

# How do you design a supply chain organization to achieve maximum value?

Opinion by Cynthia Fusco



**Kevin O'Marah**  
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I think this is a timely and relevant question, because many businesses are just beginning to explore the concept of a supply chain organization—and are challenged with creating and managing one effectively.

While it may surprise those of us who read *Supply Chain Leader* regularly—and immerse ourselves daily in supply chain issues—a 2008 AMR Research study of nearly 200 companies found that only 76 percent had officially created a supply chain organization within their business. And, of those companies that did have a formal supply chain organization, 57 percent reported that it was less than five years old.

Whether your supply chain organization is well-established or in its infancy, it's worth taking a close look at this critical business component and asking: "Is our supply chain organization truly acting as a value chain? If not, what can we do to improve its contributions?"

Based on my own experience—and the results of a number of studies undertaken by AMR Research—a key determinant of success lies in the definition of "supply chain organization," which varies greatly across businesses. Is the supply chain organization limited to such logistical activities as planning, sourcing and delivering? Or does its span of control extend to higher-value activities such as launching new products and managing customer relationships?

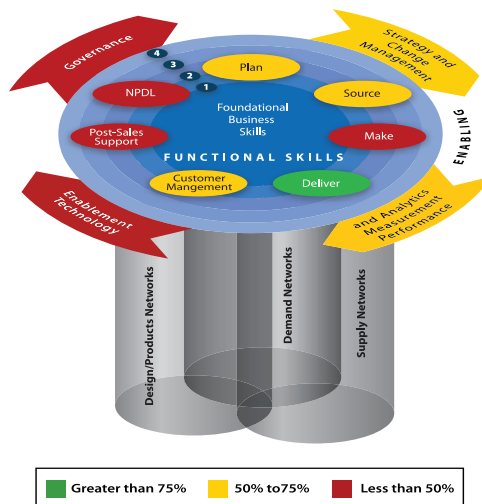
The aforementioned 2008 AMR Research study confirmed what most of us probably know instinctively: The highest-value supply chain organizations reach the farthest, extending into "value chain" areas that are significant contributors to revenue generation, profitability and customer satisfaction.

While most of the companies we surveyed included delivery (78 percent), planning (68 percent) and sourcing (63 percent) in their supply chain organizations, the functions that most of us consider higher-value activities had much lower representation.

Only 52 percent of participating businesses included any customer management capability within the supply chain organization, while new product design and launch (31 percent) and post-sales support (25 percent) were viewed as even less of a supply chain responsibility.

## Value Chain Spans of Control Vary Widely

Supply chain talent attributes – predominant span of control



Source: AMR Research, 2008

## High value = high performance

While it may seem intuitive that these functions should fall under the broad umbrella of the supply chain organization, will the overall business perform better if higher-value activities are managed by the same organization that plans, sources and delivers?

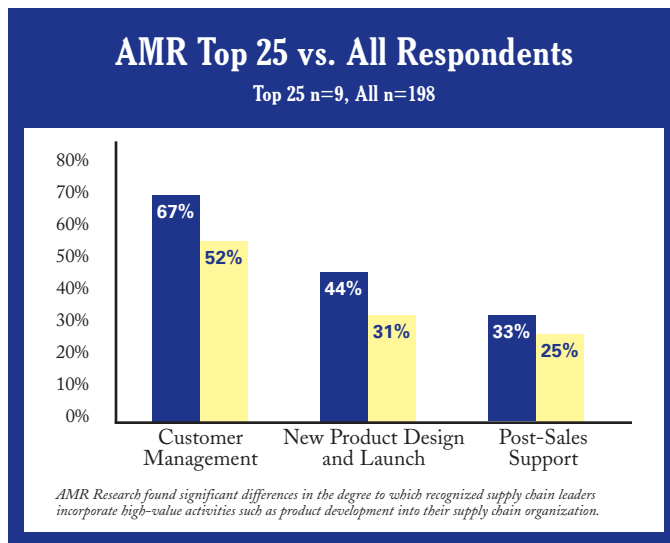
The answer seems to be a resounding "yes," if we compare the supply chain organizations of the typical respondent in the AMR Research study with those of some elite respondents who are members of the AMR Research Supply Chain Top 25.

These businesses were determined to be among the best in AMR Research's 2008 ranking of companies that display superior supply chain performance, capabilities and leadership. AMR Research's annual analysis begins with basic public data—return on assets, inventory turns and growth—and also incorporates expert and peer assessments of each company. The rankings also have hard data to back up their validity; in 2007 the AMR Research Top 25 delivered an average total return of 17.89 percent,



compared with returns of 6.43 percent for the Dow Jones Industrial Average and 3.53 percent for the Standard & Poor's 500. The AMR Research Top 25 list for 2008 includes such prestigious companies as Nokia, Dell, IBM, Samsung, PepsiCo and Coca-Cola.

When the demonstrated leaders in our study were compared with other respondents, they placed high-value activities within their supply chain organization at a consistently higher rate. A full 67 percent of the acknowledged leaders included customer management in their supply chain organizations, compared with only 52 percent of the total universe. The same was true for new product design and launch (44 percent, compared with 31 percent) and post-sales support (33 percent and 25 percent, respectively).



The AMR Research study also found significant differences in four key “enabling” functions that support supply chain performance: strategy and change management, performance measurement and analytics, technology enablement, and governance.

In comparing the leaders with other respondents, the most striking disparity was in the area of strategy and change management. A full 100 percent of the leaders included this capability in their supply chain organization, while this was true for only 64 percent of the overall respondents.

Another finding might be especially telling for the readership of *Supply Chain Leader*: While only 41 percent of overall participants saw technology enablement as a responsibility of the supply chain organization, this number was much higher—56 percent—for those among the AMR Research Top 25. This proves what most of us already know: Ownership of technology solutions really does empower the entire supply chain organization, taking it to the next level of performance.

## A failure of imagination

I began by noting that the concept of “supply chain organization” is fairly new for the typical business. What’s even more surprising is that so many businesses that have acknowledged this concept are still viewing the supply chain organization as a mere cost center—responsible for sourcing, manufacturing and delivering products—that is separate from the higher-value activities associated with delighting customers and driving sales.

Properly defined and truly empowered, the supply chain organization can perform all of these functions, becoming a generator of satisfied customers, greater revenues and higher profits. By limiting the scope of their supply chain organization and defining it too narrowly, many companies are shortchanging their overall performance.

If this critical component of the business is only viewed as a cost center—responsible for lower-value activities and not high-level results—how can any supply chain organization achieve its full potential?



**Mike Gray**

Supply Chain Evangelist,  
CPM, CIRM

One element of supply chain success that is often overlooked is the human element.

In my opinion, many supply chain organizations need to spend more time identifying the specific roles needed to fulfill their mission—and then matching these roles with the right people. The most effective supply chain organizations are built by taking periodic actions to match roles with skills, fill talent gaps and cull out unneeded or redundant skills. While most of us focus a lot of attention on inventory management, we pay less attention to an equally critical concept: the management of our human inventory.

## Humans in the supply chain: Organizing for success

Organizing a group of humans to create, manage and continuously improve complex global supply chains is a daunting task.

But just imagine for a moment that you could start with a “clean slate,” building a supply chain organization from the ground up. What kind of people would you look for? Consider these questions:

- How important is it that employees have supply chain experience?
- Can you simply hire what you need from the long list of universities that are cranking out undergrad, graduate and doctoral supply chain majors?
- Do professional certifications matter?

- What common traits do outstanding supply chain employees share?

I think the first question is easily answered: of course experience makes a difference! As humans, we know a heartbeat is a pretty important indicator of survival. Seasoned supply chain practitioners have a deep, almost visceral understanding of the sales and operations planning (S&OP) process—and know that it's the heart of an effective supply chain. They will spend little executive time arguing about forecast accuracy and will get straight to the “heart” of the matter: establishing a regular heartbeat by designing and implementing a robust S&OP process as a first step toward a world-class supply chain.

While it's tempting to recruit from the increasing number of graduates of supply chain programs, there is no substitute for experience.

Now, that's not to say academically qualified humans have no place in a world-class supply chain. On the contrary, without fresh ideas and an intellectual understanding of the latest supply chain tools and techniques, any organization will stagnate.

But it's critical to blend this “new blood” with experienced members of your staff—not to show the new teammates how it's always been done, but to establish less experienced employees in the fundamentals of their particular function within the supply chain.

In addition to encouraging individual mentoring from seasoned employees, your organization should create a well-designed rotational program that will help assimilate new teammates to the way you practice supply chain management. Don't be tempted to move new recruits too quickly into management; the cross-functional nature of supply chains dictates the need for them to become established in several functional aspects of your supply chain before they can effectively lead.

### Are your employees certifiable?

In addition to having hands-on experience, I believe that holding professional certifications is critical to the effectiveness of supply chain employees. Why? At the very least, because it is worth learning the unique vocabulary and a huge number of acronyms that describe what we do.

For the sake of organizational learning and cohesiveness, it is imperative that our employees have a shared understanding of the basic terms of our profession—and certification helps to provide a common framework. Just think about the alphabet soup we deal with: S&OP, E&O or O&E, INCOTERMS, FOB, EOAP50...the list is endless!

There are several established professional organizations that confer certifications to practitioners who have demonstrated competence in particular supply chain disciplines. In my opinion, the top two are:

- ISM: To build on its Certified Purchasing Manager (CPM) program, the Institute for Supply Management ([www.ism.ws](http://www.ism.ws)) introduced a new Certified Professional in Supply Management (CPSM) designation in May 2008. This certification reflects multi-faceted skills in areas such as supplier relationship management, commodity management, risk and compliance issues, and social responsibility.

- APICS: The Association for Operations Management ([www.apics.org](http://www.apics.org)) offers a number of supply chain credentials, including Certified Supply Chain Professional (CSCP), Certified in Production and Inventory Management (CIPM), and Certified Fellow in Production and Inventory Management (CFIPM).

Another great resource is CSCMP, the Council of Supply Chain Management Professionals ([www.cscmp.org](http://www.cscmp.org)). This professional association offers many educational opportunities, including online courses available through its CSCMP University program.

You wouldn't want an unlicensed doctor performing heart surgery, would you? Why should it be any different for your supply chain organization? Seek out certified supply chain practitioners—you'll be glad you did!

### Effectively managing your human inventory

Supply chain organizations vary as much as the people who manage them—and every business will have its own set of human characteristics that define success. In my experience, successful humans in the supply chain organization share some common traits:

- Process orientation
- Pragmatism
- Global perspective
- Relationship focus
- Dogged determination
- Superb communication skills
- Tendency toward action

For those we ask to lead our supply chains, all of these qualities are essential—but effective leaders also require broad functional experience. They should have expertise in planning and inventory control, procurement (contacting and supplier management), logistics (forward and reverse, along with network design), as well as IT enablement (ERP, MRP, CRM or PLM—pick your flavor!)

While we may never be able to “clean slate” our supply chain organizations, one important step we can take is classifying the range of human talent we possess. Creating a matrix that captures our employees' unique skills, traits, education, experience and professional certifications can help us to leverage and optimize our human inventory.

When organizing a supply chain for success, I'd suggest you spend a great deal of time defining the roles you require and then matching your human inventory to those roles. By conducting this ongoing exercise, you will be able to



design your organization for success—and effectively deploy your most important assets as you continue your journey toward building a world-class supply chain.



**Ricardo Monsalve**

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In my opinion, the most important consideration in designing a supply chain organization is that it supports the top-level strategy of the business—and that it enables the business to deliver on its key customer promises.

For example, if you have based your strategy on having the industry's shortest lead times, then the entire supply chain must be built around speed, and on finding the most cost-effective way to accelerate delivery. If you have promised to offer the world's most innovative products, then you should focus on research and development and other product development activities, as well as rapid market launches. If your competitive advantage lies in minimizing customer inventories, then you will have an entirely different set of organizational priorities that focus on flexible delivery.

To maximize strategic and financial results, every part of the supply chain must be aligned closely with the unique value proposition that an organization is offering to its customers. While this might seem like an obvious notion, I believe many businesses have supply chain organizations that—to some extent—work against the highest-level goals of their businesses. This is due, in part, to the complex nature of supply chains today, and the challenges involved in managing that complexity.

**A diverse network—with a single vision**

While supply chains used to be conceived as a straight line between supplier and consumer, today the typical supply chain is a complex network comprised of multiple suppliers, distributors and other partners who work together to deliver products to the end consumer. This network often spans many countries, each of which has its own unique currency, trade regulations, duties and customs procedures.

Given the complexity of today's supply networks, it's not really surprising to think that the supply chain organization could be working against the company's overall business strategy. Supply chain executives must constantly assess how closely all the parts of the supply network are aligned with the highest-level goals of the business and tighten that alignment when needed, so that they are truly operating with a single vision.

If we have designed our supply chain organizations to support a shared strategy, how can misalignment occur? As we all know, operating a supply chain means that we make constant trade-offs as conditions change. Sometimes the trade-off that makes the most sense for one part of the supply network is not a choice that supports the strategic long-term success of the business as a whole.

For example, when sourcing managers are comparing a new group of suppliers, cost is traditionally the primary consideration. But, if the top-level strategy focuses on short lead times, new suppliers must be judged not only on their total-landed cost, but also on less tangible factors such as their flexibility, responsiveness and physical distance from the consumer. And, because potential suppliers may be scattered around the globe, there are many hidden complexities—such as the amount of time and paperwork required by local customs regulations—that make this decision-making process even more complicated.

**New tools for managing complexity**

Given the diversity and geographic reach of business today, how is it possible to manage every facet of a supply chain and make sure that appropriate decisions are being made every day, at every level? New technology tools are helping to bring the supply chain organization together under a single set of objectives—and ensure that ongoing trade-offs lead to the best possible strategic outcome for the entire business.

At Corona, we are using a range of technology tools to align our global supply network with our top-level strategy and to ensure that we are fulfilling our promises to the marketplace. By focusing our entire supply chain organization on delivering our unique value proposition, we can say with confidence that we are working with a shared vision.

While there will always be unexpected events and new developments that affect our supply chain plans, supply chain technology tools help us to overcome these short-term challenges and bring us back on track. This technology supports the decision-making that brings Corona closer to our strategic goals.

Because every business has a unique value proposition and long-term strategy, every supply chain organization will also be unique. Each supply network serves its own markets, sources from its own supplier group and works to fulfill its own set of customer promises. The only thing supply chains seem to have in common today is a high degree of complexity.

Fortunately, today supply chain executives can use a new set of tools and decision-making processes to manage that complexity and ensure they are making smart, strategic decisions at every level of business. No matter what type of value companies bring to the marketplace, they can



now maximize that value by aligning their worldwide supply networks more tightly than ever.

## The Last Word



### Kelly Thomas

Senior Vice President,  
Product Strategy and Planning,  
i2

Achieving maximum value from the supply chain organization begins with placing a high level of importance on the concept of supply chain management.

Some companies value their supply chain capabilities and view them as a competitive advantage, while others consider the supply chain organization to be a back-office operation. The world's leading businesses have elevated the discipline of supply chain management to an executive level—and view it as both core and strategic. In these kinds of forward-thinking companies, a position as a supply chain executive has become a stepping stone to the CEO's office.

Companies at lower levels of maturity view the supply chain as a logistics problem, or a procurement problem, or a materials problem, or a manufacturing problem, or a planning problem. Enlightened companies view the supply chain as an integration of all of these areas. They design their supply chain organizations accordingly, with a broad reach and a high level of visibility throughout the business.

The general characteristics that describe a company's supply chain also have an impact on the supply chain organization's design. Some companies offer a set of fairly similar products, which are made in factories around the world. Other companies are multi-divisional, with a diverse set of products serving different industries and market segments. Companies also vary widely in the extent to which they control their supply chain assets. Some own a high percentage of these assets, while others have outsourced most of these assets and must manage them virtually.

As the other authors here have noted, there are many other important considerations—including the specific functions that fall under the supply chain umbrella, the kinds of people who manage its daily operations and the degree to which it reflects the top-level strategy. But I believe that a successful supply chain design must also

begin by answering three critical questions. Companies must ask if their supply chain organizations should be:

- Integrated versus functional?
- Centralized versus decentralized?
- Global versus regional?

### Integrated versus functional organization

Supply chain management incorporates a diverse set of functions, spanning multiple domains including demand, supply, manufacturing, materials, inventory and logistics. Traditionally, these functions were viewed as operational and assigned to certain functional silos, including manufacturing, procurement, supply and logistics.

Today, leading companies create supply chain organizations that integrate these traditional functional silos and transform them into a seamless whole—from order management through procurement and material delivery. Instead of focusing on functional strategies and targets, they look at the supply chain organization as a single entity, with shared priorities and objectives—and capable of achieving extraordinary strategic results. One supply chain executive I know describes his job as “managing between the goal posts.”

Companies who take this integrated approach tend to have a single executive responsible for global supply chain and procurement, typically reporting to the CEO.

### Centralized versus decentralized organization

Deciding which functions to manage at a corporate level versus a division level—or, in some companies, at a plant level—represents another critical element of supply chain organizational design.

Many companies operate a series of decentralized divisional structures, each with its own unique supply chain. These divisions may make unique products and, in some cases, may even compete in different industries with different customers and different suppliers. They may have their own design, manufacturing and materials teams, as well as other separate functions.

In such businesses, it may be difficult to create a single executive-level supply chain organization that spans all the divisions. However, there are great synergies to be gained from having a central view of all the supply chains in the company.

For instance, one company that managed its materials at a plant level discovered that one plant was writing off obsolete inventory, while another plant was ordering those same parts from the same supplier. These types of inefficiencies can only be seen by taking a higher-level view of the entire supply chain organization.

Some companies have created “shared services” supply chain organizations to coordinate across multiple divisions. While these organizations can serve as stewards of common best practices, they usually have no authority—and typically do not achieve their stated goals. A better strategy is to appoint a central supply chain executive who can view the disparate supply chains holistically and drive common processes, particularly in such functional areas as demand management, logistics, procurement, master planning and supplier integration.

### Global versus regional organization

Most large companies are global, but very few of them have global supply chain processes and associated global organizations. With sources of demand and supply around the world, companies today must decide how and where to manage demand, supply and all points in between. Manufacturing plants and sources of demand may be owned by regional organizations, but consolidated demand management, supply management and procurement must be centralized to achieve optimal financial results for the company. Both internal and supplier capacities must be managed globally to ensure that constrained supplies are diverted to higher-growth or higher-margin sources of demand across worldwide markets.

To do this, companies need both global processes and global supply chain organizations. That does not mean that everything is managed by a large group of supply chain professionals sitting at corporate headquarters. On the contrary, while the headquarters organization may be centralized and global, a company’s team of supply chain professionals may be located regionally around the world. Each region of the world may also be assigned global responsibility for a specific set of supply chain functions, all managed within a centrally driven supply chain organization.

One company calls this approach “centralized decentralization,” whereby different organizations and regions are given different global supply chain or procurement responsibilities—with cross-functional coordination and management carried out by a central headquarters organization.

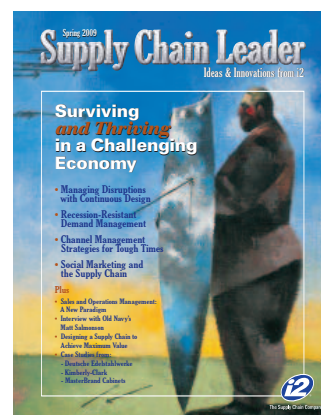
### Determining your own answer

The truth is, in today’s business world, leading companies have created supply chain organizations that are integrated, centralized and global in nature. These organizations are typically managed by a C-level executive who is responsible for global demand, manufacturing, supply, logistics and procurement.

This does not mean that a single organization structure makes sense for every company, however. Some businesses separate manufacturing from this mix and treat it as an execution function that is driven by the supply chain functions. Other companies choose to manage many functions in a decentralized fashion, but also provide a central coordination or visibility function to root out inefficiencies.

Which organization design is best for your company? Answering this question depends on the level of commitment to supply chain capabilities within the business, as well as the maturity of supply chain processes, people and systems. The answer will be slightly different for every business, but I believe that asking—and responding to—this question is the first step in increasing the overall contributions of your own supply chain.

Opinion interviews were conducted by freelance writer  
**Cynthia Fusco.**



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