

## Megatrend: The Integrated Supply Chain Organization

*Overview: Long the vision, companies increasingly are integrating and often centralizing the supply chain organization under a **single executive** – the Chief Supply Chain Officer. The issue is complex, however, and companies should remember that organization should follow strategy.*

In a sense, the integrated supply chain has been the vision for many years – it's just taking a very long time to get there.

We have always understood the many functions involved in supply chain management (procurement, transportation, distribution, manufacturing, etc.) and that the essence of supply chain management is to look at those functions holistically, end-to-end. But getting to that reality in most companies is still an evolving process.

### *Where We Stand Today*

In 2008, Supply Chain Digest and our research arm Chief Supply Chain Officer Insights did an analysis based on publicly available and other information to assess which of (roughly) the Fortune 125 “product companies” (meaning banks, insurers, etc., were excluded) to understand what their supply chain structures looked like. As can be seen in the graphic nearby, we determined that 26% of those companies had a truly integrated, global supply chain organization.

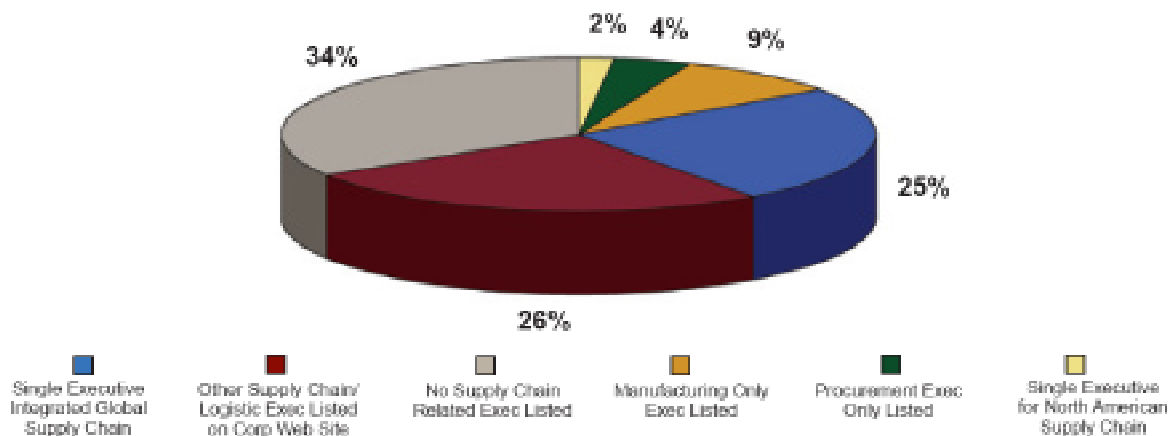
### Key Takeaways

- There is no question that an increasing number of companies continue to integrate their supply chain organizations under a single executive.
- There are many variables, however, including functions, business units, and geographies that have to be managed/considered. Companies need to fully assess at what level integration really makes sense.
- Generally, it takes a catalyst, such as operational challenges or a new CEO, to create the conditions for integration. However, in some cases a new executive being hired for a key supply chain role has paralyzed the initial discussions into a CSCO spot.
- The benefits to the company from integration can be huge. There are obvious savings from integrating transportation and procurement across the enterprise. Savings in other areas are just as real but harder to identify – and come largely as a result of better managing trade-offs across the full supply chain.
- At one level, full organizational integration may not be needed to get the process and benefits right, but the question is whether disparate functions can really collaborate well enough to achieve the goal.
- Technology, especially visibility systems and solutions that enable internal collaboration, makes integrated management possible.

*“The number of fully integrated supply chain organizations is still surprisingly low but increasing. If I were to guess, it is 25% of the time that we see true end-to-end supply chain requirements when companies are searching for a supply chain executive.”*

*Dave MacEachern, Spencer Stuart*

### Senior Supply Chain Executives Structure: Fortune 100+



The issue is more complicated than might be apparent at first. At what level does the supply chain function and organization need to be integrated? Companies must consider:

- What functions should be included (procurement, logistics, manufacturing, etc.) under a single org structure and executive?
- What business units should be included? For example, it would not seem likely that a complex company like GE would want a single SCM organization across diverse units like power systems and medical equipment.
- What geographies should be included? Many companies are organized by country / region. Can/should an integrated SCM organization cross those boundaries?

Most often, business organization drives supply chain organization. For example, Unilever North America previously had separate foods and health/ personal care product business units – each with

its own supply chain. When those businesses were combined, so were the supply chains under an integrated organization – but in North America only.

One key question of course: what opportunities might there have been to gain advantages from integrating supply chain processes even before the business units were formally combined?

Dell, long an icon in terms of its supply chain management, only first created an integrated supply chain organization in 2008.

Supply chain organization should of course follow business strategy. Another variable is culture – some companies are more hierarchical in nature, others more collaborative and/or aggressive.

One thing we are sure of, however: Ten years from now, there will be a lot more integrated supply chain organizations and Chief Supply Chain Officers than we have today.

## *Action Steps: What Leaders Are Doing*

- According to Dave MacEachern of recruiting firm Spencer Stuart, an increasing number of companies are looking for a single executive to manage an integrated supply chain organization. But it sometimes doesn't start out that way. The CEO/board may first look for a Vice President of Logistics, but along the way realize they need to take the organization to the next level.
- Certain industries seem to be moving in this direction more quickly, such as retail and – surprisingly – restaurant chains. However, that may be in part because these types of companies do not have manufacturing, which often is the function that is hardest to bring into an integrated organization.
- A few companies have gone in reverse, however. In the past few years, both The Gap Stores and HP unwound integrated supply chain organizations. HP took the unusual step of centralizing certain functions, such as procurement and logistics, within individual divisions for the whole company, however.
- IBM drives home the concept of “looking left and looking right” into their supply chain managers – but still fights the natural tendency for “local optimization.”
- Some companies are moving parts of an integrated SCM organization to where it can best meet needs, e.g., IBM's procurement function is now located in Hong Kong, and Dell's logistics organization in Singapore, even though both are part of an integrated total SCM function.

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