of constraints and excesses, highlighting key forecasting and order events.

According to IBM’s survey, this seems to be one strategy that many respondents embrace and have implemented to an extent. While 70% of companies responded that they are “rapidly” responsive to shifting market conditions, only 31% said they are implementing collaborative planning initiatives with partners and even less with customers.

 Likewise, one third are sharing visibility to inventory and demand with suppliers. So, while they recognize supply and demand synchronization, more can be done to build a robust supply chain that can sense customer demands and other critical events as they occur, and respond to them in the most efficient way.

Global buying power through strategic sourcing

Global sourcing patterns continue to shift dynamically in search of lower-cost sources. In addition, companies continue to rationalize and harmonize their own global value chain resources in search of more efficient and effective means of meeting global customer demands. To effectively analyze and manage total spend, companies need comprehensive information and visibility into purchasing and supply chain spend and behavior patterns on a global basis.

One company that recently committed to this strategy is Coty, the world’s largest fragrance company with annual net sales approaching US$3 billion. Coty had little to no visibility for indirect spend, such as travel, marketing, office supplies, and logistics across the 25 countries it operates in. To improve its global buying power, Coty chose to outsource procurement and free up capital in order to focus on its core competency of creating innovative, technologically-advanced beauty products.

Core to the project of “global buying power through strategic sourcing”
is the implementation of a procure-to-pay procurement solution. This will enable web-based requisitioning, automated ordering, timely monitoring of order status, efficient supplier payment, and critical visibility to information. But most importantly, it will provide a standard global process and eliminate costly ad hoc spending.

**Logistics excellence for superior customer fulfillment**

Today’s decentralized supply chain models and tighter trading partner collaborations can demand an expanded logistics portfolio—more stocking warehouses, more frequent ordering, smaller order sizes, more costly modes of transportation, multi-channel distribution, configure-to-order capabilities, personalization, and distributed responsibility.

With improved visibility and fulfillment tools, the logistics function has become a key component of supply chain operations, helping to combat inefficiencies in warehouse labor, transportation and space utilization, and inaccuracies in inventories and customer shipments. Implementing expanded, yet cost-effective strategies for supply chain logistics has become a mission-critical objective.

As any shipper of products knows, 2005 witnessed out-of-control transportation costs driven primarily by fuel prices due to the efforts in Iraq and Hurricane Katrina. These events, combined with a capacity shortfall, led to a significant rise in logistics costs. According to the IBM/APQC survey, 51% of respondents said that their total logistics costs as a percentage of sales were more than 10%, which is a 20% increase since 2003.

Evolved supply chains have developed robust, global logistics capabilities that are variable in structure and cost—logistics networks that are highly integrated and can scale to accommodate varying customer demand. Using IBM’s internal logistics transformation as an example, its cost went from being 50% to 93% variable by outsourcing logistics and significantly transforming the management processes to integrate logistics data and decision-making—saving IBM more than US$1.5 billion.

**Are you ready to be a leader?**

Complexities in supply chain management are significantly increased by today’s shift toward emerging global markets for material sourcing, manufacturing, distribution, and product development. Focusing on global efficiency requires supply chain leaders to get the foundational elements right first. The role of the supply chain is also changing as it moves from a static cost-center approach to an evolving, integrated on-demand model. Organizations are focusing on the supply chain to help transform their businesses by:

- Altering the way they think, organize, and execute
- Looking at business processes horizontally rather than vertically
- Integrating processes within and beyond the enterprise

To succeed in this highly competitive global environment, companies must move toward a dynamic, on-demand supply chain. This type of supply chain is supported by applications that enable real-time information visibility, both inside and outside an enterprise, with the abilities to respond to whatever business challenges come their way.

If you’re not ready yet, your competitors will be.