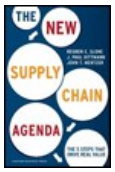

The New Supply Chain Agenda: The Five Steps That Drive Real Value

by Reuben E. Slone, J. Paul Dittmann and John T. Mentzer

Chapter 2: Supply Chain Strategy and the Five Steps to Achieving Excellence

A top-performing supply chain can be a powerful competitive weapon and an engine to drive economic profit. But without a road map, firms will fail to realize the full potential of supply chain excellence. Any effort to turn a supply chain that is simply functional into one that delivers significant value needs to start with a clear strategy. This may seem obvious. Yet in the supply chain audits we have done, very few firms could produce a supply chain strategy with a multiyear road map for achieving excellence. (Based on our data, less than 15 percent of firms have a documented supply chain strategy in place.) The self-test at the end of this chapter will help you determine where your firm stands.

What Is a Supply Chain Strategy?

A supply chain strategy starts with the same characteristics of any strategy, but includes the chain's unique challenges and characteristics. It is a road map that will guide the firm's supply chain evolution for the next three to five years.

A supply chain strategy absolutely must begin with the customers' current and future needs. It must comprehend the threats generated by foreign and domestic competition. It must recognize the most likely socioeconomic and demographic scenarios that may occur. It must honestly evaluate the strengths, weaknesses, opportunities, and threats (SWOT) the firm faces. The strategy must account for the evolving technology that is and will be available. It must satisfy the economic profit goals of the company. And, finally, it must generate a set of actions that create the capabilities the firm will need in the future. All pretty standard strategic planning stuff, so what's special about a supply chain strategy?

Seamless Flow of Products

Unlike other areas of the firm, the supply chain is a horizontal end-to-end process guiding the seamless flow of products across the extended enterprise. Products flow to customers from suppliers through the firm. But this flow must in effect pass smoothly through vertical functional barriers. In addition, the requirements of the customer must guide the flow, and those requirements must flow smoothly back through the functional barriers.

In other words, although products flow forward from suppliers through the firm to the customers, the strategic and information requirements should move backward, starting with the requirements of the customer, as illustrated in figure 2-1.

An effective strategy includes selecting the customers to serve, understanding what they value from the supply chain, planning the products and services, and choosing the right supply chain partners in order to deliver that value.

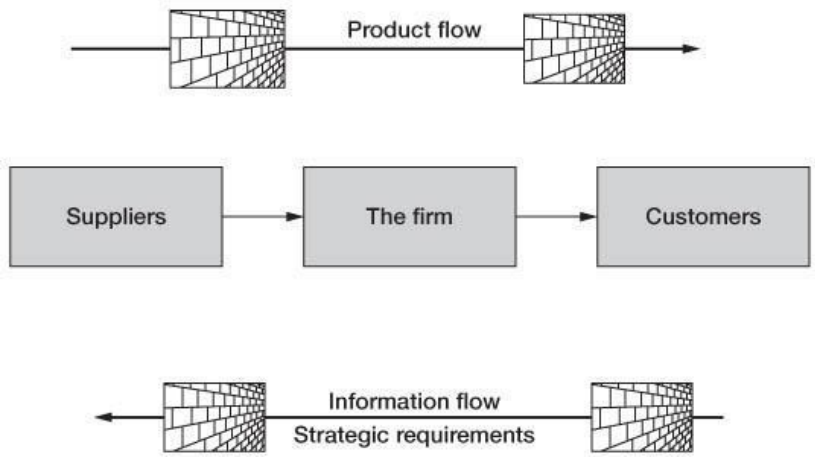

FIGURE 2-1: How material and information should flow across the extended supply chain

Strategy, by its nature, goes beyond the quarterly and even the yearly time lines along which firms align their supply chain operations capacities. Transportation, inventory, facilities management, order management, and cash flow—these operational functions may reside within a shorter planning horizon, but they are critical to the fulfillment of any strategic plan. Likewise, without strategy, operations will be misdirected and ineffectual. Neither can stand alone. A strategic orientation has to be balanced with operational imperatives so that both are important, but neither overshadows the other.

Short-Term Thinking as a Barrier

In a recent supply chain forum survey we conducted, supply chain executives overwhelmingly said that short-term thinking in their companies was the greatest barrier to achieving supply chain excellence. Following in lockstep from this short-term orientation are the quarter-end surges that plague many public companies.

Consider how unnecessary quarterly variability disrupts the flow of goods to the marketplace. In some cases, sluggish sales for most of a quarter are capped by an end-of-quarter surge. In others, goods move briskly for most of the quarter, only to slacken in the final month. Both phenomena are caused by sales strategies misaligned with supply chain planning objectives. This illogical behavior manifests itself in many unintended ways. As one retailer confessed, “I’m building two new warehouses to take advantage of a supplier’s end-of-quarter push.” Quarter-end surges destroy economic profit, causing higher average inventories, higher costs, and customer availability problems.

The Urge to Surge

Take the case of a large manufacturer of consumer products whose quarterly demand from many retailers followed a three-month sales pattern of low, low, high. In a meeting with the CEO, the head of supply chain management pointed out the extreme costs and supply disruptions for the disposable diapers product created by a quarterly cycle consisting of overcapacity and inventory buildup for two months, followed by rush production and delivery in the third month.

The CEO doubted that anything could be done about it. After all, wasn’t that the natural demand pattern? Well, not exactly. The supply chain leader diplomatically told the CEO that the underlying true demand was stable, and fluctuations were caused entirely by his pushing the company to surge at the end of the quarter. By accepting and managing to the quarterly sales numbers, the CEO subtly signaled to retailers that, when the company was falling short of its quarterly target, it would offer deep price discounts to make the numbers. Thus, retail customers regularly bought a three-month supply in the third month of each quarter so that “low sales” by the company in the first two months of the next quarter would cause another discount surge.

As the CEO put it, “This was a real revelation for me. Babies pee at a constant rate, but our demand was fluctuating wildly. We trained our retail ‘partners’ to take advantage of us and order only in the third month of each quarter, when we were trying to make our numbers.” The company subsequently offered consistent price and delivery terms each month, saving tens of millions of dollars in supply chain costs. (These costs had consisted of the combined impact of overtime during the surge, downtime and wasted labor during the slow sales months, and higher inventory costs in anticipation of the coming surge.) The company shared its savings in supply chain costs with the retail partners, effectively netting them better prices than they’d enjoyed under the old, high-cost, urge-to-surge supply chain game.

When companies surge at quarter end, inventory must be built up in advance to meet the spike. But because it’s built early, it’s often the wrong stuff. Product availability and fill rates take a hit, and much of the inventory remains in the warehouse, unsold, consuming cash, and destroying economic profit. The firm also must expedite product at a high cost in a mad rush to make the quarter end, sometimes monitoring shipments hourly. If that weren’t bad enough, it inevitably spawns additional cost the following month, due to the resulting underutilized capacity.

Some executives tell us that stopping the quarter-end surge is next to impossible. They rightly point out that direct compensation is connected to bottom-line results; and total compensation is often tied to stock options and, therefore, share price. Given that stock price is often driven in the short run by quarterly results, it takes a lot of courage for the CEO and the board to move the company away from artificial end-of-quarter surges. The only chance of this happening is if the supply chain organization clearly demonstrates to the executive team that the practice over time creates more cost than benefit.

The Urge to Purge

Another manufacturer of consumer products exemplifies an additional, though rare, variation on the urge to surge: the urge to hold back. For example, demand from a company’s retail customers followed a quarterly pattern of high, high, low. This triggered greater production capacity and expenses in the first two months, then inventory buildup during the third. Predictably, it also created operational disruptions for the company’s suppliers. When the supply chain leader presented the problem to the CEO, they were both initially at a loss to explain this quarterly seasonal pattern, which seemed to affect all of the company’s products. Like diapers, this company’s products were staple items in grocery stores, and there was no logical explanation for the strange pattern in customer purchasing behavior. In fact, analysis showed that annual demand at the consumer level was fairly stable month to month.

So, why were retail customers ordering so illogically? After thinking it through, the supply chain leader realized that customers were actually forced into it by the company’s salesforce, whose compensation program was structured to pay a commission that included a bonus for forecasting accuracy. The sales-force realized that its forecasts were used to set quotas. The CEO, whose background was in sales, wanted to motivate “rigor” in arriving at these de facto quotas.

Motivation came in the form of commissions that were cut in half for any sales that exceeded the quarterly forecast. As the CEO had seen it, this would train sales-people to forecast accurately. If they set the forecast too high, they'd lose the bonus offered for forecasting accuracy; too low, and their commissions on higher sales would be halved.

Human nature being what it is, the salespeople were motivated to aim low and then stop selling once they'd hit their cautious marks. Company lore was that the salespeople were great forecasters. No doubt they appeared to be. For the first two months of each quarter, they sold diligently until they hit their quotas, after which they refused to take any further orders from retailers. Why take orders that would earn them only half the usual commission and cause them to lose their bonuses?

With this realization, the supply chain leader took every opportunity to highlight the negative impact of this practice on customer service, inventory, and supply chain costs. Customer surveys revealed that retailers' major complaint about the company was the difficulty (if not the impossibility) of obtaining its products at the end of a quarter. Consumers cited the inexplicable, cyclical lack of product availability. Because of the relentless persistence of the supply chain leader, the CEO finally realized that he was, in effect, paying his salesforce to disrupt its own supply chains and dissatisfy the customers, all to achieve the *illusion* of forecasting excellence. As with the urge to surge, these actions destroy economic profit by disrupting the normal flow of product, backing up inventory, depressing cash flow, and causing excess cost as the line operation reacts to rebalance capacity.

Antidote to Short-Term Thinking

A supply chain strategy encompassing five steps is the pathway to excellence and to economic profit. A good strategy begins by looking outside the firm at best practices across a wide industry range. However, many firms fail to challenge themselves with external best-practice benchmarking in the supply chain area. For example, a large pharmaceutical company was comfortable with annual inventory turns of about two, or six months of supply of inventory, yielding an average inventory of six months supply, even though its competitors were doing much better and were freeing hundreds of millions of dollars in cash by aggressively managing inventory and overall working capital.

Lack of best-practice benchmarking may not be the biggest problem. Many firms compound this inward focus by developing and reporting supply chain metrics that may actually conceal problems by neglecting crucial information. For instance, one construction-materials manufacturer reported "good availability" if inventory to fulfill a new order was simply somewhere in the system, regardless of whether the order was actually delivered to the customer on time. OfficeMax used to report a 96 percent weekly availability measure only at the product category level, thus not having a detailed view of the customer's experience from a store perspective. When Reuben Slone (one of the authors) took over as executive vice president of supply chain, he changed the metric to track product availability daily and by store location so that OfficeMax could measure (and manage) what the customer was experiencing. Now, even with this tougher, customer-focused measure, OfficeMax reports availability close to 99 percent.

Once a firm challenges itself with an external customer-oriented viewpoint and understands the best supply chain practices, it is ready to build its strategy using the five steps to supply chain excellence.

Five Steps to a Strategy for Supply Chain Excellence

We explained in chapter 1 that economic profit is the linchpin between shareholder value and supply chain excellence. But what truly generates supply chain excellence? Based on our ongoing analysis of hundreds of firms, five predominant elements clearly emerge as the components of supply chain excellence—and therefore five steps should form the basis for your supply chain excellence strategy. The remainder of this book lays out those steps along with specific actions to guide you in your journey. This chapter briefly introduces each step.

1. Pick the Right Leaders and Develop Supply Chain Talent

Finding and developing the right talent is the first step for a reason. Nothing is more important than having the right people with the right skills in the right jobs (see chapter 3). Yet, in researching this area, we have found some curious and alarming situations.

Skills Supply Chain Executives Need

Conversations with CEOs show that many fail to realize that the supply chain has become such a complicated set of activities— touching many business functions and processes, reaching beyond the enterprise, powered by fast-changing technologies, and presenting a range of strategic opportunities—that it can't be competently managed by the uninitiated, no matter how generally capable they might be. The supply chain discipline is at least as complex as any other, and senior

supply chain executives should have education and/or significant experience in supply chain management. Yet we see plenty of examples of people without any supply chain background being made the chief supply chain executive. That makes as much sense as rotating someone from marketing into the comptroller or corporate treasurer position.

Flying Without a Talent Safety Net

At a major automotive components manufacturer, one of the very talented rising management stars was moved from marketing to lead the supply chain function. He was being groomed for a much larger role in the corporation, and this assignment was supposed to provide a key component in his development. At age forty-two, he could not afford any missteps at this point in his career. Unfortunately, shortly after he took over, an abrupt surge in demand for compact hybrid cars occurred, and his firm supplied a key, highly profitable component for the hybrids. Initially, there was no impact due to sufficient inventory in the system. But, an experienced supply chain person would have immediately seen the looming problem of an impending stock-out and reacted very aggressively.

In this case, however, no appropriate action was taken for nearly two months, far too long to avert a major disruption in supply for the firm's automotive customers. With the stock-out nearly upon them, the carmaker turned to a backup supplier, permanently stopping purchases and transferring this extremely profitable business to another company. The new leader of the supply chain function found himself climbing a near-vertical learning curve in the midst of a major crisis, clearly a prescription for disaster. Within a year, the rising star, now severely tarnished, fell off the track to the top and moved to another area. The CEO learned from this experience and brought in a seasoned supply chain management expert from outside the company to set matters right. The new supply chain leader put in place an inventory management system, early warning systems, and inventory visibility tools to ensure that the firm never became paralyzed again.

2. Keep Up with Supply Chain Technologies and Trends

The second element of excellence is the rapid development of supply chain technology (chapter 4). It is useful to think of supply chain technology in four buckets (see examples in table 2-1).

Understand Available Technologies

Sophisticated technologies enable many of the most promising supply chain opportunities, so not only supply chain executives, but also the CEO and other senior executives should take the time to understand them at a high level. Supply chains are often densely complex. They entail cross-functional participation and deliver companywide benefits. They deeply permeate the firm and, as noted earlier, are most successful when they inspire the cooperation of external partners.

Table 2-1: Sample list of supply chain technologies

Supply chain technology category	Examples
Software	Forecasting systems Transportation management systems (TMS) Warehouse management systems (WMS) Distribution requirements planning (DRP) Inventory optimization software Network optimization and simulation software Production optimization software Collaboration software Enterprise resource planning (ERP) systems Customer relationship management (CRM) systems
e-business technologies	Automatic shipment notices (ASNs) Electronic data interchange (EDI) Electronic requisitioning Web-based data interchange and communication Electronic invoicing and payment, linked to shipments/receipts Exchanges/auctions Early warning and visibility systems Web 2.0 for collaboration
Visibility and productivity	Bar code Radio frequency data transmission

	Radio frequency identification (RFID) Pick to light Voice picking Automated picking Cellular/satellite tracking Carousel and conveyor systems Automated storage and retrieval systems (ASRS) Event management: visibility with real-time alerts
Process advances (apply these first)	Lean manufacturing Six sigma Vendor-managed replenishment (VMR) Collaborative planning, forecasting, and replenishment (CPFR) Activity-based costing Carbon footprint management

Major new software advances have enabled the optimization of distribution and production planning, inventory management, warehousing, and transportation systems. Assorted technologies such as radio frequency identification (RFID) tags, software used in ever more innovative ways, e-business tools, and other new technologies have emerged to support sophisticated supply chain management. Moreover, powerful process tools such as lean manufacturing to reduce cycle time and Six Sigma to reduce variability are being applied to the entire supply chain.

Most firms that have bought leading-edge supply chain systems acknowledge that they use only a fraction of the software's true capability and an even smaller fraction of the promised capability. An attentive senior executive can add weight and authority to the change management process, helping to drive user buy-in and make certain that proper vendor support, adequate training, and other resources are in place. Senior executives who understand new technologies serve a critical role by both motivating the organization to stay abreast of the rapidly changing technology landscape and asking the right questions to make sure the organization stays focused on the business case. In chapter 4, we lay out a framework for adopting new supply chain technology.

Moreover, senior executives who fully appreciate the challenges of deploying complex and costly systems can help their companies avoid classic missteps. The CEO of an industrial equipment manufacturer admitted to us that her company had experienced one such pitfall: "We spent $18 million getting an ERP package up and running in our company, and all we did was bring more modern technology to bear on supply chain processes that are forty years out of date. I expected this technology to bring supply chain costs down dramatically, and yet nothing changed. My mistake was expecting technology to solve a process challenge." She is now leading the company through a major effort to understand existing processes, identify opportunities to improve them, and adapt the new system to support the reengineered supply chain processes.

To excel in the technology area, senior executives should be briefed regularly about and have a high-level knowledge of supply chain technologies. They should also have a thorough understanding of how the firm applies these technologies and be capable of asking challenging questions—and recognizing the right answers— before any new technology is specified, purchased, and rolled out.

Huge Payback

When supply chain technology is successful, the payback is huge. A consumer packaged-goods manufacturer implemented an advance planning and scheduling (APS) system in 2002 that allowed it to make a significant advance in the way it managed its inventory. One major benefit was the ability to plan inventory safety stock for each SKU at each of forty-seven warehouse locations. This allowed the manufacturer to precisely target inventory to those SKUs in the specific cities where it was needed the most. Customer availability improved significantly, and over $200 million of inventory was removed. Was this all due to simply installing new software? Of course not, but the software standardized and automated the new *process* of managing inventory at the micro level, that is, for each SKU at each location.

That said, implementing APS modules is fraught with risk. One executive told us about an APS project that "completely blew up." In his company, the APS system not only determined production requirements for the factories, but also specified how to deploy the inventory in the warehouse network. Few decisions are more critical to a manufacturing company than these, and any mistakes are greatly magnified. Therefore such projects have a huge potential payback, but they do carry significant risk.

3. Eliminate Crippling Cross-Functional Disconnects

The third step toward supply chain excellence deals with the alignment of functions to support outstanding supply chain performance (see chapter 5). The supply chain process is the ultimate cross-functional process, stretching from suppliers through the entire firm and beyond to its customers. Yet in some firms, one wonders if the leadership team and even the CEO can explain the true role each function has in driving results across functional areas.

SKU management is a classic example of a cross-functional disconnect. Supply chain operating functions clearly feel the cost and the weight of inventory caused by more SKUs and their operational complexities. They also know that the more SKUs they offer, the more they will struggle to maintain product availability, as inventory is spread thinly across more SKUs. On the other hand, sales and marketing people feel just as strongly that they have to fight competition everywhere, and they absolutely must appear innovative to their customers, resulting in their strong motivation to increase product-line variety and complexity. Most firms struggle with this functional tension, often paralyzed into taking no action at all. All companies need the right number of SKUs to meet competition and foster innovation, but most have many more than necessary. Why can't they come to grips with this cross-functional dilemma?

A large manufacturer of consumer durables seemed to be way ahead of most companies. The CEO recognized the SKU problem after the supply chain leader brought him a compelling analysis showing the cost of the proliferating SKUs in the firm. He tasked the vice president of marketing with reducing SKUs by 20 percent. However, the marketing vice president believed that other objectives—growing market share, for example—were more important than the SKU goal, so he made no progress toward achieving it. As the vice president put it, "If I keep growing market share, my boss won't bother me about SKU count." Even though the CEO believed strongly in SKU reduction (it had paid big dividends at his former company), he lacked the knowledge to make it an equally urgent objective for the vice president. In part, this was because the CEO didn't understand supply chain operations well enough to know *why* it had paid off for his former company. That deficit compromised his ability to persuade the vice president of his seriousness.

Inventory is another cross-functional sinkhole. In company after company, the sales organization will not use markdowns to move obsolete inventory, because the sales metrics exclude the costs of carrying that inventory. The firm then pays both the carrying costs and—sometimes years later—the cost of the inevitable markdown. This destroys economic profit on two fronts. Inventory grows and depresses cash flow, and margins inevitably decline when the firm finally confronts the issue.

To avoid such needless inefficiencies, the company's senior leaders should be personally involved in a mature sales and operations planning process (described in chapter 5). SKU complexity should be tracked and decreasing, as should obsolete inventory. Operations, supply chain, sales, and marketing should be held equally accountable for customer service and inventory. Supply chain leaders must help the CEO thoroughly understand,— so that he or she can help to harmonize the interplay of cross-functional and supply chain priorities. A smooth-flowing horizontal process from suppliers to customers cannot be managed effectively with vertical functional silos blocking the way.

The Right Incentives and Metrics

What is measured gets rewarded and what is rewarded gets done. Consider a major North American railroad's struggle with this concept. Although the railroad's most profitable customers were well-known within the firm, terminal managers, who were measured on how many railcars they moved with the available locomotives, did not reflect this knowledge operationally. The performance metric motivated terminal managers to assign priority status to longer trains, even though that might leave the shipments of high-value customers languishing for days in the terminal. In one case, goods shipped by a $100 million customer regularly missed delivery deadlines because locomotives were consistently diverted to trains loaded with marginally profitable goods that didn't require expedited shipment but got it nonetheless.

Alignment of Metrics

Any new strategy requires new ways of working, and metrics must support those new behaviors. No behavior is more important to supply chain excellence than all functions pulling together in unison to drive economic profit by serving the customer flawlessly with the lowest possible cost and asset investment. When metrics are accurate and functionally aligned, magic can happen. In 1998, when Paul Dittmann (one of the authors) was at Whirlpool, the company put in place a set of metrics to track the effectiveness of all functions and, especially, the supply chain, in attacking working capital. As a result, the company cut working-capital day's sales outstanding (DSO) in half and became the leader in the appliance industry. Once a good set of aligned metrics supporting the strategy is in place, senior executives should establish reward and incentive programs to encourage employees to behave in ways that benefit the overall firm, not just their own functions.

For example, the CEO and sole owner of a grocery products manufacturer led the organization through an extensive analysis of its supply chain processes. The result was an ambitious strategic plan to take advantage of supply chain management across the firm and with its partners. The goal—to save the company an estimated $3 million a year—directly

targeted the bottom line. The biggest challenge to the strategic plan was that it would require major changes in how the manufacturer managed various aspects of its internal operations. The strategic planning process culminated when the CEO met with the executive team to review the plan's rollout over a two-year horizon. In the middle of this meeting, he paused to observe, "You're talking about putting $3 million a year in my pocket, and it's just occurred to me that I'm the only one in the room excited about it." On the spot, he pledged to create a special annual million-dollar bonus pool above and beyond the company's normal bonus system. Any employee who could demonstrate having a significant role in the success of the supply chain plan would get a portion of the pool. The CEO defined success as achieving the $3 million bottom-line improvement.

"Any year in which that happens, the special bonus pool exists," he said. He then instructed his three direct reports to devise a metric-and-compensation system (which he would personally review) for measuring individuals' contributions to the success of the plan and to determine how bonuses should be paid out. Suddenly, everyone in the company became a supply chain enthusiast.

The owner of this company was a very clever man. How do you make certain you can clear a $3 million hurdle? You aim to be far above it. In the first year of implementing the supply chain reform plan and its special bonus, the bottom line improved not by $3 million, but $3.75 million. Employees were so intent on achieving the $3 million goal that they actually overachieved, in effect paying for three-fourths of their own bonuses.

4. Collaborate with Suppliers and Customers

The fourth step toward supply chain excellence requires the ability to collaborate externally with suppliers and customers (see chapter 6). To build the seamless flow of products to the customer and the seamless flow of information back from the customer, collaboration must extend outside the walls of the firm. The grocery products manufacturer in our earlier example had six key suppliers and three key retailers to collaborate with. At the supply chain leader's urging, the CEO met personally with the CEOs of each supplier, explained the strategy thoroughly, and pledged that for any year in which a supplier fully cooperated and the improvement goal was achieved, the company would not press the supplier for price cuts. Moreover, any savings to the company directly attributable to the supplier's efforts would be shared fifty-fifty. In essence, the company was now paying the suppliers to help it make its supply chain strategy work. The company made similar arrangements with the retailers. As a result, the manufacturer had a supply chain with six key suppliers and three key retailers all working in concert—and were rewarded for doing so—to make the strategic plan succeed. Not surprisingly, it did.

Chapter 6 details the best practices in collaborating externally and illustrates them with several case studies, laying out a pathway for success. Unfortunately, the barrier often lies within the firm itself. Supply chain considerations (and expertise) should be core components of business planning—including sales and marketing promotions—and of contract negotiations with customers and partners. Customers and suppliers should be prioritized and dealt with accordingly. If you can't prioritize your customers, you don't stand a chance at developing a successful collaboration. Once priorities are established, it is possible to achieve breakthrough results by collaborating with the core, critically important suppliers and customers.

5. Implement a Disciplined Process of Project and Change Management

The fifth and last step toward supply chain excellence is arguably the most critical. Without a disciplined process to get things done, everything else becomes irrelevant (see chapter 7). Senior executives must set the tone for managing change. Senior management must have the discipline to constantly communicate a simple clear message, over and over.

Supply chain projects consistently consume the most IT resources in firms, and the supply chain organization constantly tackles projects that are highly cross-functional and cross-company in nature. The requirement for excellence in project management practices must start in the CEO's office and with the executive team in order to ensure that these tough cross-functional supply chain projects are successful. The CEO must demand that the project teams work on the root causes, not just the symptoms. She must encourage them to manage project scope carefully to keep complex supply chain projects manageable. She must constantly urge them to stay focused on the benefits and business case. She must make sure that project teams have identified risks and have a mitigation plan. And finally, knowing that people issues are her biggest implementation risk, she must require that all major initiatives have a change management plan for both implementing and sustaining change.

A culture of project success starts at the top of the firm. Once started, getting things done in the cross-functional, cross-company supply chain requires a disciplined process of project management and change management. Chapter 7 lays out the biggest risks to supply chain initiatives and the best practices for getting them done.

Conclusion

In summary, supply chain excellence flows from a supply chain strategy built on the five elements of supply chain excellence (see figure 2-2).

The next chapters discuss each of these five steps. Chapter 8 contains two case studies that show how a supply chain strategy achieved by the steps toward excellence can drive economic profit and shareholder value.

Evaluation Test for Senior Executives

Do the average CEO, board member, and senior executives understand the five steps toward supply chain excellence? This evaluation tool measures the quality and depth of senior executive involvement in supply chain strategy by assessing the programs that have—and haven't—been put in place. It further shows the sobering degree of challenge supply chain leaders face in educating the company. A scoring guide is included with the tool.

A poor score means you should take action quickly:

Start by hiring the best supply chain professionals available.

Get personally involved in cross-functional issues like S&OP, complexity management, and working-capital management.

Gradually lead the company away from quarter-end disruptions, even though extremely difficult.

Reward supply chain behavior that benefits the entire company.

Invest personal time in learning more about recent advances in the supply chain field, including the profusion of new technologies.

Use benchmarking and leverage outside experts.

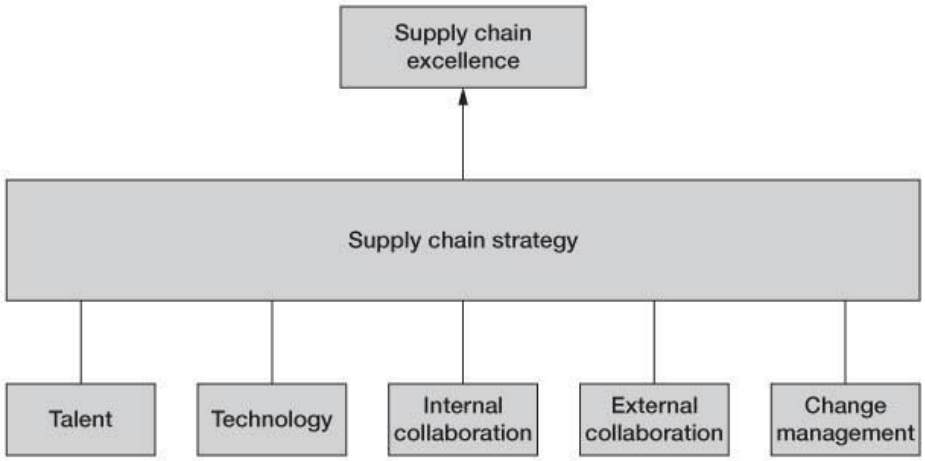

FIGURE 2-2: Supply chain excellence flows from a strategy built on the five elements of supply chain excellence

A good score on the evaluation doesn't mean there's time to waste gloating, but instead offers the opportunity to build aggressively on the company's supply chain strengths and drive the organization to increasing its advantage over the competition.

Evaluate Your Level of Supply Chain Leadership

Answer the six questions in the left-hand column in table 2-2. Assign a score from 1 to 9, according to your current level of supply chain leadership. The statements within each column will help you decide where you fall on the leadership spectrum. A scoring guide appears in table 2-3.

How Do Senior Executives Score on This Test?

At a recent University of Tennessee supply chain forum, thirty-five companies participated in the evaluation. The distribution of scores is shown in figure 2-3.

These firms ran the gamut in size and type from $100 million in sales to $95 billion. They included manufacturers, retailers, and service providers across a wide industry spectrum. A participant from each company took the test and answered as he or she thought his or her CEO would answer. Table 2-3 shows how the companies score in general versus the standards outlined.

Which Areas Are the Greatest Problem?

Which supply chain area ranked as the worst problem when evaluating the data? All of them are major problem issues, but some are worse than others. The supply chain categories listed problems from *least problematic to worst* according to the average score received:

Supply chain valued as a career in the firm

Supply chain technology reasonably understood

Table 2-2: Test for the Senior Executives. See scoring guide below in Table 2-3.

	SCORE								
Question	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
1. Do you have a supply chain strategy supported with the right metrics and incentives?	No supply chain strategy exists in your company.			A strategy document exists, but you cannot summarize all of the key elements of the plan.			A full supply chain strategy exists that your organization buys into, and it is supported with good metrics and incentives.		
2. Is supply chain a valued career path in your company?	You do not need to get involved in career planning for supply chain personnel. You do not understand why your supply chain leader must have a supply chain background.			You are establishing a plan to develop or enhance supply chain talent in your company. You see the major impact of supply chain on the firm's success.			You chose an experienced supply chain professional to lead the supply chain organization. You are involved in the hiring of key supply chain personnel.		
3. Do you collaborate externally with your suppliers and customers?	Customer-focused metrics are not in place, nor are supplier scorecards. You do not formally prioritize your suppliers and customers. You do not know whether supply chain partners have been enlisted to support your supply chain goals.			Some suppliers and customer metrics are in place and efforts are in place to make them more realistic and credible. You have some effort underway to share data and strategies with your suppliers and customers. Some effort at mutual improvement projects exists.			Data and strategies are fully shared with your key suppliers and customers. You have mutual win-win improvement projects underway, and some have been successfully implemented.		
4. Are your internal functions aligned?	You are not involved in function leaders' formulation of incentives and goals to make sure they are aligned and support the supply chain.			You have some understanding of how compensation, bonus, and commission programs might inadvertently harm supply chain and profit performance.			You actively support efforts to reward employees, suppliers, and customers that contribute to your supply chain efficiency.		
5. Do you understand important supply chain technologies and trends?	You have little interest in new supply chain technologies and leave that to the experts.			You periodically become aware of—and are curious about—advances in supply chain technology.			You have a good knowledge of supply chain technologies and of plans to apply them in your firm. You feel you know the right challenging questions to ask about supply chain technologies.		
6. Do you have a disciplined process for getting things done?	There are no formal project and change management processes in place.			A project and change management process exists, but implementation results are mixed.			You demand that disciplined project and change management processes are in place, evidenced by consistent implementation success.		

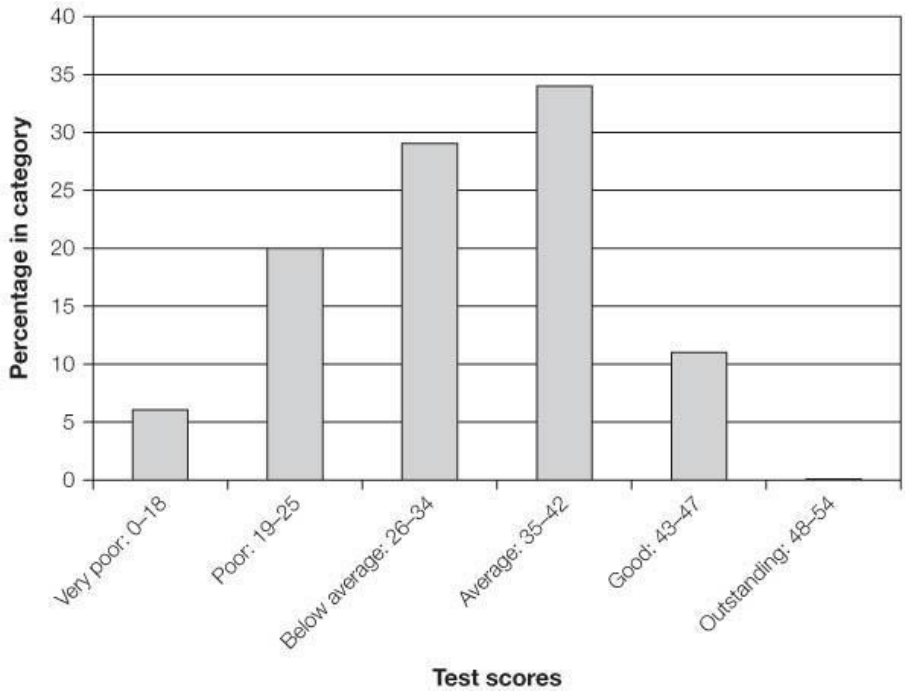

FIGURE 2-3: Distribution of scores from test for 35 companies

Table 2-3: Scores of senior executives from 35 companies

A score of 4 or lower on any question is a yellow flag. An immediate remediation effort is in order in that area.	61% of companies
A total score of 21 or lower is a red flag to any manufacturing, distribution, or retail senior executive; the lack of supply chain focus may be fatal.	Occurred in 2 of the 35 companies
With a total score in the 22–42 range, recovery is possible if the suggestions are followed.	94 percent of companies scored in this range
With a total score of 43 to 54 points, the supply chain can be a true competitive advantage.	None of the 35 companies scored in this category

Collaboration with suppliers and *customers*

A disciplined process for getting things done

Cross-functional alignment adequate

Lack of a supply chain strategy; short-term thinking dominates decision making

A short-term focus on decision making seems to be the greatest disease plaguing supply chain effectiveness, closely followed by cross-functional misalignment. Clearly, the company's senior executives, with the coordinating support of the supply chain leader, need to play the key role in attacking these two barriers to excellence. On the positive side, it is good to see the emergence of supply chain's value as a career path.

ACTION STEPS

1. Develop a supply chain strategy based on the five steps and support it with the proper set of metrics and incentives.
2. Pick the right leader for the supply chain organization (chapter 3).
3. Keep up with supply chain technology and trends (chapter 4).
4. Eliminate cross-functional disconnects that cripple the supply chain (chapter 5).
5. Collaborate with suppliers and customers (chapter 6).
6. Implement a disciplined process of project and change management to successfully get things done (chapter 7).