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The New Supply Chain Normal: Supply Chain Gurus Weigh in Part 2

Read and Sherman Share their Perspectives; Is the Supply Chain Ever Normal?

SCDigest Editorial Staff

In a recent First Thoughts columns, SCDigest editor Dan Gilmore noted the predictions of a "new normal" in many areas of the economy and business as a result of this "great recession." (See A **"New Supply Chain Normal?"**). That included highlights of the thoughts from four of the supply chain's leading thinkers: **Dr. Tom Mentzer** of the University of Tennessee; **Dr. Jim Tompkins**, CEO of Tompkins Associates; **Bill Read**, head of Accenture's global supply chain practice, and **Rich Sherman**, president of Gold & Domas Research and long-time supply chain pundit.

Last week in On-Target, we published the full comments of Mentzer and Tompkins (See **The New Supply Chain Normal: Supply Chain Gurus Weigh in**). This wee, we do the same with Read and Sherman.

Bill Read, Accenture

In 2008, the world acknowledged that globalization had changed. Investors and consumers beheld an increasingly multi-polar global economy in which risk and volatility went hand-in-hand with emerging growth and opportunity. Deeper integration of markets meant that economic and financial shocks were transmitted across national boundaries more rapidly than ever before. No longer could businesses—however seemingly local or insulated—assert immunity from global interdependence.

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and intensity of these disruptions is placing unprecedented pressure on the way companies source, manufacture and distribute products. In this new era of global competition and today's economic volatility, many executives are finding that they are faced with unique challenges that cannot be met with traditional practices. Achieving high performance calls for new approaches to supply chain management— approaches that help the business generate cash, reduce costs and ensure asset productivity.

Bill Read
Accenture

At Accenture, we believe that the "New Normal" in supply chain management involves developing a dynamic supply chain—one that can adjust rapidly, cost effectively and without major disruptions to fast-changing market conditions- to then generate significant operational and financial value. As we studied how high performance businesses design and manage their supply chains, it became rapidly apparent that no one silver bullet could explain success. We have, however, identified seven fundamental guiding principles that effectively serve as a line of demarcation between a would-be and a true high-performance business in the "New Normal" environment. For many companies, these seven supply chain imperatives will be a paradigm shift and, in fact, will require new capabilities and practices to be a Supply Chain Master.

Articulate a Clear Value Creation Algorithm

Masters in this new world develop a clear understanding of the company or business-unit value creation algorithm. A value creation algorithm fundamentally comprises two elements: value proposition orientation and growth orientation. While it may appear simple on the surface, more often than not clearly articulating what a company's position is on those two dimensions can create far more discussions (often rich, sometimes long) than one might have expected.

Approach the Supply Chain as a Value Delivery System

Designing and managing superior supply chains begins with taking a far more comprehensive view of the supply chain and defining it as what it truly is: the network of suppliers, plants, distributors, retailers, and other internal and external stakeholders that participate in the sale, delivery, design and production of a company's goods and services.

Segment the Supply Chain and Consistently Adapt It to the Characteristics of Each Segment

Supply chain Masters in this new world not only segment their customer base and products within markets and channels, but extend this thinking into their supply chain and operations. The goal is to create a number of supply chain configurations capable of delivering differentiated value propositions across multiple channels and products. They do so by designing their supply chain from the outside in –starting with the customer and their targeted value proposition orientation in mind.

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Bill Read, Accenture

Optimize the Global Operation Architecture for Scale, Access, Flexibility and Risk Mitigation

Translating the supply chain requirements from the segmentation strategy into a coherent and optimal set of capabilities and resources is neither straightforward nor simple. The resulting operations architecture must balance cost, service, risk, flexibility and other outcomes (such as the carbon footprint of the supply chain) as you explore alternative configurations. Masters take a holistic and systematic approach to their resources and capabilities.

Selectively Invest for Mastery in Differentiating Capability Areas

Masters do not strive to excel at all supply chain dimensions; they outperform peers on a limited number of domains. Outperforming in every domain only would lead to leaving money on the table because more money than necessary was invested in areas that matter far less than others. However, masters also do not drastically underperform in any domain. Underperforming significantly in any domain would dramatically impact business performance and make it unlikely or difficult for any company to truly outperform from an overall business standpoint.

Deploy Information Systems that Deliver Insightful Analytics, Alignment and Responsiveness

The level of coordination and alignment required to operate in a networked supply chain operations model goes beyond what can be traditionally achieved in the context of a classic management and control approach. In a supply chain organization fit for the multi-polar world, decisions are distributed throughout the network but still need to be aligned. Achieving unified expectations for performance with aligned accountabilities for success is a critical hurdle to overcome.

Drive Process Execution Discipline with the Right Talent Powered by a Culture that Enables High Performance

Clearly the "New Normal" will require companies to devote disproportionately more time and energy than their competitors into developing and executing a strategic approach to talent. They are relentless in creating a "talent mind-set" across the organization while continually measuring and aligning talent to changing strategies, objectives and demands. While such a focus could have been viewed as relatively trivial five years ago, current global trends and the associated fundamental shift taking place in the workforce (impending retirements, shrinking labor pools, emergence of new talent sources, availability of virtual methods of working, and growing divisions in workforce culture whether because of generations or geographical diversity) make it increasingly an imperative for success.

Rich Sherman, Gold & Domas

As we evolve out of the recession (and we will), will we return to Supply Chain normal? Has the supply chain ever been "normal?" Supply chain managers have always faced variability and uncertainty in the supply chain. The current global business environment has, however, heightened the awareness of supply chain vulnerability across all business sectors; and, as the business climate improves, those supply chain managers that are committed to transforming their operations will gain greater competitive advantage.

Rich Sherman
Gold & Domas Research

Several learnings, however, have become more apparent than others. Volatility in fuel prices and environmental regulation has heightened the investment in transportation management systems and vehicle telematics. The good news is that the TMS providers are most rapidly adopting Software as a Service (SaaS) models making sophisticated TMS capabilities more affordable than ever before. Vehicle telematics have evolved well beyond GPS; and, now applications that provide increased visibility and optimization of operating and driver performance management, as well as container location and content information are more the rule than the exception.

We will see a major change in consumer behavior, not only due to the recession, but due to increased pervasiveness and transparency from technology and mobility. Consumers are grouping and gravitating to social media and networking. They are seeking more input from others that share common interests. On line shopping for advice and pricing is more common, if not for purchasing. And, the demographics are becoming more global. With increased referral shopping and mobility, companies more than ever must build trust in their brands… and, in their supply chain. Reliability, quality, access to product and delivery information and attention to community are important components of strategies that integrate and leverage marketing and supply chain initiatives.

While logistics may have changed its name to supply chain, it still largely does not include procurement and manufacturing in its reporting and management. Logistics may be responsible for the transportation and storage of inbound and outbound goods; however, they largely don't have responsibility for managing manufacturing and procurement operations.

Rarely is the Chief Supply Chain Officer responsible for manufacturing and procurement operations or metrics, yet company performance is dependent upon synchronization of metrics across all three. In the new economy, companies and associations must become more collaborative if not integrated in their processes and metrics. CSCMP, APICS, ISM and the Supply Chain Council have to become more collaborative in addressing the education of the market. With conference attendance struggling across the board, these associations should begin planning joint education programs if not consolidating themselves.

From a technology perspective, however, integrated operations management and inventory optimization decision support tools are becoming available that support daily increased forecast accuracy while providing process control that synchronizes daily operating decisions across the supply chain to recalculate sourcing, production and distribution inventory requirements to achieve optimal flow from source to consumption.

Daily decision support tools become especially important in the Web 2.0 and 3.0 environments. Demand variability will grow as consumer and B2B (business is on the social and mobility media bandwagon as well) create demand swings at the whim and speed of "tweets."

We see these new planning tools supplanting many of the traditional advanced planning and scheduling (APS) systems that have failed to yield the promised ROI. Execution oriented daily integrated forecasting, planning, scheduling, and inventory optimization tools are necessary to prevent the "bullwhip" effect from turning into the "mastodon whip" effect. No longer can planners and schedulers rely on custom spreadsheets and intuition to determine the most profitable deployment of inventory, production run sequences and lengths, and material requirements on a daily basis. The supply chain must respond to demand variability with near zero latency and synchronization.

Companies have to formalize plans to accommodate risk not only from natural causes; but, they also have to manage regulatory and security risk, recall risk, and, of course, environmental footprint risks. Supply chain managers must invest in simulation tools and auditability for their plans to manage their supply chain for risk, resiliency, and sustainability.

Rich Sherman, Gold & Domas Research

Supply Chain Risk management is clearly a competitive mandate. Companies have to formalize plans to accommodate risk not only from natural causes; but, they also have to manage regulatory and security risk, recall risk, and, of course, environmental footprint risks. Supply chain managers must invest in simulation tools and auditability for their plans to manage their supply chain for risk, resiliency, and sustainability.

Social networking and sustainability will place more emphasis on corporate social responsibility and reputation. Reduction in Green House Gases and carbon footprint will be critical components of a supply chain plan. Wal*Mart is already requiring carbon footprint documentation from its suppliers and many companies will not accept shipments from vehicles that are not SmartWay compliant

The New Supply Chain Normal: Supply Chain Gurus Weight in Part 2 (Con't)

and certified. Supply chain managers must model their operations for green as well as process improvements. The Supply Chain Council can help here as the latest release of the SCOR model includes green and risk management processes, best practices, and metrics.

Supply chain managers must clearly define their processes in detail and the associated performance metrics. While industry associations such as the Council of Supply Chain Management (CSCMP), the Supply Chain Council, and APICS may not be as integrated as we would like, they are providing integrated process models, metrics, and benchmarking services that make these initiatives affordable and available to companies of all sizes. This is critical as Business Process Outsourcing (BPO) evolves well beyond third party logistics (3PL) for warehousing and transportation.

Companies can model their networks and processes and simulate different risk scenarios that identify opportunities to outsource portions of processes, total processes, distribution and manufacturing facilities, transportation optimization, and the total supply network to achieve optimal flexibility and adaptability to changing business conditions, cost factors, and environmental impacts. 3PLs are already extending the breadth of services and operations they offer to companies. 3PLs and "4PLs" are also evolving asset based models to non-asset based management and "in-sourcing" personnel to mitigate risk based on variable market conditions.

Given the constraints on capital and cost, we will see more companies relying on the 3Pls and 4PLs to identify opportunities for business process outsourcing to achieve more agility and flexibility in their supply chains. The traditional warehousing and transportation model for 3PLs is changing rapidly as companies look to outsource and in-source more activities across their supply chains. 3PLs must begin offering more value added service, increase collaboration with other supply chain partners, and invest in more sophisticated technologies. And, they have to adopt more global business strategy and capability through partnering or acquisition. As a result, we will see increased consolidation in the industry as the big will get bigger, the mid-size will get smarter and more collaborative, and the small will get more specialized.

Consolidation in the software market will also continue and the traditional players are acquired due to lack of capitalization to sustain growth against the larger players. We will see this in traditional market "pies" or segments that are reaching saturation. On the other hand, we will also see a new wave of emerging segment players in "pies" that are just going into the oven. RFID may be over hyped; however, telematics, SaaS, nano technology, new APS/optimization and decision support tools, and networking applications are emerging to create and new "best of breed" market for the 21st century.

While the supply chain will never be "normal," operations management best practices and technology continue to provide the aggressive supply chain manager with the capabilities to lead the market in the face of change. After all, change is inevitable, growth is optional.