

scprime®

Global supply chain trends

2015

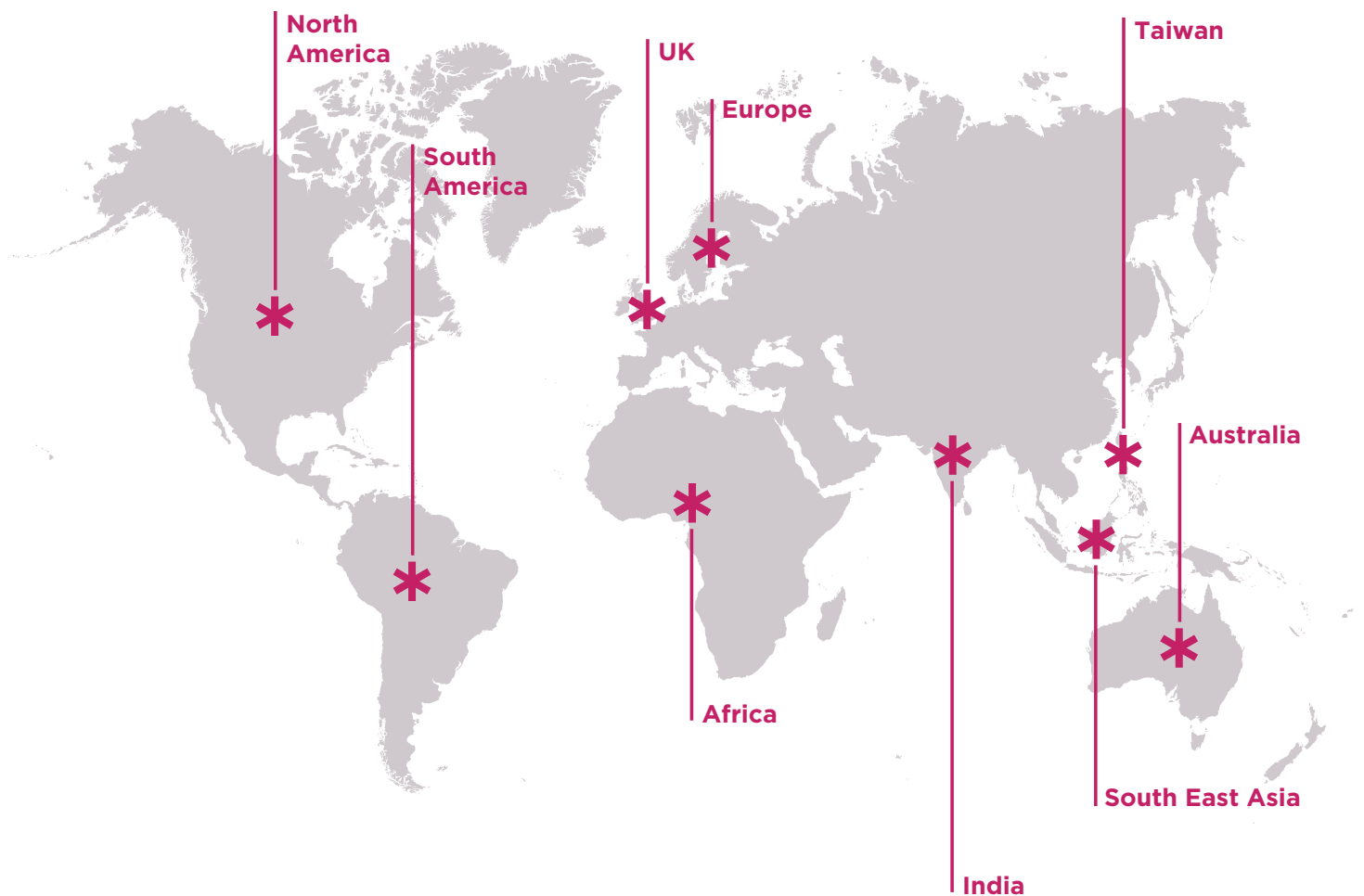


Introduction

Our latest research indicates that almost half of cross-functional processes are run badly, that European and American firms have worse business processes than their competitors in Asia Pacific, and that the life science sector is more advanced than you might expect. However, the most striking finding is that nearly a third of all supply chain processes are inadequate.

Since its introduction in 2010, over 1,000 **scprime**[®] process assessments have been completed in over 20 countries across five continents. With a wide range of sectors assessed from chemicals, energy and manufacturing to FMCG, retail, technology and life sciences, this is one of the biggest and most comprehensive independent studies in supply chain. Here we publish the results and insights.

Assessment locations



The scprime® method

scprime® is an improvement approach covering process and people capabilities. Processes, which are the focus of this report, are benchmarked right across the supply chain, helping businesses to identify where they need to improve and how to do it. In each supply chain area there are detailed and fact-based descriptions of how tasks should be performed for each process, allowing a thorough and objective assessment of performance. The breadth and depth of the covered processes gives extensive insight into supply chain operations.

 Buy	 Make	 Plan	 Deliver	 Demand	 Foundation
Procurement direction & policy	Production strategy	S&OP	Network design & management	Demand forecasting	Integrated working
Procurement business management	Detailed scheduling	Run strategy design	Warehouse planning	Demand management	Education and training
Category management	Asset maintenance	Finished goods inventory management	Warehouse operations	Customer relationship management	Data management and integrity
Strategic sourcing	Production systems	Finished goods replenishment planning	Warehouse performance management	Sales order processing	KPI reporting
Supplier performance management	High performing teams	Strategic supply planning	Transport operations	Customer & channel segmentation	Continual improvement
Supply development	Sustainability in manufacturing	Tactical supply planning	Transport performance management	New product development	Quality assurance
Operational purchasing		Materials inventory management	Contractor management	Promotion planning	Contingency management
Indirect procurement		Materials replenishment management	Sustainability in delivery	Sustainability in demand	Sustainability strategy
Capital procurement		New product introduction			
Sustainability in sourcing		Sustainability in planning			

There are three levels of assessment – Competency, Proficiency and Mastery:

- **Competency** covers the basic tasks to carry out the process
- **Proficiency** covers comprehensive procedures
- **Mastery** covers advanced techniques where businesses are using the process to substantially advance their competitive strength

Where processes do not fully meet the competency level they are described as ‘competency not reached’. In this case, the process is operating below a level of basic reliability and presents a potential risk to business operations.

Summary of research results

Our analysis identified four features.

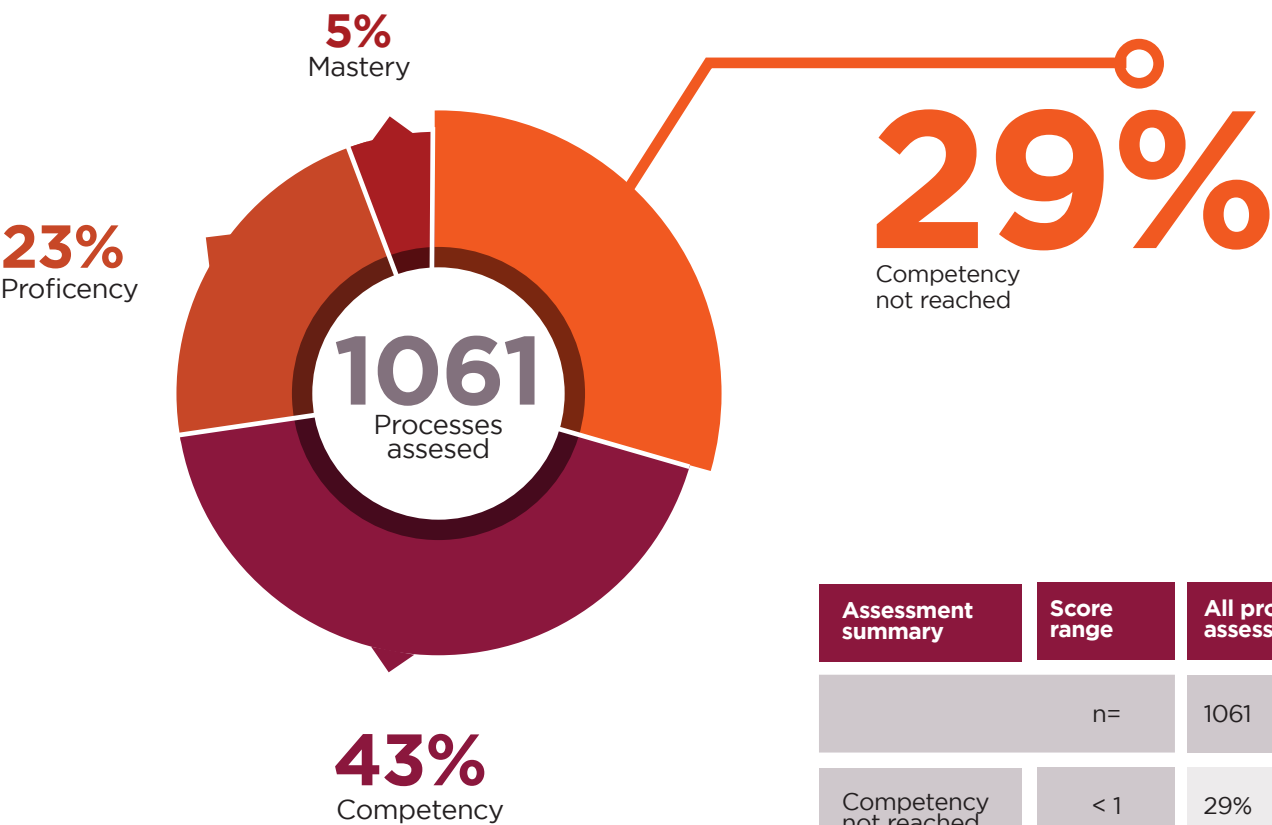
1. Overall: almost a third of processes are inadequate

The research shows that 71% of supply chain processes in most companies are ‘competent’ or better. However, the corollary is that 29% of all processes are inadequate and may represent a risk to the reliable operation of the company.

Only 5% of processes achieve ‘mastery’ i.e. proven best practice performance. Perhaps this level that should be expected; being the best puts a company in an exclusive group.

On average assessments score 1.4, about half way between ‘competency not reached’ and ‘proficiency’: strong evidence that the application of a transparent and open assessment process does not lead to sugaring of the pill.

The overall pattern of around a third of processes being ineffective, with the highest proportion being no more than competent and only a handful likely to be significantly contributing distinct competitive advantage, is persistent in our assessments. It shows the validity of the assessment process and provides a challenge to any business that thinks it has exhausted the improvement possibilities.

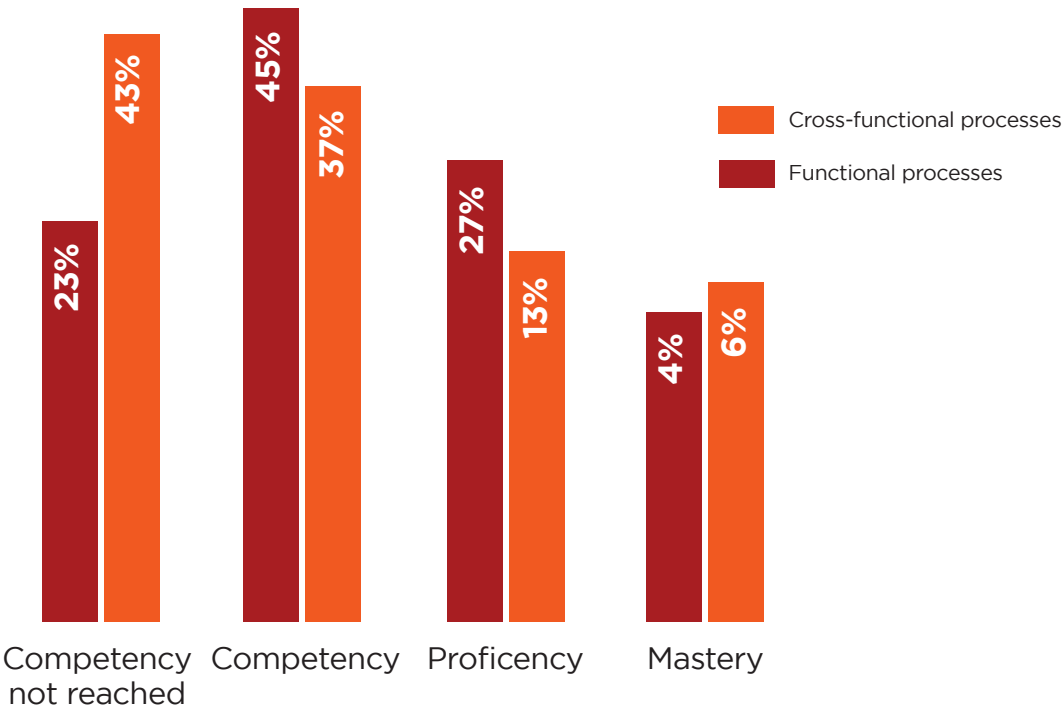


Assessment summary	Score range	All processes assessed
n=		1061
Competency not reached	< 1	29%
Competency	1 - 2	43%
Proficiency	2 - 3	23%
Mastery	> 3	5%
Average score		1.4

2. Functional vs cross-functional: a marked imbalance

A striking aspect that the research demonstrates is the consistent tendency for functional processes to score better than cross-functional ones. On average functional processes score 33% better than cross-functional processes (average score of 1.5 for functional processes vs. 1.1 for cross-functional ones).

Some part of this is neither surprising nor particularly concerning – functional processes are easier to make good. But the very high level of incompetency in cross-functional processes (almost half) is consistent and persistent; this is discussed further in the following section.

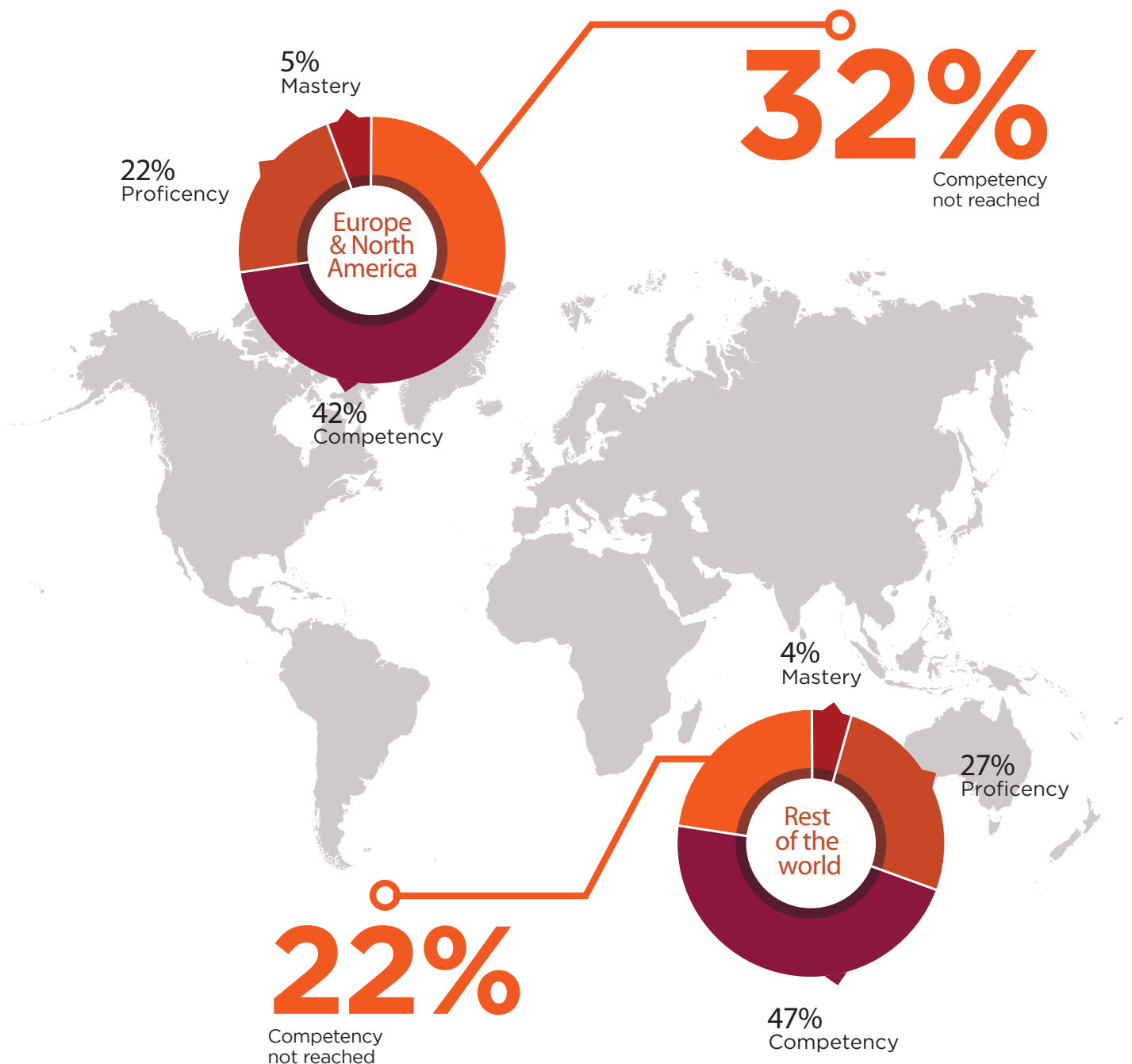


Assessment summary	Score range	All processes assessed	Cross-functional processes
n=		722	339
Competency not reached	< 1	23%	43%
Competency	1 - 2	45%	38%
Proficiency	2 - 3	28%	13%
Mastery	> 3	4%	6%
Average score		1.5	1.1

3. Regional differences: the old are incapable

The research also indicates that Europe and North America lag behind the rest of the world in terms of process maturity, with fewer companies reaching the basic competency level. 32% of companies' processes in Europe and North America were less than competent versus only 22% overall.

This is a surprising result – enough to trigger a ‘tear down’ of the numbers to check their validity! However, the result is true. Why? This may reflect the tendency of processes to get worse; too many companies build solid processes and assume bureaucratic momentum will keep them going. Bureaucratic momentum just produces bureaucracy, with roles being multiplied unchecked until only a small cadre have any idea how to negotiate a process. Europe and North America have been doing this longer and have more bureaucratic entanglement in their processes. This may also be a function of the move of manufacturing out of the old markets, removing some of the good process disciplines that manufacturing usually breeds. In contrast, new companies doing new things have been able to do them better.

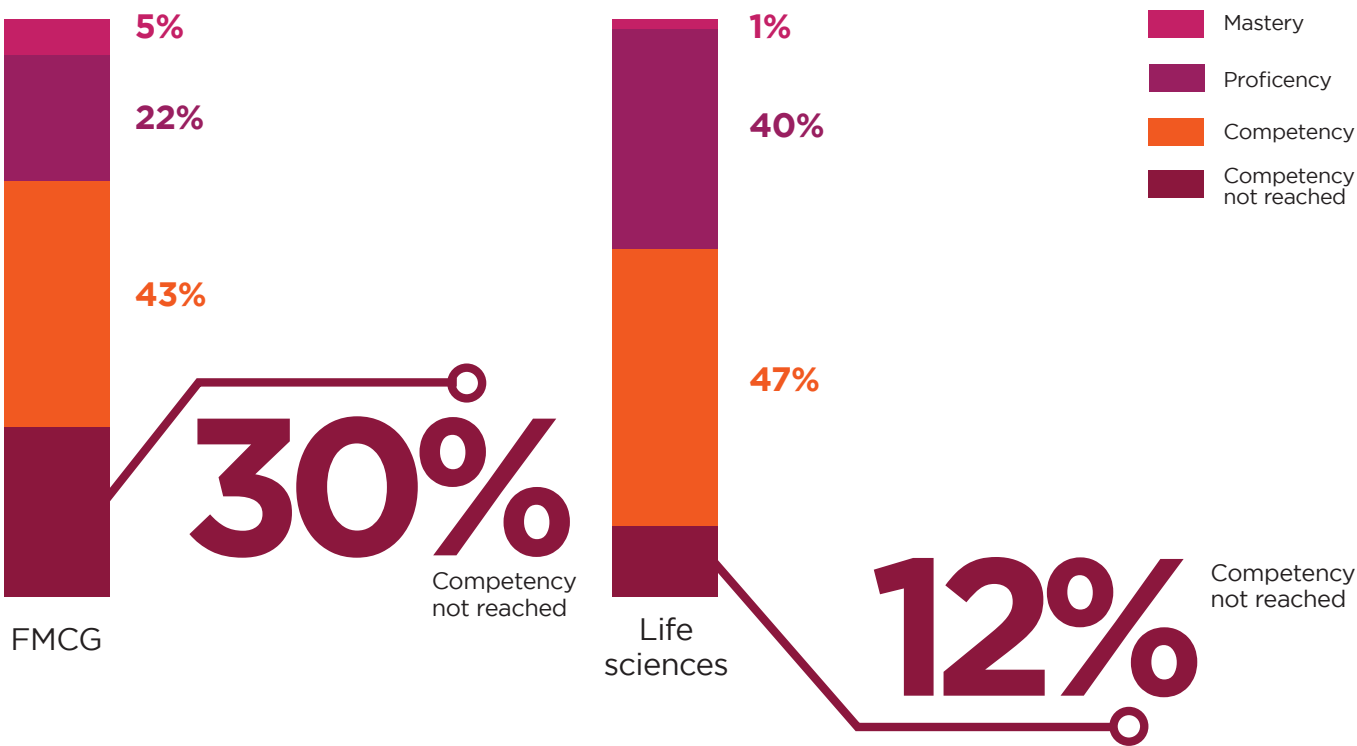


4. Sector gap: life sciences - less weak but less excellent

There is a distinct gap between fast moving consumer goods (FMCG) and life sciences sectors. Life sciences have half as many inadequate processes as FMCG. Life sciences also have 87% of processes scoring ‘competency’ or ‘proficiency’ vs 65% of FMCG companies. But FMCG have five times as many processes in the ‘mastery’ category.

This is another surprising result; there are many life science companies aspiring to be more like FMCG companies but there are vanishingly few companies wanting to copy the life science sector.

We think there are two possible explanations. Firstly, life science businesses tend to be large and global with long lead times and an absolute requirement for reliability and consistency, making standardisation around good solid processes essential. Secondly, the level of change in life sciences businesses in the last 5-10 years has not been recognised in the wider world. They are becoming much more diverse, flexible and capable and this is reflected in their relative scoring versus FMCG, which is often seen as a best-in-class sector.



Assessment summary	Score range	FMCG	Life sciences
Competency not reached	< 1	30%	12%
Competency	1 - 2	43%	47%
Proficiency	2 - 3	22%	40%
Mastery	> 3	5%	1%
Average Score		1.5	1.1

Analysis

The research results show worrying signs of complacency for some and opportunities for competitive advantage for others. It is particularly notable that:

- ▶ Almost a third of business processes are not being carried out competently
- ▶ North American and European businesses tend to have less capable processes than businesses in the rest of the world. This should be a wake-up call when one considers the vast IT investment made in these regions in the last twenty years
- ▶ Life sciences companies' progress in business transformation has been under-estimated, particularly when compared with a FMCG sector that frequently seems locked in a sterile impasse with its retail customers

What does this mean in reality? We are not suggesting that great processes are the only element in business success any more than the most effectively coordinated army always wins battles. But 95% of the time they do.

The best business processes reduce operating costs by 15%-20% and working capital by 10%-15%. They also enable greater responsiveness, more reliable service levels, and greater innovation, and they can drive increased sales.

A consistent problem for most companies is the lag in cross-functional process performance. Functionally-specific processes, such as manufacturing performance improvement, distribution conformance and strategic procurement, are typically strong in most of the reviewed companies. However, there is a specific, wide-ranging and systematic weakness in making end-to-end decisions that have an impact along the whole supply chain; end-to-end supply chain skills are not clearly understood, techniques applied are poorly thought through, and decisions are frequently plain wrong.

On one level, this is not very surprising: of course it is easier to improve local operations than to implement changes to supply chain-wide processes covering multiple functions, teams and locations. So what? The research

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indicates something that we think is becoming increasingly evident in many businesses. Supply chain management has become a cliché; it is simply all the 'stuff' that happens in operations. This is not what supply chain management originally meant or should mean. Supply chain decision-making is not just the aggregation of managing all the functions that compose the supply chain (sourcing, manufacturing, distribution and sales). It is the trading-off of choices between these functions.

In most businesses end-to-end supply chain skills are relatively weak, while functional skills are high, often incredibly so. Supply chain decisions are tough, complex and dynamic and the skills to make them well do not spontaneously develop out of experience or a history of systems implementations. Supply chain decision skills need to be learnt, applied and developed.

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Seven areas for improvement

Whilst there are numerous opportunities to decrease costs and increase supply chain efficiency and flexibility through an end-to-end approach, there are seven areas that are consistently highlighted.

- 1. Forecasting, including event management and demand sensing.** Few companies know what value is added by their forecasting process; know what the unreducible error of their forecasts is or should be; have processes to eliminate bias in their forecast; know the best balance of statistical and expert content in their forecast process. Yet each of these challenges has proven answers and key get-rights.
- 2. Inventory optimisation** (both at single and at multi-echelon levels). RG Brown wrote the seminal works on how this can be done 50 years ago. Yet we continue to find it very rare for inventory targets to be set both appropriately (in line with business relevant measures) and accurately (with full recognition of the causes of variation and error in supply and demand).
- 3. Strategic network configuration.** Moving away from a simple focus on reducing the “number of dots on the map” towards a clearer understanding of roles, relative advantage and market requirements.
- 4. Activity management of outsourced activities.** Knowing what activities should cost, do cost and can cost, and making informed decisions about what is actually needed.
- 5. Accurate customer service measurement.** Moving beyond crude “this must be simple” to recognising all the dimensions the customer is measuring and making sure they can be tracked and ranked appropriately.
- 6. Sales and operations management.** That is, cross-functional end-to-end medium term planning of the supply chain.
- 7. Transparently describing key business processes.** Allowing operating teams to easily understand and be able to score their current performance. This enables them to map and choose how to improve when required. There is a need to specifically avoid the problem of “there is only one correct way to do this and it is the over-engineered gold standard process designed for our most complex markets”.

Conclusion

There is no single definition of supply chain excellence. Every company needs to configure its processes to support their priorities. **scprime**® provides a framework for understanding how well the processes are supporting those needs.

However, this research illustrates the long distance still to go for most businesses in building truly effective processes. Systems investment is important on this journey but challenge, leadership, clarity and ambition are the critical elements. The biggest challenge is getting a business to work well cross-functionally. A key stage in this is recognising the supply chain as a whole rather than simply a collection of elements.

Testimonials

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The principles behind scprime® are simple – getting step-change improvement in your supply chain to support your business strategy.

Professor Jan Godsell, Operations and Supply Chain Strategy
UNIVERSITY OF WARWICK

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“

Crimson & Co’s framework was invaluable in helping to identify the strengths and weaknesses of supply chain processes across the group for our global and regional brands. scprime® enabled a rapid assessment of process maturity, action planning prioritisation and redefinition of the commercial and supply functions around our new business operating model.

John Burdett, VP Global Operations Planning
TATA GLOBAL BEVERAGES

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“

The scprime® outputs were fantastic, with clear, visual, easy to read reports highlighting the opportunities.

Executive Director, Logistics
MERCK

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About scprime®

scprime® is Crimson & Co's powerful improvement approach, combining process and people capabilities to ensure that the right people are in the right jobs, consistently doing the right things.

Based on benchmarking, an objective assessment of capability and a toolkit of implementation techniques, it defines supply chain excellence in terms that are meaningful to each specific organisation and ensures that improvements are sustainable. The content is comprehensive and up to date, but it is how it is applied that really sets scprime® apart.



About Crimson & Co

Crimson & Co is a global supply chain consultancy that thinks differently. We stand shoulder to shoulder with clients as we develop outstanding supply chains, using deep operational experience and broad-based business skills to challenge, guide and implement.

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