



Northeast Supply Chain Conference



For further information,
please contact:

Brad Householder, Director
Supply Chain Management
PRTM
1050 Winter Street
Waltham, MA 02451
Tel: +1 781 434-1297
bhouseholder@prtm.com



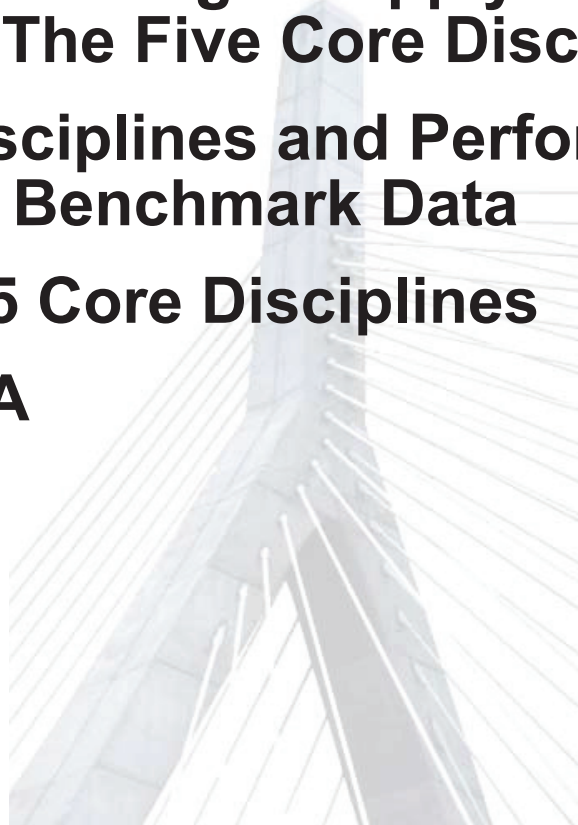
***Leading thinking
for lasting results***

Strategic Supply Chain Management: The Five Disciplines for Top Performance

September 20, 2005

Outline

- **Emergence of Strategic Supply Chain Management: The Five Core Disciplines**
- **The 5 Core Disciplines and Performance: Insights From Benchmark Data**
- **Adopting the 5 Core Disciplines**
- **Wrap Up / Q&A**
- **About PRTM**





Northeast Supply Chain Conference

Emergence of Strategic Supply Chain Management: The Five Core Disciplines



***Leading thinking
for lasting results***

Supply Chain Management Has Evolved From A Technology Focus To A Strategic Focus

	80s—early 90s	1990s—early 2000	2003 →
	Functional “SCM”	Technological SCM	Strategic SCM
Price of Entry	Production and inventory control skills	Robust processes (plan, source, make, deliver, return)	Adoption of new processes and technology
Competitive Differentiator	Robust processes	Adoption of new processes and technology	Ability to rapidly align supply chains to new strategies – “anywhere... ..anytime”
Key Metrics	Functional efficiency	Supply chain scorecard with efficiency focus	SCS integrated into corporate performance management

Trends Showed the Emergence of Five “Core Disciplines” of Strategic SCM

Observed Trends

- Executive Team attention to SC
- Formal SC strategy processes
- SC process standards (e.g. SCOR)
- Focus on simplification
- Integration of SC and other enterprise processes
- Shift from transactions to business management
- Global SC core operations units
- SC career paths
- Formal SC scorecards
- Supplier and customer metrics
- SC on the corporate balanced scorecard
- Fewer “one-off” collaborative pilots
- Technology maturity and standardization
- Removal of the “weakest links”

“Core Disciplines”

View your supply chain as a strategic asset

Develop an end-to-end process architecture

Design your organization for performance

Use metrics to drive business success

Build the right collaborative model

**But Do Companies That Follow The Five
Disciplines Have Better Supply Chain and
Business Performance?**

How?





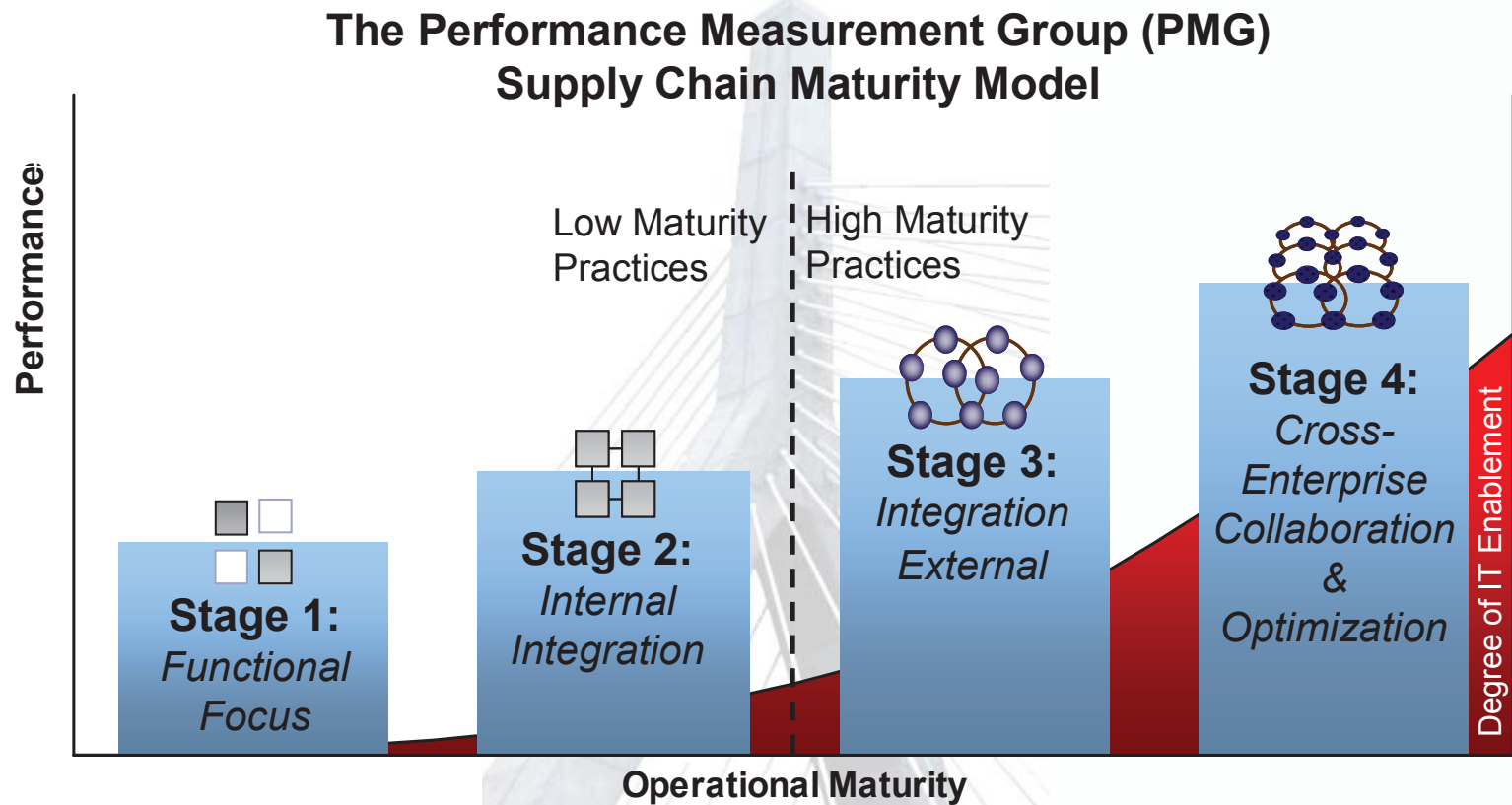
Northeast Supply Chain Conference

The 5 Core Disciplines and Performance: Insights From Benchmark Data



***Leading thinking
for lasting results***

The Answer Starts With a Clear Definition of Supply Chain Practice Maturity Levels



PRTM's Benchmarking Has Long Shown That Practice Maturity Improves Performance

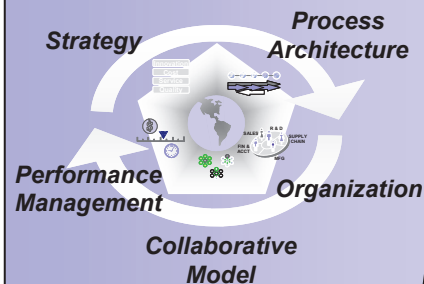
- **Companies with high supply chain practice maturity have better supply chain performance...**
 - 17% lower inventories
 - 11% better delivery performance
 - 16% lower supply chain management costs
- **...which translates into better business performance**
 - 4x greater sales growth
 - 40% higher profitability

Defining the Impact of Strategic SCM Practices on Performance

Collected quantitative and qualitative data across 89 supply chains from 65 companies in PMG's benchmark database



Evaluated maturity for selected practices in the Maturity Model that represent the 5 Core Disciplines



Evaluated quantitative performance of High Maturity vs. Low Maturity companies using a set of SCOR®-compliant metrics

Delivery Performance

Order Fulfilment Lead Time

Production Flexibility

Total SCM Cost

Total Returns Processing Cost

Inventory Days of Supply

Cash-to-cash Cycle Time

Net Asset Turns

Relationship of Strategic SCM Practices to Quantitative Performance

The Core Disciplines Lead to Significant Performance Advantage in Key SCM Metrics

Companies that follow mature practices for:

Achieve:

By Using These Best Practices:

Developing End-to-End Process Architectures

28% Lower Inventories

- Actively involve partners in planning processes
- Integrate IT integration with suppliers and customers
- Joint Service Agreements

Design Their Organization for Performance

10% Better Delivery to Request

- Actively identify key skills, develop and upgrade to get them
- Align org structure to key processes and incentives

Developing Strong Collaborative Models

19% Shorter Cash Cycles

- Align supply chain partners with Basis of Competition

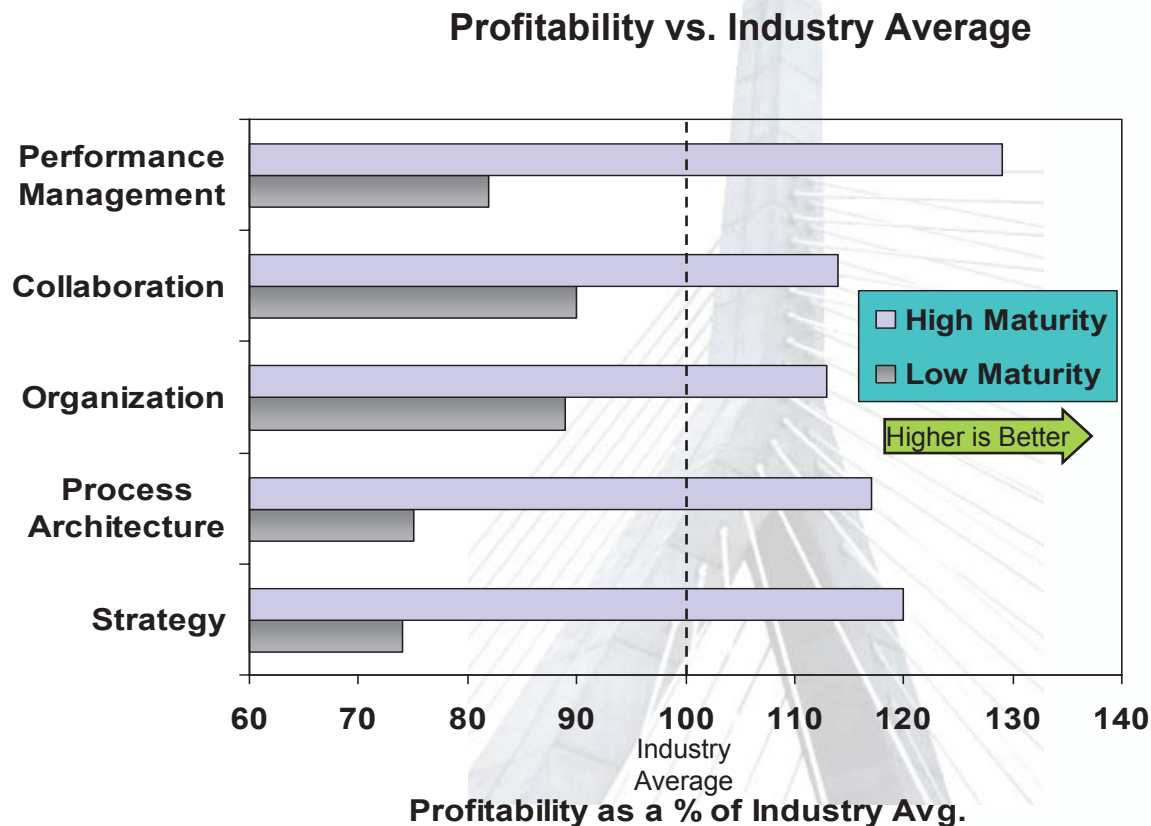
Using Metrics to Drive Business Success

13% Lower Supply Chain Costs

- Openly share performance data with suppliers, customers
- Regular external benchmarking

Aligning the Supply Chain Strategy, and Maturity in All 5 Disciplines Drive Profitability

Strategic SCM companies use their supply chains as strategic assets to achieve almost double the profitability of their competitors



EBIT as % of revenue data were normalized to industry averages to remove effects of industry profitability differences.

Overall, EBIT as % of revenues were:

- BICC 12.7%
- All Others 6.5%



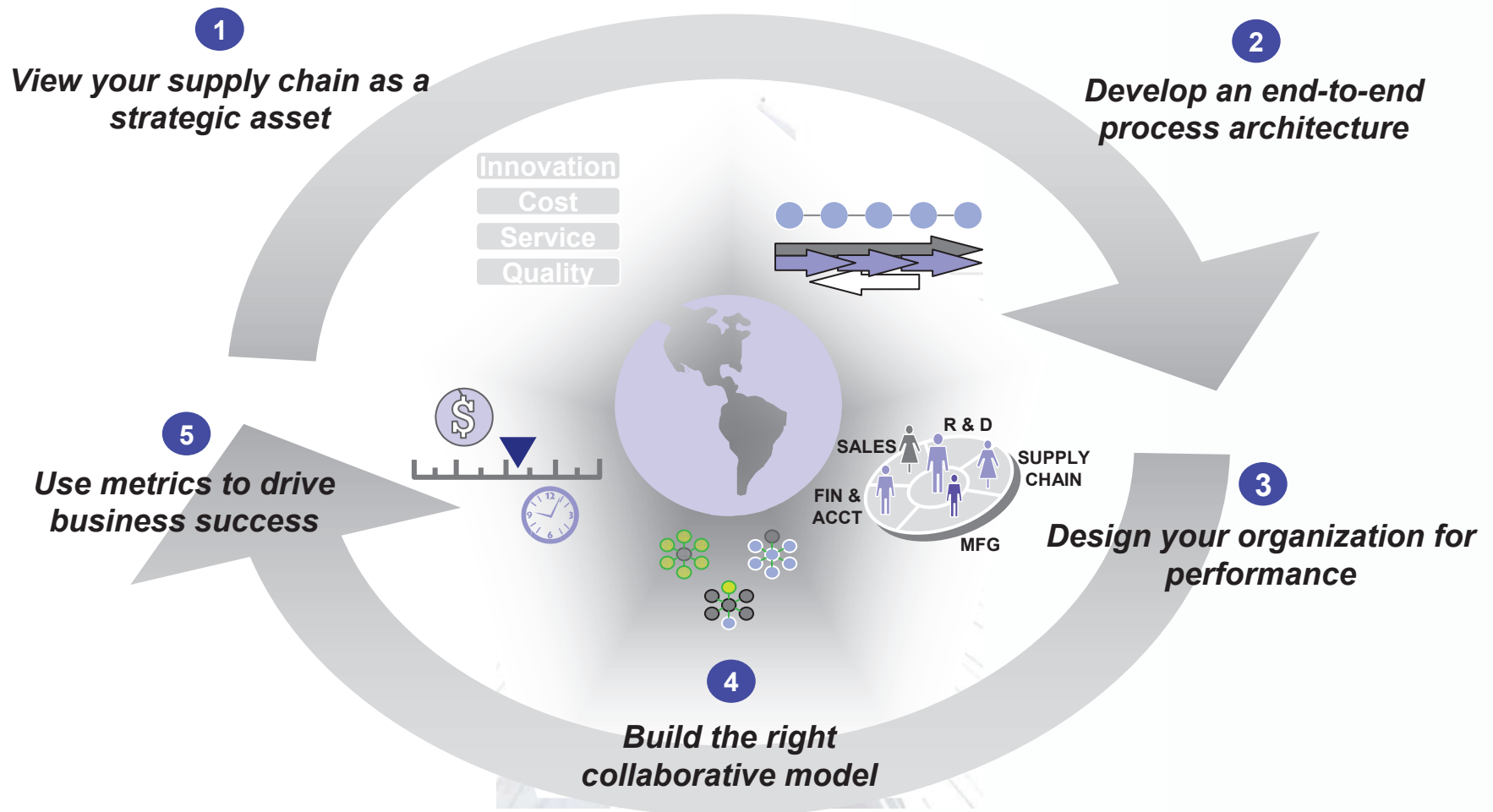
Northeast Supply Chain Conference

Adopting the 5 Core Disciplines



***Leading thinking
for lasting results***

The Five Core Disciplines are the foundation for Strategic Supply Chain Management

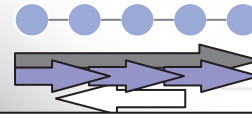


Discipline 1: View Your Supply Chain as a Strategic Asset

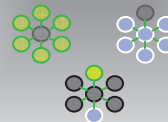
1

View your supply chain as a strategic asset

Innovation
Cost
Service
Quality



Design the supply chain around a defined basis of competition to enable the overall business strategy



ACCT

MFG

A Good Supply Chain Strategy Meets Four Basic Criteria

1. It is aligned with the business strategy

Each business strategy requires a distinct supply chain structure, processes, systems, and skills

2. It is aligned with customer needs

Understand each segment's requirements and configure the supply chain appropriately

If necessary, create separate or multiple supply chains

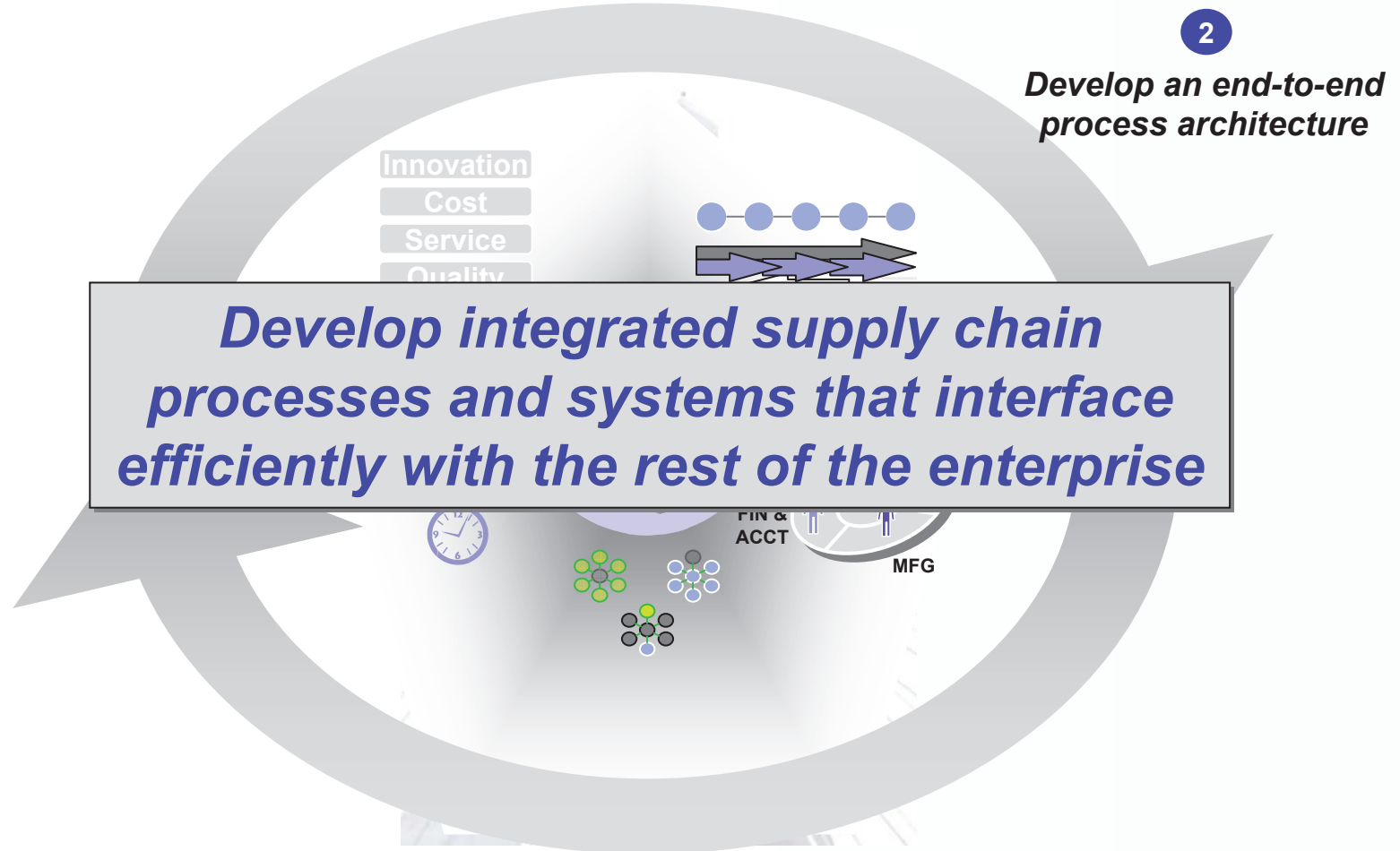
3. It is aligned with the company's power position

Before making big changes, understand who has the power in the supply chain

4. It is adaptive

Supply chains have a shelf life and should be continuously evaluated to see if change is needed

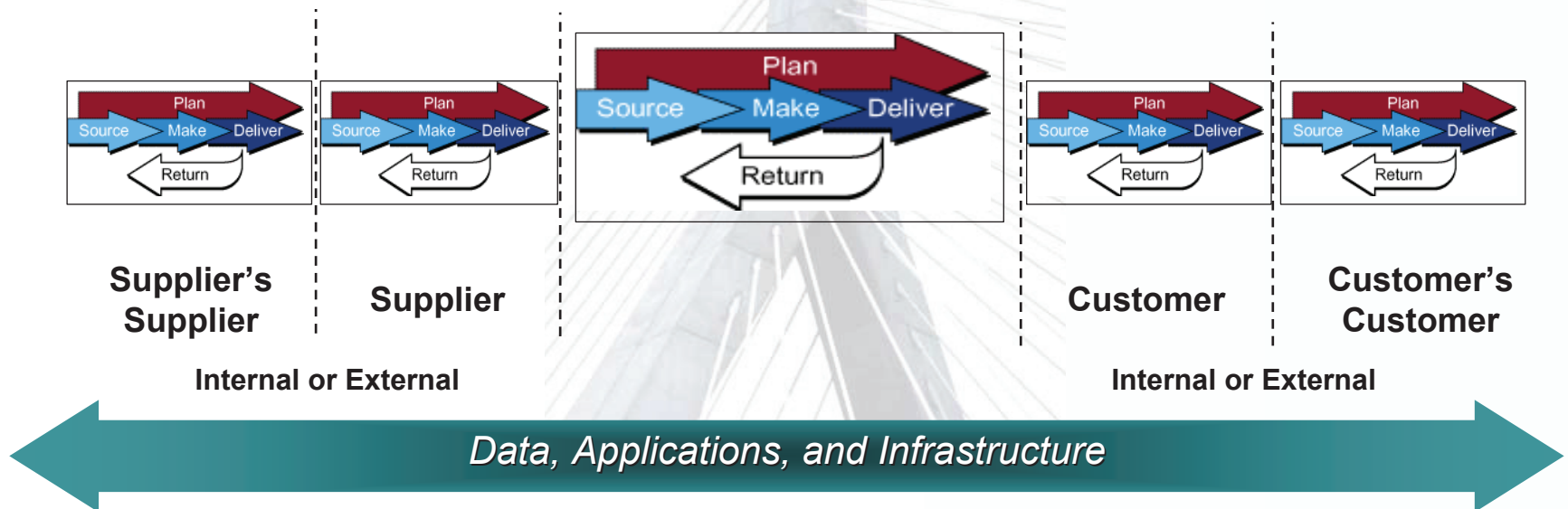
Discipline 2: Develop an End-to-End Process Architecture



There Are Four Tests An Effective End-to-end Process Architecture Must Meet

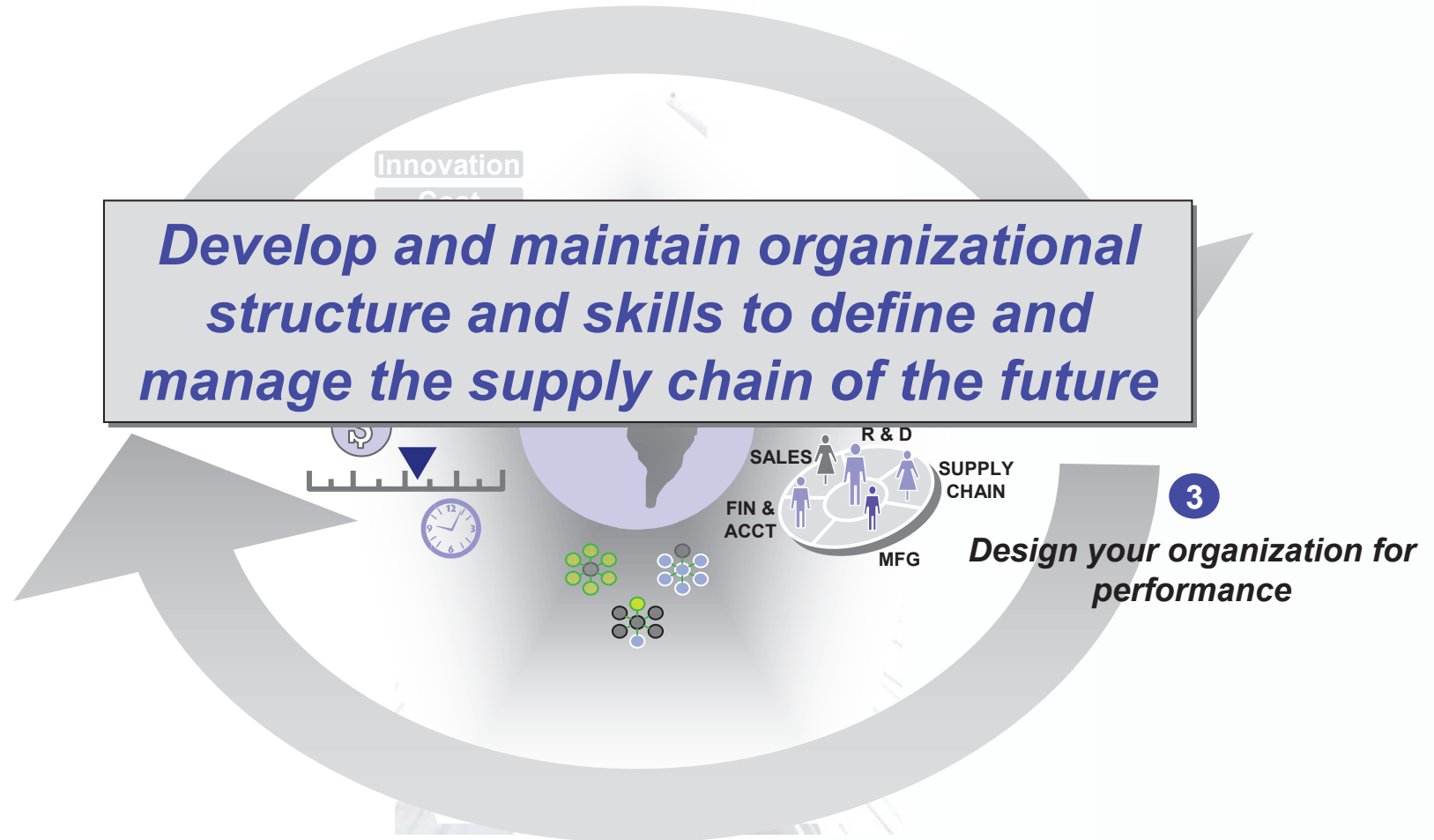
1. Strategic Fit — Enables execution of your supply chain strategy
2. End-to-end Focus — Ensures end-to-end vision and management
3. Simplicity — Is composed of simple, streamlined processes
4. Integrity — Is highly reliable, with robust links between processes, data, and information systems

Leverage SCOR to set the context for supply chain process improvement

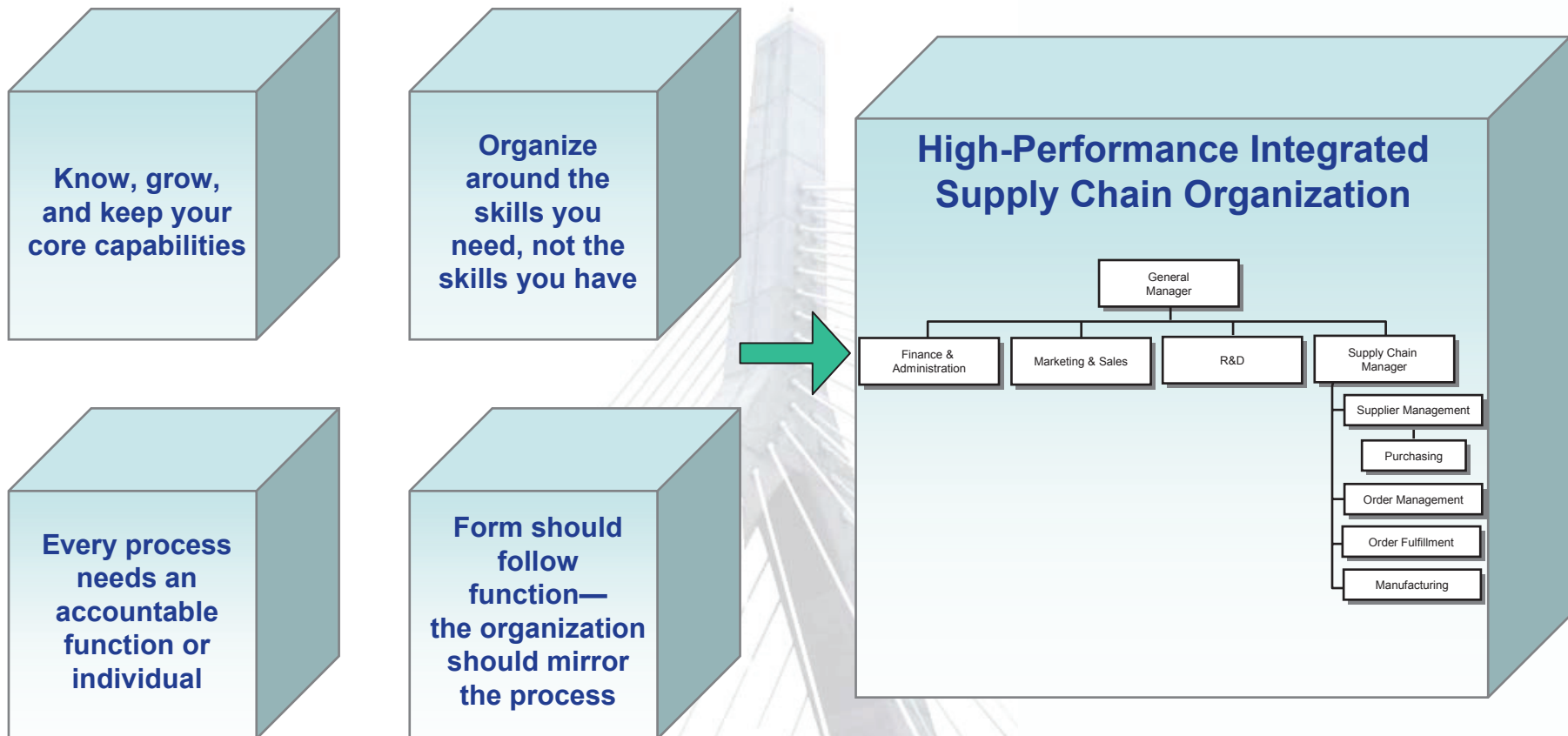


Source: Supply-Chain Council

Discipline 3: Design Your Organization for Performance

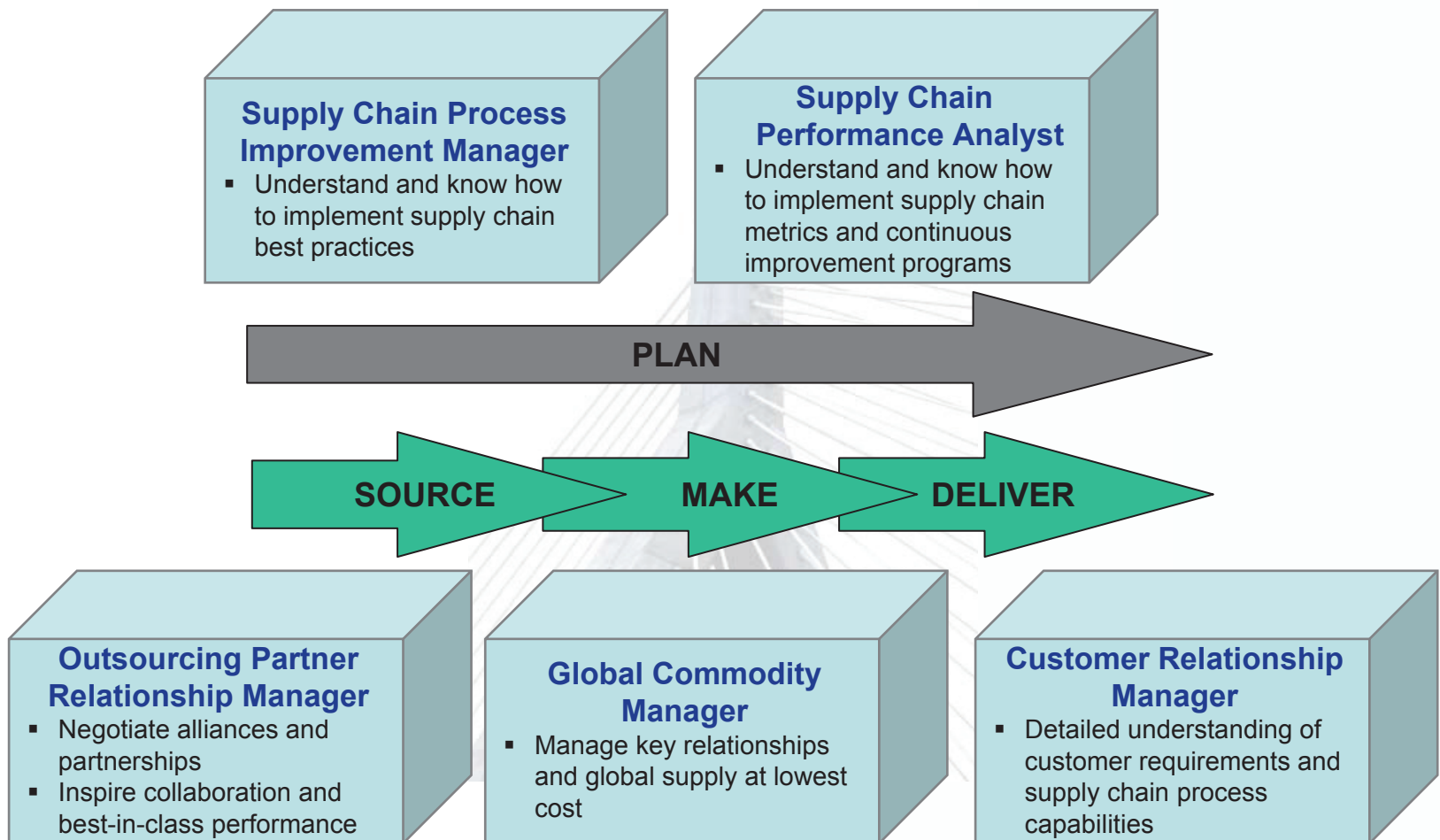


Follow Four Design Rules to Align Your Organization to Achieve Your Strategy

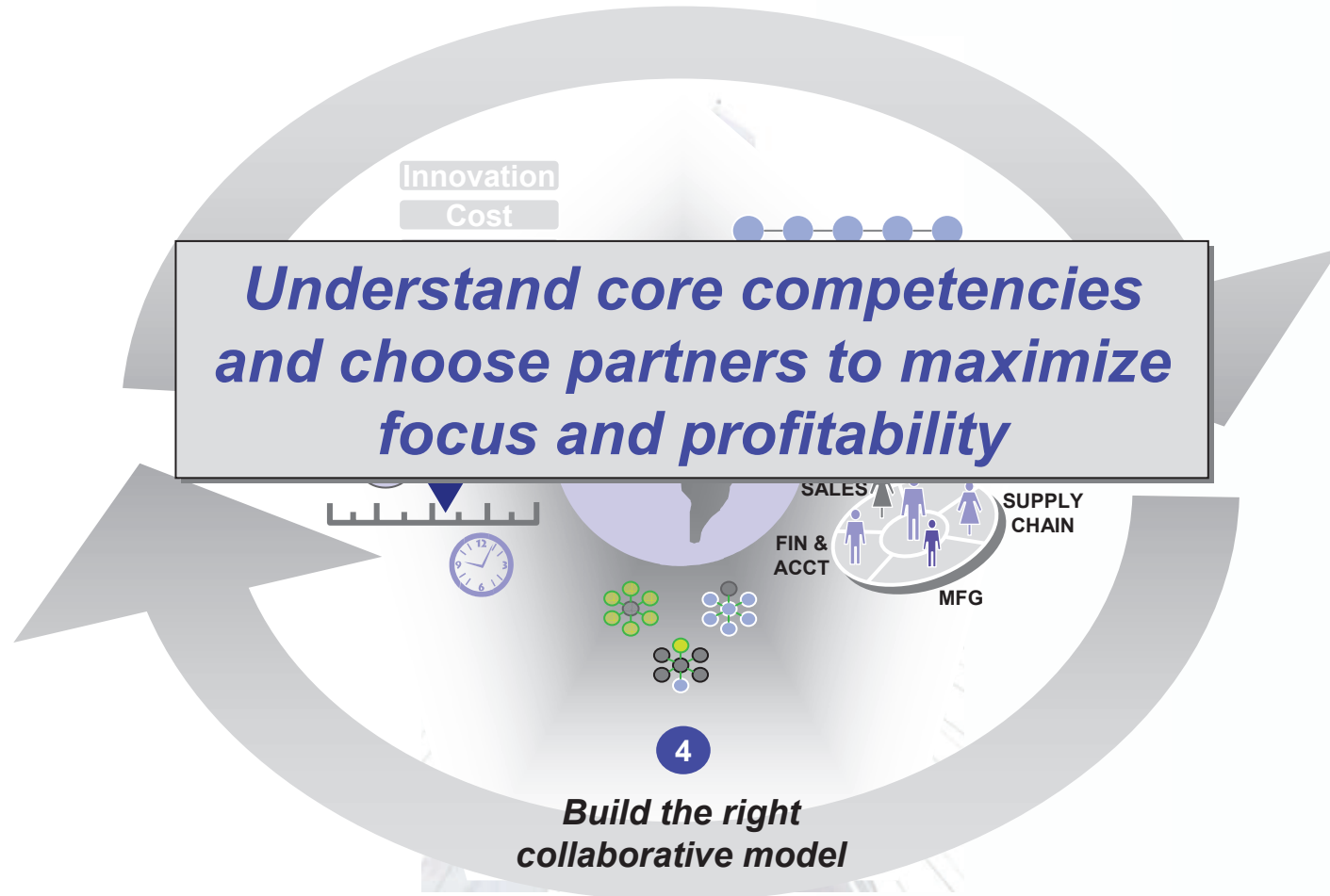


What Skills Will My Supply Chain Need In The Future?

The end-to-end supply chain will need new management skills that most companies do not possess today



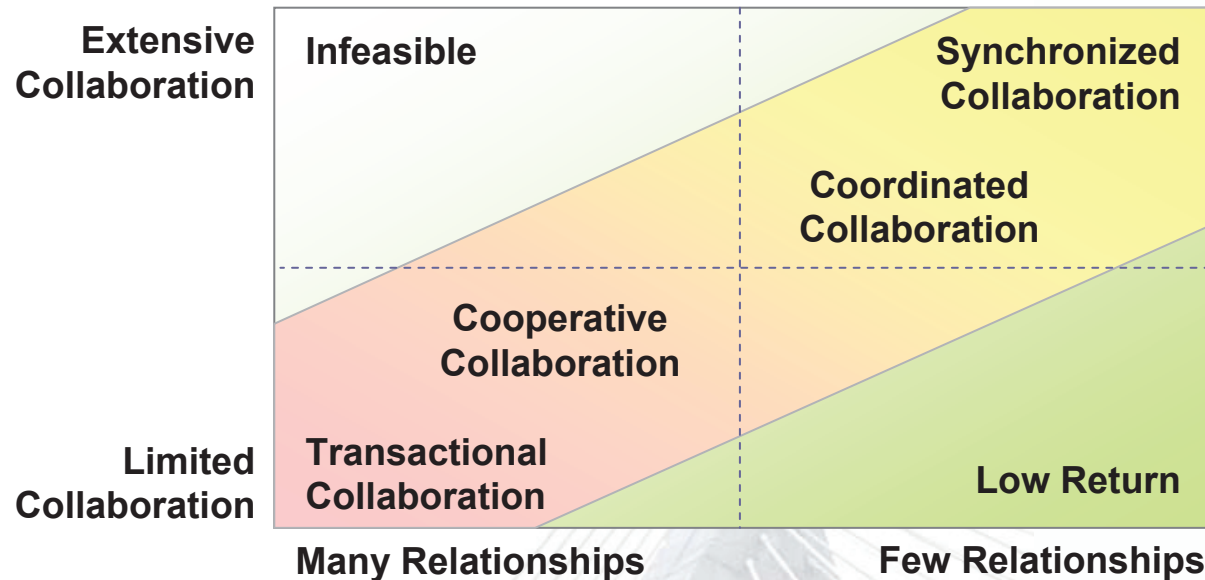
Discipline 4: Build the Right Collaborative Model



Four Basic Models of Collaboration

Not One-Size-Fits-All

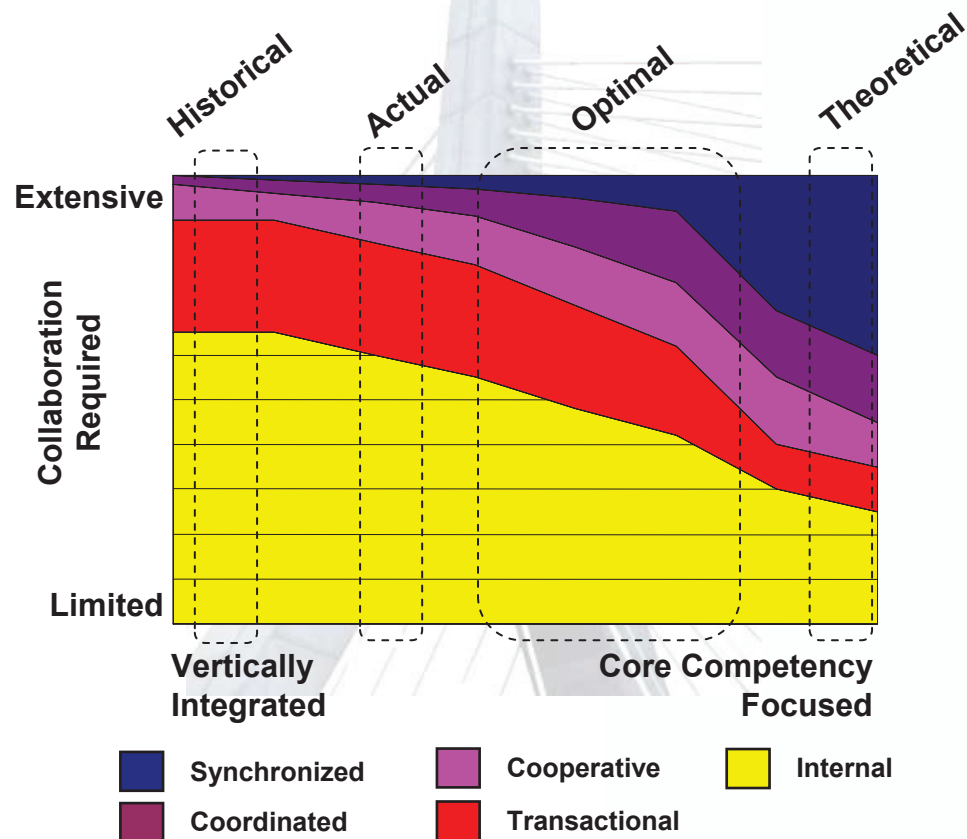
The Collaboration Spectrum



- **Transactional** — Efficient execution of transactions between partners
- **Cooperative** — Higher-level information sharing
- **Coordinated** — Reliance on each other's capabilities
- **Synchronized** — Information developed jointly with longer horizon

Collaborative Partnerships Will Continue to Evolve Over Time

- Most of today's collaborative relationships are transactional or cooperative
- As companies move away from traditional vertical integration, the need for deeper collaboration intensifies



Discipline 5: Use Metrics to Drive Business Success

Use metrics to measure the health of each core supply chain process and identify problem areas

5
Use metrics to drive business success


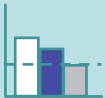




Metrics Help Gauge The Health Of Your Supply Chain and Drive Desired Behaviors

■ Effective metrics are:

- Linked to the business strategy
- Balanced and comprehensive
- Used as a continuous improvement tool
- Implemented via a formal implementation plan
- Highly visible and monitored at all levels of the company
- Based on both internal and external benchmarking
- Based on targets that are aggressive, but achievable

SCOR Level 1 Metrics Provide A Starting Point For A Balanced Strategic Supply Chain Scorecard

Key Supply Chain Management Metrics	 Delivery Performance/ Responsiveness	 Flexibility	 Cost	 Asset Management
Delivery Performance	✓			
Order Fulfillment Lead Time	✓			
Production Flexibility		✓		
Total Supply Chain Management Cost			✓	
Value-Added Productivity			✓	
Inventory Days of Supply				✓
Cash-to-Cash Cycle Time				✓
Net Asset Turns				✓



Northeast Supply Chain Conference

Questions?



Leading thinking
for lasting results