

ITW Networks Supply Chain Thought Leadership Lunch with Oracle

'The Evolution of Supply Chain Management Best Practice'

Wednesday 14th October 2009, 12:00 – 15:00
Westminster, London

Agenda

- 12:00** Arrival and reception drinks
- 12:30 Guests are seated
Welcome and introductions
Matthew Wolstenholme, Director, ITW Networks
Andrew Spence, Business Development Director, Oracle
- 12:40** **The evolution of supply chain management best practice through uncertain times**
Best practice presentation from Roddy Martin,
Vice President and Research Fellow, AMR Research
- 13.00** **Introduction to questions for table discussion**
Introduced by Matthew Wolstenholme, Director, ITW Networks
- Which tenets of SCM best practice have been most severely challenged by recent events?
 - How will recent events change the way SCM leaders plan for the future?
 - How has the role definition and capability mix of the effective supply chain leader changed?
 - What should SCM leaders be doing right now to plan for an economic recovery?
- Lunch is served
- 14:10 Dessert and coffees
- 14:25** **Table feedback from the round table discussions**
Facilitated by Matthew Wolstenholme, Director, ITW Networks
- 14:45** **Concluding remarks**
Andrew Spence, Business Development Director, Oracle
- 15:00 Close

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Summary Notes

Outlined below are some highlights of the discussions which took place at each table.

Feedback from Table 1

Question: Which tenets of SCM best practice have been most severely challenged by recent events?

The recession has indeed placed strain on supply chain operations. This change can nevertheless be viewed as an opportunity, as the true importance, cost and value of the supply chain to business survival has been elevated. With this focus the need to determine and adopt best practices is higher than ever.

So with that in mind what are the sacred cows of supply chain operations that are being challenged?

- **The image that supply chain is "logistics" is thankfully changing.** The previous image of supply chain was based on physical operations i.e. warehousing and distribution. This is now being enhanced by the understanding that the information flow across the business is equally important to the physical flow. Some would say the information flow is even more important as it should drive and control the physical flow operations.
- A good supply chain is now "decision rich" not "asset rich" as was previously thought. Some good supply chains don't even have any assets e.g. Sam Adams Brewery – a virtual supply chain utilising spare asset capacity from other brewers. Another good example is LinkedIn - two years ago this was a social database used in a passive-reactive way, it is now a powerful tool to recruit good supply chain professionals at a fraction of the cost of agencies and head-hunters.
- **Clock speed.** The need to convert supply chain information into decisions and execute these effectively is greater than ever. To capture or maintain market share, it is vital to improve gross margins or release cash for the business to survive when sales are static or falling and prices under challenge or funding is difficult.
- The need to have supply chain information in hours instead of days, and days instead of weeks can be a key differentiator; great supply chains e.g. Amazon and Zara have increased their clock-speed dramatically in recent years.
- Having the information is only one aspect; the ability to convert it into business decisions and to execute changes e.g. to supply plans, cost of manufacturing or inventory reductions are crucial when business are under challenge. (This links into Roddy Martin's point about best practice S&OP and how great supply chains are now operating weekly S&OP meetings).
- **Complexity.** When margins are under threat the true cost of complexity becomes fully understood. It's not only the cost of complexity which becomes evident but the way in which complexity invisibly slows down the business. Customers cannot have it every way unless they are prepared to pay for it. Good supply chains give an "Illusion of Complexity" They appear to offer infinite choice but this is carefully managed to maintain market share, cost of supply and profit.
- A good example are car manufacturer websites e.g. Audi. They appear to offer infinite options to "build your own Audi". This is actually a fantastic demand management and materials management and customer-interface-software to offer you choices that Audi want to build, in a lean and very cost-effective way, utilising standard work and processes with high capability. In very small font on the bottom right corner of the screen is the ever increasing cost of your car as you choose the options, concluding that "customers have to be prepared to pay for choice".

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Feedback from Table 2

Question: How will recent events change the way SCM leaders plan for the future?

The question suggested that the group approach this from the economic downturn perspective, but instead the group debated the recent globalisation developments and what this has brought about, including:

- Closer collaboration across the E2E supply chain
- A conduit for better information and data share
- Increased visibility of the challenges and opportunities within the supply chain environment
- A more flexible and responsive supply chain

The table then debated what impact the recent economic downturn had on these changes and found that in most areas the previous, positive collaborative behaviour had been replaced by 'survival' instincts, i.e.

- Cost cutting not through collaborative efficiency but through sheer commercial leverage and utilisation of scale or power
- Placing the importance of short term bottom line cost over the future risk of supply.

(Although on reflection, the group didn't see the recent behaviour to be in the long term best interest of most organisations' supply chain cost or service, and recommended a return to a more collaborative approach).

The three areas where the group felt supply chain leaders needed to plan for the future included:

- 1) **Investment in understanding the drivers of demand**, customer /market segmentation, demand influences, cost elasticity, competitive pressures etc. in order that effective inventory management can be planned throughout the supply chain from component to finished goods.
- 2) **Investment and provision of services that customers want and need**, built on real customer insight, not what the current market providers can offer. E.g. to tweak or enhance order delivery to the consumer's home address between 9 – 5.
- 3) **Understanding the whole customer experience** from product selection, purchase, receipt, in life and after sales is key to customer retention and future loyalty.

Feedback from Table 3

Question: What should SCM leaders be doing right now to plan for an economic recovery?

- Prepare your end to end supply chain to be fit for the future when the economy recovers e.g. be ready for demand management, production planning, workload forecasting.
- Take opportunities to de-risk and ensure a balance of agility whilst continuing to deliver an efficient, lean business model.
- Build the foundations for a sustainable future using the lessons learnt during the downturn.

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- Does everyone understand and feel responsible for the commercials at all levels within your organisation? Ensure that people break out of their silos to form integrated, collaborative relationships with common goals. Day to day activities need to be aligned with your overall company strategy, with individual buy-in to the ownership of costs.
- Recognise talent within your organisation and provide opportunities for people to broaden their skill-sets into new areas. Apply a mentoring approach as part of an internal training programme to allow experience to be shared across functional areas. Develop your people from within in order to retain expertise ~ operate an external benchmarking process to validate success.

Feedback from Table 4

Question: How has the role definition and capability mix of the effective supply chain leader changed?

- The role has dramatically expanded from the original transaction based approach.
- There were concerns that some of the people who now hold the title do not fulfill the requirements of the new expanded role due to their involvement historically rather than actually being directly recruited into the business for the role.
- Typically the role is taken by individuals with a background in either transactional purchasing, warehouse management, logistics management or production management.
- The role now has a significant responsibility for facilitating/managing best practice demand forecasting within the end to end business supply chain.
- The role has seen significant evolution form transactional to business enabler, further emphasised by the recent economic turn around.
- Board leadership needs to be truly effective.
- Needs a proactive rather than reactive approach.
- The role needs a market shaper, aligning and in some cases investing in critical assets.
- Some examples of the breadth of skills required by the role are as follows;
 - Forecasting expertise, with an ability to shape demand
 - Costing expertise including estimation capability
 - Internal marketer of external (supplier), capabilities
 - Communication bridge between sales and marketing and the supplier community
 - Logistics capability
 - Commodity management skills
 - Supplier relationship management skills
 - Where appropriate, an understanding of in-house manufacturing

End

ITW, 23rd October 2009