

A large iceberg floats in the ocean. The visible tip is small and jagged, while the submerged part is much larger and more complex. The entire image is overlaid with a semi-transparent red filter. The word "WHITEPAPER" is centered above the visible tip of the iceberg.

WHITEPAPER

What does it take to be a data driven leader in the supply chain?

What you don't know about your supply chain

Argon&Co*

What does it take to be a data driven leader in the supply chain?

Are you the weakest link in your supply chain? As a senior leader with supply chain responsibilities, you want to recognise, analyse and respond to relevant trends, business needs and operational challenges. You also feel the on-going internal need to improve the overall supply chain performance in terms of service levels, costs and working capital. Increasingly, your supply chain is seen as a value-creating process that differentiates your company from the competition. That is undoubtedly a positive development. However, it does not change the call for efficiency and productivity. And now, the pressure is on you to deliver.

At Argon & Co, we know from experience that the complexity of your leadership role within your company's supply chain is heavily influenced by the following market trends and business needs:

- shorter product lifecycles;
- increased levels of responsiveness;
- smaller order quantities;
- different inventory models;
- proactive supply risk mitigation;
- the use of big data to enhance transparency;
- investments in innovative supply chain technologies;
- collaboration across supply chains with suppliers and partners;
- supply chain network optimisation.

Whatever your priorities are, they have to be integrated in your supply chain strategy. However, are they truly integrated or do you simply assume that they are? What evidence do you have? And is this evidence fact-based? Of equal importance, have you cross-functionally aligned your strategic plan? And are the required resources and CAPEX available and in place?

No matter how tedious it may sound, there is a realistic possibility that the weakest link in your supply chain is in fact you. There is a great deal of research data available that supports this confronting claim.

- A carefully conceived and documented supply chain strategy is only available in 18% of cases¹.
- Approximately 70% of large organisations have difficulty implementing their strategies².
- In only 24% of cases does the supply chain strategy have a good to excellent cross-functional buy-in.
- In the remaining 76% of cases, the buy-in is average to poor, suggesting that cross-

functional acceptance of supply chain strategies remains a huge challenge, that requires a major change management effort.

In this white paper, we will review a series of common supply chain myths. This will help guide you in analysing your role in the performance of your own supply chain. As Jack Welch, former CEO at GE once said: "Be honest and face the brutal facts."



Five supply chain myths

In our work for manufacturing companies across the world, we have noticed that supply chain performance gaps are not so much driven by supply chain execution itself, but by leadership thinking about process performance. If you recognise this to be true, you are ready to challenge yourself and break through the barriers of your own reasoning.

What then are the most important myths that prevent you from moving forward with a better supply chain strategy and more effective execution? Judge for yourself to what extent the following paradigms apply to your company and your leadership.

1) Research Global Supply Chain Institute University of Tennessee, Knoxville, 2012.

2) A.W. de Wolf, Why business performance gets lost in strategy execution, R&G Global Consultants, 2015

Myth #1:

“Our supply chain strategy is part of our overall business strategy.”

How well does your supply chain strategy tie in with your overall business strategy? In a 2013 survey³, less than 50% of respondents believed that their companies value the supply chain as a strategic asset, and as such as part of the overall strategy. At the same time, companies that do value supply chain management as an integral part of their organisation achieve a 70% higher business performance. Supply chain leaders achieve 15.6% EBITDA, as compared to just 7.3% for those lagging behind in this field. In terms of inventory turns, the discrepancies are even greater: 15.3 inventory turns for the leaders versus just 3.8 for the laggards.

There are a various key reasons why supply chain strategies are either not integrated or not available:

- boardroom executives insufficiently recognise the importance of the supply chain;
- companies do not feel the need for a strategy. There is no sense of urgency. Two-thirds¹ of all companies still focus on the basics of running a supply chain in a cost-effective manner and delivering goods sufficiently well to satisfy their customers;
- fostering collaboration within the supply chain itself and with other functions is a real cross-functional challenge;
- as a rule, supply chain executives themselves do not manage an end-to-end supply chain.

Across markets and industries, you would expect senior business leaders to recognise the value of an integrated supply chain strategy. Irrespective of your current strategy, supply chains will always play a fundamental role. A continuous focus on improving financial and customer results is typically a business strategy theme. The only logical consequence is therefore to integrate the supply chain strategy into overall business strategy.



³) Global supply chain survey, PWC, 2013

Myth #2: “our supply chain is truly customer focused.”

Whether or not your supply chain is fully integrated in the overall business strategy, at the very least you would expect your supply chain strategy to be customer focused. Even if your strategy is all about supply chain productivity, understanding the needs of your customers can create value.

Nonetheless, in our daily practice as supply chain management consultants, only seldom do we come across a supply chain with a performance below 95% on-time delivery. Do not be misled by this high percentage score. In most cases, the results are flawed by managed metrics: they are not measured against the true customer delivery time expectations. Within over 70% of our client base, the delivery date requested by the customer was not available in their systems or had been overwritten by a promised delivery date. If this is the case, how can you possibly claim to be customer focused if you in fact fail to take account of the wishes of customers in respect of one of the supply chain basics?

Myth #3: “we fully understand our own supply chain.”

If you fail to take account of the delivery date requested by the customer, the wishes of the customer are simply lost in the background noise. There are three reasons why this means you have also lost an opportunity to learn.

1. Promised delivery dates are typically based on lead-time thinking. However, if the delivery times requested by your customer are shorter than your lead time, the promised lead-times are simply a reflection of your supply chain incapacities. In other words, if your customer requests a delivery within one week, what is in fact stopping you from committing to fulfil that request?⁴
2. Most companies measure their on-time delivery performance as a percentage (of orders delivered on-time versus all orders delivered). Structuring this KPI in this manner in fact limits your understanding of what has really happened. How late were the late orders? How many orders were delivered precisely on time? And how many orders were delivered early? And how early? This particular metric is so severely restricted that it is almost incomprehensible that most companies still rely on it.



3. The metric you use has no true diagnostic quality. Why choose to condense 300,000 order lines into one number? Why not instead consider each line, and segment the outcome on the basis of possible influencing factors? In most cases, this learning opportunity is sadly lost.

You might well be asking yourself at this point: “If my on-time delivery rate is more than 95%, how big an issue can it possibly be?” In response, we like to put the following question to our clients: “If you measure your on-time delivery rate on the basis of a single, aggregated KPI (the traditional percentage on time), what factors trigger your awareness of underlying issues that impact on customer satisfaction, or lead to increased costs?”

Clearly, it is not possible to have detailed knowledge of all operational issues on a daily basis. However, did you realise that you may in fact be aware of just 4% of the key issues?⁵ This fact, combined with an on-time delivery KPI that suggests everything is fine, may well lead you to falsely assume that your supply chain basics are in fact in order.

Put more simply, why would you accept that your current metrics are in fact hindering you from learning and improving?

Myth #4:

“we cannot make the next performance step without technology”

The possibilities of new supply chain technologies are almost infinite, are certainly overwhelming. Over the past few years, a wide array of smart tools for S&OP, planning and control, forecasting, shipping and big data analysis has become available. This variety might indeed make it difficult for you to identify the ideal tooling for your company. On the other hand, is new technology actually what your company needs to make the next performance step? For many, the obvious response “Of course!”, particularly since money is available so cheaply these days, or because they argue that supply chain collaboration simply cannot work without technology.

Sooner or later you will certainly have to consider investing in new technology, but it is worthwhile thinking twice about whether you actually have to make the decision now. Especially if your processes are neither stable nor predictable,

getting a quick return on your investment in new technologies is a considerable challenge. Unsolved process issues are likely to prevent your new technology from performing as expected. Even so, from a root cause perspective, those issues in fact have nothing to do with the technology itself.

Setting aside all possible implementation challenges, transactional data analysis will probably suggest a high likelihood of success with new technology. To be able to generate the expected return on investment, new technologies need stable processes. If you have not evaluated your current processes and you never meet your process targets, why are you so certain that you will do so with the new technology?

However, should you decide to invest in new technology, make sure you prioritise for tools that create transparency and will help you to gain further insight. Understanding the root causes of supply chain instability will help you identify your next steps and investments. As always, most solutions are in fact far simpler than the complexity of the problem suggests.

Myth #5:

“We have all the skills we need to manage the required supply chain changes”

Improvement projects and actions are generally driven by your own views of an issue as well as by the ‘reality’ of your colleagues in the management team. Typically, you need to have access to at least three capabilities.

1. Cross-functional decision-making capabilities. Studies reveal that 70% of management teams are ineffective.⁶ Since supply chains engage all company functions, the probability that you will achieve alignment in supply chain strategy is low.
2. Process capabilities. You will not be able to oversee all activities yourself. To understand what is going on, you will need access to transactional data. Process capability is the ability to tap into information processes, to generate relevant data.
3. Data analysis capabilities. Big data analysis will help provide insights into the underlying structures that explain your

current performance level. This refers to the full spectrum of validating data, creating cross-functional datasets, statistical data capabilities, the interpretation of insights and the presentation of relevant information and conclusions.⁷

Assuming your team offers the right set of basic skills, these three different capabilities can all be acquired through training. Alternatively, you could change the composition of the leadership team to acquire the right set of capabilities. Either way, you need at least all three.



⁶) B. Tabrizi, 70% of cross-functional teams are dysfunctional, HBR, June 2015.

⁷) E. Tieleman, Accelerating strategy execution with (big) data capability, R&G Global Consultants, 2015

Conclusion and recommendations

At Argon & Co, we regularly come across a whole raft of other myths floating around in the supply chain management landscape that also prevent strategy execution. The five myths we have busted are certainly the most common. They may well paint you an uncomfortable picture. If so, the next question is how do you deal with them? Here are eight key considerations.

1. Become truly customer focused when identifying your customers' needs. Ask them exactly when they want to receive their order and make sure you truly capture this information.
2. Your supply chain is the mother of all processes. It connects all internal functions, it connects you to the outside world and it interconnects your teams. It is worthwhile taking the time to shape and visualise the desired outcomes from your supply chain strategy.
3. Define and measure the success of your strategy Outside-In™.
4. Don't be fooled by inflated, manipulated and aggregated numbers. Take a reality check. What do your customers, suppliers and employees actually experience in day-to-day operations?
5. Stabilise processes before making investments in new technologies or deploying new customer segmentation strategies. No new technology can survive unstable processes and weak leadership.
6. Be cautious with investments if there is still plenty of value to be obtained from your supply chain (i.e. through service improvement).
7. In an unstable supply chain, you will not be able to differentiate your service levels. Many have tried but even more have failed. You can only achieve success if you are highly predictable in your execution. Design flexibility into your supply chain; don't let it rule you.
8. Let transactional data at granular level guide you all the way. Use big data techniques for your analyses. If you create this capability within your organisation and you learn to speak 'data language', you will gain surprising insights that will help you to be more effective, with less effort and lower costs.

Outside-In™ perspective: measure your Span

Most companies measure their delivery performance on the basis of a simple KPI that is typically characterised by a single number: the percentage of on-time deliveries. From a diagnostic and executional perspective, it is much more powerful to measure and analyse Span, a metric developed by GE.

Outside-In Span takes the customer's voice as its starting point. Process performance is measured against the requested delivery date at single order level. It generates a variance-based overview. Even with no detailed understanding of what is actually happening in the supply chain, it is possible to judge actual performance. The Outside-In view prevents performance data being manipulated simply to 'manage the metric'.

On-time delivery performance against customer requested delivery date



So, are you the weakest link in your supply chain? You will have to start by answering this question yourself. Now that you have been informed of the most common myths in supply chain management, you may well want to evaluate your supply chain performance gaps as soon as possible:

- what are the gaps between current performance and desired performance levels?
- what are the gaps between the current capabilities of your team and the required capabilities?
- and, most interestingly, what are the gaps between your current views, and future views?

Stabilizing your supply chain

Stable Supply Chain™ (SSC) is an operating system and improvement methodology for On Time Delivery (OTD) against the customer requested delivery date with lower inventory and reduced supply costs. To achieve this, the methodology focuses on understanding and elimination of variation in all aspects of the supply chain, from customer order to procurement and delivery. A stable supply chain is reliable and predictable; an agile supply chain that is capable to deliver against the customer requested delivery date that might differ from order to order and from customer to customer. SSC is a structured deployment method based on ten steps and three deliverables at each step.

Having made this assessment, you have to choose which improvement method you prefer. If you are looking for a structured data-driven approach, we suggest you take a closer look at Argon & Co's Stable Supply Chain™. This approach has been developed over the past twenty years and has been successfully implemented in international supply chains, all over the world.

About Argon & Co

Argon & Co is a global management consultancy that specialises in operations strategy and transformation. With expertise spanning the supply chain, procurement, finance and shared services, we work together with clients to transform their businesses and generate real change. Our people are engaging to work with and trusted by clients to get the job done. We have offices in Paris, London, Abu Dhabi, Amsterdam, Atlanta, Auckland, Chicago, Dusseldorf, Hong Kong, Lausanne, Melbourne, Mumbai, Riyadh, Singapore and Sydney.

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Aart Willem de Wolf is an expert in Supply Chain and Operations improvement. As a Senior Partner at Argon & Co and in charge of the Amsterdam office, he has supported many internationally operating companies by helping them improve their financial and operational performance. Including through leading and coaching hundreds of improvement programmes and projects in various industry sectors. This work enabling leaders to develop new capabilities is a constant source of energy, as Aart Willem thrives on witnessing people grow and get results through changing their working methods and behaviour.

Remaining committed to providing clients' leadership teams with new insights, his ultimate goal is to change old ways of thinking that block the path to achieving better business results. Prior to his move into consultancy, Aart Willem held operational leadership positions in Sales, Supply Chain and Operations. He has an MBB certificate from General Electric and a degree in Mechanical Engineering and Business Administration from Twente University.

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