SupplyChainDigest™
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Question & Answer with Gene Tyndall, Supply Chain Executive Advisors

Dan Gilmore: Gene, what makes a supply chain great?

Gene Tyndall: It's good that that AMR has continued to improve the means by which we should judge, or view, the top supply chain companies. What began years ago as a benchmark of pure logistics measures is evolving closer toward the right benchmarks, which focus on the VALUE that the company's supply chains are providing to the overall business.

This should be the number ONE criterion: the degree to which the supply chain is aligned with, and enable, the overall business strategies. When, for example, the executive agenda includes Profitable Growth, or penetration into new markets, or launching new products, etc., … then, the question must be how well the supply chains are enabling the attainment of these goals. Stern Stewart's "Champions of Profitable Growth", for example, cites the top 20 companies per global Region in 2003. While many are in AMR's list, some are not and perhaps should be.

The number two category should be Financial contributions. AMR cites 3 good ones - EPS; ROA; and, Profit Margins. But, there are other important ones: Working Capital, for example, which is largely influenced by inventories (as well as accounts payable/receivable). The fact that the overall average is about 22% of Sales shows that much potential remains in reducing this measure. Dell is well-known for driving this to below zero (or negative working capital). Return on Invested Capital (ROIC) is another strong measure, which helps to reflect supply chain ROIs.

The number three category should be the normal "Cost, Time, and Quality" measures. AMR has evaluated perfect orders, and cash-to-cash quite well. But, again, there are others, such as On Time Deliveries, and key measures of cost, speed, velocity, and error rates - even Six Sigma.

Dan Gilmore: How does a company know how its supply chain is performing?

Gene Tyndall: Each company should design and monitor its own Performance Measurement Framework. For example, level 1 would reflect the goals/objectives metrics; level 2, the right metrics on different chains (whether measured by geography; product category; or by channel); and level 3, the right metrics on transactions at the lowest meaningful activity levels.

Second, you need systems (and people) to monitor these metrics and report on them, Regularly. Corrective action is taken to drive continuous improvement.

Third, these metrics should be compared with competitors, with industry leaders, and ***against what is possible.***

Of course, while the above measure supply chain performance via Processes, as AMR points out, there are other measures more intangible yet equally important, such as talent, innovation, and culture. Being "great" is more than metrics, it involves and translates into industry leadership, sometimes dominance, and above all, great places to work!