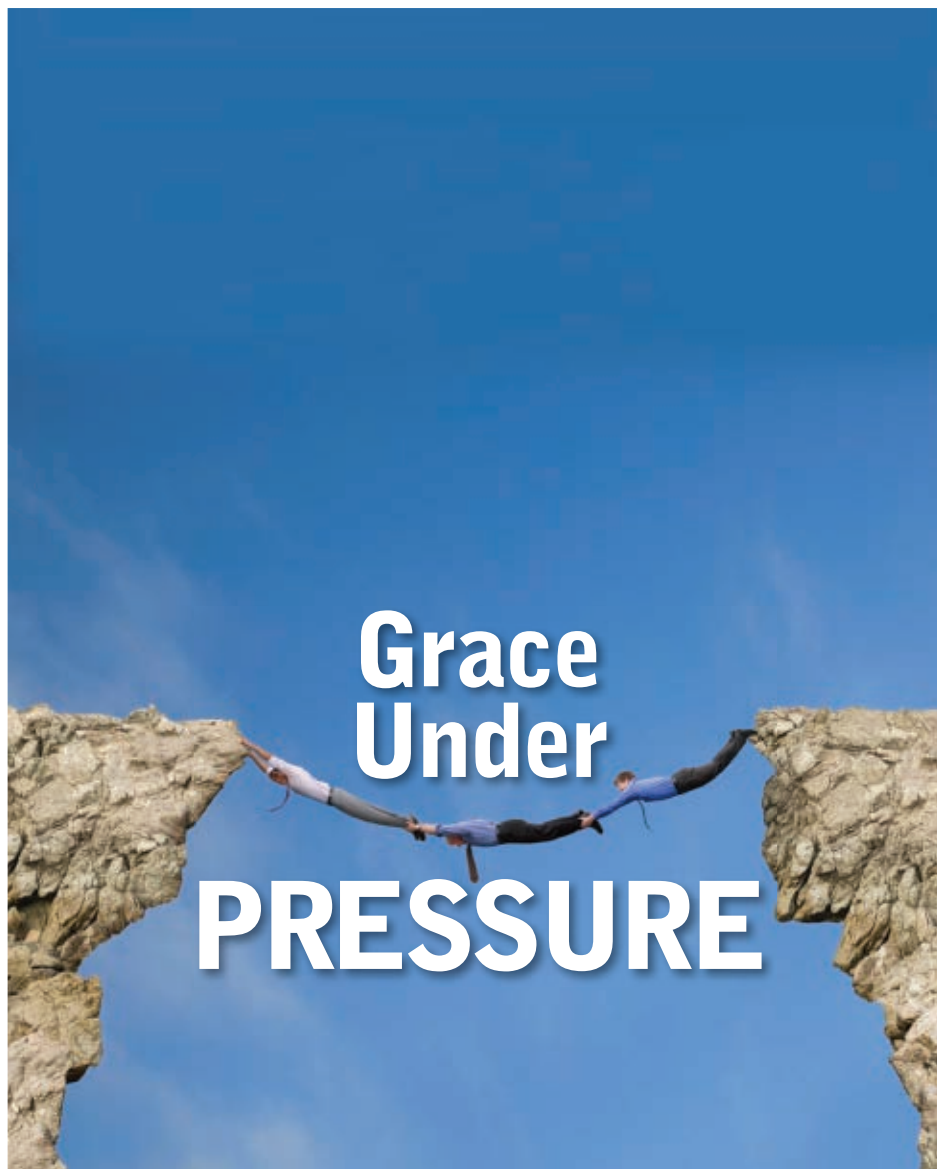


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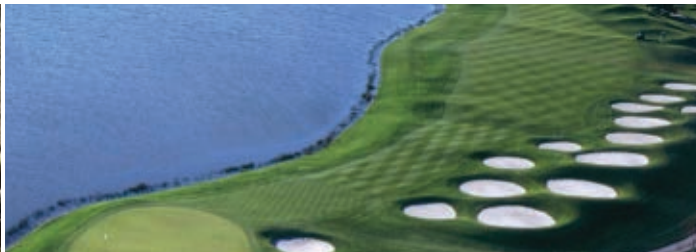
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Yes, we've all experienced some formidable challenges during the economic downturn of the past two years. But things could have been a lot worse were it not for the supply chain's positive impact on costs, revenues, and operations. That's just one conclusion of our annual survey, which suggests brighter times ahead.

20 Sourcing Success Under Tight Time Pressure

The pressure to cut costs—and do it fast—shows no signs of letting up anytime soon. Not surprisingly, that pressure is often felt most intensely by the organization's supply management professionals. But how best to respond to the challenge? The guidelines offered here can help answer that critical question.

28 Are Supply Chain Leaders Ready for the Top?

Why don't chief executives come from the top supply chain ranks as readily as they do from finance, marketing, and sales? Senior supply chain management roles constitute some of the best preparation possible for the CEO's position. But if they are to be seen as such by those who plan CEO successions, supply chain leaders themselves need new ways to think about the route to the top office.

34 Blueprint for Change: Georgia's Procurement Transformation

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Supply market intelligence (SMI) is a proven approach to reducing risk and gaining a com-

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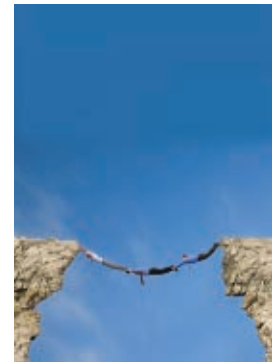
By Jan Stenger, Venkat Tummalapalli, and Michael Roemer

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Pressure? No Problem

Grace under pressure. Anyone working as a supply chain professional over the last couple of years knows what that phrase is all about. With the economy only recently beginning to rouse itself from the doldrums, supply chain folks are still being asked to find “just a few more” areas where costs can be cut.

For a while there, the cost-cutting pressures were unrelenting. But for the most part—as our Annual Global Survey of Supply Chain Progress in this issue confirms—the supply chain came through. One of the key findings from this year’s survey is that absent the supply chain’s ability to control costs and streamline operations, companies would have had a lot harder time surviving the tough economy.

Nowhere is that pressure to cut costs any more intense or any more enduring than in purchasing. Supply management departments everywhere are feeling the heat to cut sourcing costs—and quickly. The problem is, most organizations are not adept at “quick-hit” cost-cutting tactics. The consultants from A.T. Kearney are here to help. In their article they lay out three proven techniques for realizing major savings in the sourcing process—and doing it fast.

The State of Georgia offers a shining example of what can be achieved in a pressure situation if you have the right leadership, processes, and technology in place. Brad Douglas, head of the state’s Department of Administrative Services, relates the remarkable shake-up in Georgia’s purchasing practices. By replacing largely manual transactions with

modern automation, by installing streamlined centralized processes where disparate and disconnected activities once were the rule, and by leveraging strong leadership from the governor on down, Georgia in a few short years literally transformed the way in which it purchased goods and services.

Now, if you’re able to post a success story like the Georgia program—and do so in a calm and competent manner—you may well be positioning yourself for significant advancement in the organization. Who knows, you could even be headed for the top! For supply chain executives, that’s now happening more than it had in the past. But in the view of Tim Stratman of Stratman Partners Executive Coaching, it still doesn’t happen as often as it should. In his feature article, Stratman describes the qualities and capabilities that supply chain executives need to develop if they truly want to reach that top rung.

Supply chain management remains one of the most interesting parts of the business. Where else do you have the opportunity to deal with both suppliers and customers as well as with just about every other functional unit in the company? But SCM is one of the most challenging parts of the business, too. And while the pressures never seem to let up, taking them in stride is part of the fun.



Frank Quinn, Editor
fqinn@ehpub.com

Francis J. Quinn

SUPPLYCHAIN MANAGEMENT REVIEW

EDITORIAL OFFICES
111 SPEEN ST. (SUITE 200), FRAMINGHAM, MA 01701-2000, 1-800- 375-8015

Francis J. Quinn
EDITORIAL DIRECTOR
fqinn@ehpub.com

Sarah Petrie
MANAGING EDITOR
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Mike Roach
CREATIVE DIRECTOR
mroach@ehpub.com

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jberman@ehpub.com

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Brian Ceraolo
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Manufacturing with a Capital “M”

Manufacturing has been the historical driver of progress in the United States. It's high time to get that engine revved up again.

SEVERAL MONTHS AGO I WAS ASKED to join the Manufacturing Executive (ME) Leadership Board, which is part of a community that is working on a new initiative to define “The Future of Leadership in the Global Manufacturing Industry.” I agreed to participate because I believe that supply chain managers in the United States have an obligation to do something to avoid losing much of the country’s manufacturing prowess, which is the direction we are heading if current trends continue. Such a loss would ultimately lead to our future generations experiencing a quality of life that is significantly inferior to what we were fortunate enough to experience throughout our lifetimes...so far that is.

One of the first things I did to support this initiative was to write a short blog on the ME Web site titled “Manufacturing Needs to Rebrand” (see the blog section of <http://manufacturing-executive.com>). This column represents a longer version of the blog.

Long-Standing History of Manufacturing

I started my blog article by talking about a TV series called “The Story of Us,” which I had just viewed on the History Channel. After watching the series—which covered the history of the U.S. from colonial times to the present—I realized the importance of innovation and technology to the country’s unprecedented growth. The story told how major innovations and inventions have played a significant role in the country’s economic progress throughout our history. A

simple invention of barbed wire, for example, allowed farmers and cattle ranchers to live in greater harmony while populating the West. Similarly, the laying down of rail tracks and telegraph wires enabled commerce to grow more seamlessly across the country during the 19th century.

The History Channel show pointed out that during the Civil War, President Lincoln was able to direct relatively sophisticated military activities and logistical movements because the North was more wired (via telegraph) and connected (by rail lines) than the South. Effectively, Lincoln leveraged an integrated military supply chain to win that war. This further demonstrates the premise that the U.S. was largely built on product innovation—and the ability to take a product idea all the way from its design to its production on a large scale. Manufacturing, spelled with a capital “M”, played an enormous role in the nation’s progress and economic growth.

Another segment of the TV series covered the build-up of the U.S. manufacturing base during World War II that was largely responsible for the winning of that war. The so-called Greatest Generation had out-manufactured its enemies and developed a worldwide supply chain to do battle in every corner of the world. “Rosie the Riveter” and the “men who stayed behind” built the supply needed to support the troops. At the end of the war the country was left with a manufacturing base that represented one-half of the world’s manufacturing capacity.

Dr. Lapide is a lecturer at the University of Massachusetts’ Boston Campus and is an MIT Research Affiliate. He welcomes comments on his columns at llapide@mit.edu.

This capacity was then leveraged to fuel the country's unprecedented economic growth and affluence. In those days manufacturing was really king—spelled with a capital “M.”

The Decline in Manufacturing Prowess

Today, however, manufacturing lacks that same aura. Baby Boomers (like me) were advised by their parents to go to college so you wouldn't have to work in a hot, dark, dirty, smelly plant.

In the 1980s when manufacturing excellence had shifted to Japan, MIT started its “Leaders for Manufacturing Program” to help bring back some of this capability to the United States. Indicative of the broader trend, though, last year MIT changed the name to the “Leaders for Global Operations Program”—shedding the “Manufacturing” label.

What happened to manufacturing? Affluence transformed the United States to a consuming nation enamored with the bigger-picture concept of supply chain management (SCM). This fostered a perception that manufacturing was just about plant operations—that is, manufacturing spelled with a lowercase “m.” The Supply Chain Council's Supply Chain Operations Reference (SCOR) model highlighted four process components: Source, Make, Deliver, and Plan. “Make” thus became just one of four components, dealing largely with plant operations. In the minds of most product companies, the “Plan” and “Deliver” processes took the center stage (to focus on quenching the nation's thirst for goods from around the world), while “Source” and “Make” were often outsourced and off-shored.

Many CEOs got on the outsourcing/off-shoring bandwagon primarily to benefit company shareholders. They virtually forgot that a business also has responsibilities to its employees and to the communities in which it does business. Too many manufacturing-related jobs were shipped overseas without good justification. Sadly, manufacturing knowledge, expertise, and prowess went with them as well.

I cringed when I heard of an apparel company that had outsourced production to China and then wanted to move it to Mexico. The company had to rely on Chinese managers to execute the plan, having lost the employees who knew how to build and start up a plant. When oil prices started to rise in late 2004, the U.S. found itself short on petroleum engineers who know how to drill for oil. An article earlier this year in the *Wall Street Journal*

(Aug. 9, 2010) headlined “Some Firms Struggle to Hire Despite High Unemployment” stated that the gap in finding people to fill jobs “is most notable in manufacturing.”

Over time, the projected long-term steady rise in oil prices will tend to drive “Source” and “Make” operations closer to the points of product consumption. In order to compete globally, U.S. companies will need to be flexible and be able to efficiently move operations around as various markets grow, and possibly shrink. A prerequisite for this is that the U.S. regain the manufacturing prowess that it has lost over the years. A big part of this is capitalizing on future innovations. This will require a renewed view of the importance of manufacturing spelled with a capital “M,” and meaning more than just plant operations.

As I stated at the start, I joined the ME Leadership Council to be part of a manufacturing revival. Maybe some readers will join us. At a minimum, however, please don't teach your children that manufacturing is spelled with a lowercase “m.” It's a capital competency that is vital to their quality of life in the future.

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Charles Tanner (signed), Director of Audience Marketing, 10/1/10

Supply Chain Risks in a Newly Flat World

Supply chain executives need to understand the changing nature of supply chains risks and manage them accordingly to avoid disruptions and succeed in a “flat world.”

By Jeff Wallingford and Ron Keith



Thomas Friedman’s best-seller *The World is Flat* describes a convergence of information technology with global political and economic openness that has led to the blurring of supply chain lines.

The ability now exists for billions more people to collaborate and compete evenly with the developed world. When the book was first published, those of us in the \$300 billion global Electronics Manufacturing Services (EMS) industry all nodded our heads vigorously and sent copies to our friends and family with notes explaining: “This is why I travel to China so much.” In fact, many of Friedman’s examples such as HP, Dell, and others were drawn from the EMS industry.

Friedman identified several key trends that were already quite evident in 2005.

- With modern information technology and management practices, functions within a firm that had previously been critical or inseparable from the firm can now be outsourced. This extends beyond manufacturing to include design, distribution, service—almost any part of the value chain. As these outsourced services have become more standardized, the markets for them have become more competitive and commoditized.

- New end markets and a new middle class are developing in places like China, India, and the former Soviet bloc because of the political opening and economic growth. With this, has come competitors based in these countries that offer products and services equal to existing developed world suppliers.

Opportunity and Risk

If we accept these trends and adopt a “flat world view,” we see that globalization presents opportunities not only for dramatically lowering product costs through global sourcing, but also reducing supply chain risk. Services that may have once been difficult or risky to outsource are now readily available in a competitive market from multiple suppliers in multiple geographies around the globe, providing more options than ever for designing a robust supply network that is able to withstand any single-point failure. Clearly, there is more complexity and more potential failure modes in the global supply chain that need to be mitigated. Much of that complexity, however, is either broadly systemic or unavoidable if a company desires to compete in the newly flat world.

Much of the discussion on supply chain risk management has not kept pace with the emerging view of a flat world. Just try Googling “supply chain risk management” and you will find globalization and outsourcing described as bogeymen of supply chains—things to be feared rather than embraced by supply chain executives. In fact, some academic literature still explicitly describes the global supply chain as more risky than the local supply chains, and mathematical models continue to be built to evaluate the trade-offs between the cheap-but-risky overseas supplier and the stable-but-expensive domestic supplier. How positively 1990s!

Just as “Chinese food” in China is just food, “global supply chain risk management” in a flat world is just supply chain risk management. Most companies live in the flat world where they are buying materials from around the globe in order to sell to customers worldwide. For many

Jeff Wallingford and Ron Keith are with Riverwood Solutions, a consulting firm specializing in operations and supply chain management. They can be reached through ron@rwsops.com.

commodities and outsourced services, low cost overseas suppliers have become the highest quality, most reliable suppliers, with more available capacity and more raw materials access than domestic suppliers. In a newly flat world, even domestic supply chains typically face the planning and logistical complexities of getting raw materials from around the world as well as the challenges of getting domestically produced finished goods supplier into the hands of global customers.

There are no simple answers or golden bullets for mitigating supply chain risks in a flat world. The questions to be asked are not whether Company X should source in China; chances are that they already do and they aren't likely to stop. Instead, thoughtful supply chain executives are asking risk mitigation questions such as: "Is a second source in Vietnam, Malaysia, or Mexico going to reduce certain risks?" "How do I weigh the economics of total supply chain costs (which are highly quantifiable) against supply chain risks (which are probabilistic and difficult to quantify)?"

Types of Supply Chain Risks

There are three very basic types of risk that tend to have an impact global supply chains—systemic, event, and idiosyncratic (see Exhibit 1). Each provides different levels of potential mitigation, and each requires different types of planning and activities on the part of supply chain executives.

One of the interesting side effects of the flattening of the world is the leveling of the risk playing field when considering systemic risks. The nature of most globalized industries in a flat world is such that there tends to develop certain globally normative practices that are adopted by most industry players. In the consumer electronics industry, for example, these practices including sourcing a considerable amount of product from mainland China because of the advantageous cost structure and the exceptionally well developed local supply base in southern China to support consumer products. These normative practices tend to have certain systemic risks that would generally affect most industry players in the same fashion. For example, a major move by the Chinese government to suddenly revalue the Yuan would have a significant product cost impact on consumer products companies such as Sony and Apple. This systemic event however would also affect these com-

panies' competitors such as Panasonic and Research in Motion in a broadly similar way. Thus, the even-handed nature of systemic risks in the globalized supply chain—although incredibly disruptive—do not tend to disadvantage one firm dramatically more than another.

But one company's systemic risk can represent another company's event risk if that company's supply chain devi-

EXHIBIT 1

Basic Types of Supply Chain Risk

Risk Characteristics	Systemic	Even	Idiosyncratic
Breadth of Impact	Widespread	Narrow/Localized	Highly Localized
Equality of Impact	Impacts Most Players	Selectively Impacts	Impacts Very Few Players
Ability to Avoid	Very Low	Low to Medium	High
Ability to React	Low to Medium	Low to Medium	High
Cumulative Probability	Low to Medium	Medium	Medium to High
Example	Chinese wage inflation and currency re-valuation dramatically.	Major earthquake in Taiwan disrupts semiconductor foundry operations of many contract fabs.	Acme Products Inc. fails in spectacular accounting scandal.

ates significantly from normative practices in its industry. In the above example of currency revaluation in China, most global consumer products companies are adversely affected similarly and thus no major competitive disadvantage accrues to one player over another. Now let's assume the same event while looking at a company in a different industry such as Old Ma Kettles' Potato Chips. Most "chipping potatoes" come from the east coast of the U.S. from places like Pennsylvania. But Ma Kettle found a low-cost, high-quality variety that they like from Jiutiaolong in Southern China. Things were going along just fine for Ma Kettle until a currency revaluation, which represented a specific event risk for the potato chip maker. Unlike the situation in the consumer electronics industry where all players were affected by the revaluation, Ma Kettle's unique sourcing model for potatoes created the opportunity for an event risk that can put the company at a significant competitive disadvantage in the marketplace.

Supply chain risk management activities in general should be focused on reducing those risks that have the greatest impact on the firm's competitive position, which generally dictates focusing on event risk and idiosyncratic risks rather than systemic supply chain risks. Globalization and a flat world view provide supply chain executives with increased opportunities to spread and mitigate those risks that potentially have the greatest impact. To take advantage of those opportunities, however, these executives must understand the nature of different supply chain risks and manage them accordingly.

Five Emerging Processes in Supply Chain Execution

With global economic conditions improving, companies must focus on the SCE processes that will help them grow without a proportional increase in costs.

By Dwight Klappich



Dwight Klappich is Vice President-Research at Gartner. He can be reached at dwight.klappich@gartner.com.

Supply chain management (SCM) organizations remain under extreme pressure to lower costs and improve efficiency, while laying the foundation for future innovation and agility in preparation for a return to growth. Without question, the economic downturn placed a particularly strong emphasis on near-term cost containment and operational efficiency and productivity. However, many SCM organizations recognize they don't have the luxury of myopically focusing on these near-term priorities. These issues, along with a holistic approach to the role of the supply chain in business operations, must be addressed—and preferably without any impact on customer satisfaction. Because technology continues to be an important enabler of supply chain transformation, this column highlights five emerging supply chain execution (SCE) processes for supply chain organizations to consider.

1. Multimodal Transportation Management as a Global Shared Service

Traditionally, TMS processes were focused operationally on specific areas—inbound, inter-company, or outbound freight—and were limited to one line of business or geography. Needless to say, they were fragmented across an organization. A company might have outbound shipping supported by logistics, inbound transportation supported by procurement, and factory-to-warehouse shipments supported by manufacturing, with none of these groups working together to coordinate transportation activities. If it had multiple business units, each managed transportation independently. Because organizations

administered transportation processes by department and line of business, it was impossible to adopt common transportation management processes, control total freight spend, and gain visibility across the organization.

But the growing cost of transportation is forcing organizations to break down functional barriers, and shippers are increasingly implementing transportation processes and transportation management systems that span functional, line-of-business, and geographical domains. Large, global enterprises with multiple lines of business have a significant opportunity to exploit common processes and systems by creating a shared-service organization empowered to standardize these processes and systems. Additional opportunities for cost reductions and process improvements exist if transportation is managed across functions, lines of business, and geographies.

2. Inbound Delivery Management

SCM organizations have invested heavily in their outbound supply chains, but until only recently, few invested as heavily in their inbound supply chains—even though a significant percentage of total logistics costs comes from inbound logistics. Most SCM organizations have taken a piecemeal approach to fixing the nagging problems for some visibility into inbound shipments, such as implementing advance shipping notification. However, few have taken a holistic approach to automating the inbound supply chain. Leading-edge SCM organizations have turned their focus here, working with sourcing and procurement groups, suppliers, and logistics partners to build a more robust and complete set of processes to manage inbound shipments.

The inbound supply chain requires a multi-enterprise process paradigm in which partici-

pants, activities, and steps are modeled and controlled across organizational boundaries. Collaboration with trading partners is imperative and new technologies, often provided as software as a service (SaaS), are needed to support the multi-enterprise nature of inbound supply chain processes. International supply chains are the most complex inbound environments, requiring specialized tools that accommodate multiple parties, such as suppliers, carriers, freight forwarders, customs brokers, and governments, in process and information flow designs and process delivery.

3. Flow Management

Enterprises with superior end-to-end supply chain throughput, which is often measured by cash-to-cash cycle time, outperform their competitors. The barrier to achieving world-class throughput is that most SCM organizations are incapable of tightly synchronizing supply and demand, with goods often sitting idle at various points in the supply chain. Leading SCM organizations are working to make their warehouses “flow through” points, with as close to zero idle inventory as possible. The rudiments of flow, typically called cross-docking, aren’t new to warehousing. However, few organizations have advanced beyond opportunistically moving goods from the receiving dock to the shipping dock when there just so happens to be a truck waiting for the goods that just arrived.

Flow management goes further, using technology to model processes that look backward and forward across the extended supply chain to proactively synchronize supply and demand. For example, a ship that sailed for 14 days arrives in a port with five containers of goods. While on the water, conditions changed, and where the goods in those containers go next must change as well. In traditional environments, there would be no visibility until the goods arrived at a specific distribution center. Even then, it’s unlikely that the goods would have been automatically cross-docked unless the situation was dire. It’s also necessary to replan to see where the goods would need to go, indicating that the convergence of SCE and supply chain planning is a requirement. An effective flow strategy monitors the goods and changes in demand, proactively determining the ones that must be redirected to new locations based on current needs.

4. Labor, Resources, and Workforce Planning

Because SCE organizations have focused primarily on low-level task execution, many warehouses remain fairly chaotic and reactive. Consequently, work isn’t proactively managed for throughput, efficiency, and high performance, with SCM organizations losing sight of higher-level goals and strategies. But the leaders are investing in modeling processes for maximizing the performance and use of SCE resources, including labor, equipment and, where needed, automation. More emphasis is placed on effective, goal-

driven resource planning and decision making that guides individual tasks and activities. A better understanding of the processes and resource demands and constraints will allow SCE organizations to drive improved throughput while ensuring they achieve high levels of service. The information derived from this effort will provide the information needed to drive continuous improvement initiatives.

Labor management systems used in conjunction with warehouse management systems aren’t new, but they’ve traditionally been limited to large, complex warehouse environments with hundreds of warehouse workers. The availability of commercial systems and packaged engineered standards has improved the value proposition of these solutions. As vendors add more resource types and constraints, evolving them from labor reporting to resource planning, the value improves and the justification threshold is lowered.

5. Returns Management and Reverse Logistics

The vast majority of SCM investment has gone to the forward supply chain, and minimal, if any, investment has been earmarked for the reverse supply chain. Returns are an expensive, resource-intensive and increasingly valuable aspect of supply chain management. Effectively managing the reverse logistics process will reduce the cost of returns and have a positive impact on customer satisfaction.

Reverse logistics isn’t a mirror image of the forward supply chain. Information and inventory flows can be dramatically different, demanding that companies develop unique processes to support returns. But first they must model the authorization process that determines what can and cannot be returned, for what reasons, and who needs to participate in the authorization process. Then organizations must model the physical (e.g., disposition) process, which determines the best path for goods to follow when being returned, based on the characteristics at the time of the return. By building a robust returns management process, SCM organizations can improve the efficiency of handling returns, remove wasted costs, and ensure that customers are serviced in a timely, accurate, and fair fashion.

As global economic conditions improve, companies must focus on the processes that will help them grow without a proportional increase in costs. The five processes outlined above are undeniably important. But there’s also a need for supply chain organizations to focus attention on end-to-end processes, or what Gartner refers to as “SCE convergence”—that is, the need to do a better job orchestrating and synchronizing processes, subprocesses, and activities across functional application domains. They must break down the functional and application silos that preclude them from building effective end-to-end processes and thus transforming their SCM organizations.



The Dynamic Advocate: John Gattorna

By John Kerr

John Kerr is a special projects editor for *Supply Chain Management Review*

Don't even try to argue with Dr. John Gattorna that supply chains really just boil down to a system of distribution centers, procurement processes, technology tools, and transportation routes. You won't win.

For years now, Gattorna, who heads his own advisory business, Gattorna Alignment Pty Ltd., has been preaching the gospel of "dynamic supply chains" everywhere he goes—and these days, "everywhere" is more likely to be Hong Kong or California than his native Australia. His iconoclastic stance is that supply chains must be configured to suit the behaviors of the customers they are meant to serve. And because almost all organizations have several customer types, they need to have several concurrent designs of supply chain—designs that can be changed when customer behaviors or buying needs change.

In Gattorna's world, there is no such thing as a "one size fits all" supply chain. For most companies, he says, there are usually four or five dominant buying behaviors by customers that will represent the bulk of the market. So that means four or five distinct supply chains, each staffed with people whose competencies and attributes are a match for that customer's buying behavior.

In fact, Gattorna chafes against the very term "supply chain," pointing to the constraints built into the words themselves. He contends that modern supply chains have largely been built around supply-side resources—suppliers, warehouses, trucks, and logistics providers—when they should be built to service the changing needs

of customers. "As volatility and demand variability continues to increase, we persist with a flawed organization design made up of a collection of functional specialties that is unresponsive to customer demands," he says.

If this sounds like a version of value-chain management, that's because it is. Gattorna agrees that his view is the widest possible take on the end-to-end value chain. His vision sees tomorrow's supply chain leaders working with marketers to segment customers by behavior—for instance, some that are intensely loyal, others that are acutely price-sensitive, others that require continuous replenishment, and so on. Then those leaders build multidisciplinary teams around each defined customer category. The teams include product designers, manufacturing staff, procurement people, and others, co-located instead of being in their functional departments and all driven by the same KPIs.

Integral to this view are the employees, managers, and client's staff—in fact, all of the people involved in helping meet the customer's needs. "To really get supply chains right, you need to capture the dynamism that people can bring to the flow of goods and services, both inside and outside your business," says Gattorna.

Dynamic Alignment

So where did Dr. Gattorna come up with these outsized ideas? Put simply, they are drawn from a lifetime of business experience. As a young man, Gattorna graduated as a civil engineer and worked



Dr. John Gattorna believes in dynamic alignment of the supply chain—bringing internal resources in line with customer expectations.

successfully in that field until he ran into the arena of distribution management. That's where he decided his career lay. After studying and then teaching in the field, he set up his own consulting firm in 1985, winning clients as substantial as logistics provider DHL, insurer General Accident, South African railway company Transnet, and Fonterra, the New Zealand dairy conglomerate.

Accenture (then Andersen Consulting) absorbed Gattorna's business in 1995, using it as the foundation of its logistics strategy practice in the Asia Pacific region. He grew the operation for seven years before retiring, at which time it was the biggest supply chain consulting practice in the region. "My real legacy," says Gattorna, "was that I grew a young team that has since doubled and tripled the size of the firm in Asia Pacific."

But Gattorna is most proud of developing a new business idea. In the late 1980s, he and his collaborators began to envision a radically different framework that would better inform the design and operation of enterprise supply chains, seeking to satisfy customers and consumers. It has involved learning about and combining several disciplines: consumer/customer behavior; the internal cultural capabilities of the enterprise; leadership styles; and of course the operational aspects of corporate logistics networks and supply chains. Gattorna labeled the idea "dynamic alignment." He has spent recent years field-testing the model, and is pleased that it is being actively piloted by several large consumer-goods and high-tech companies.

Gattorna has put his ideas into writing in a raft of articles, and also in three books: *Living Supply Chains*; *Dynamic Supply Chain Alignment*; and most recently, *Dynamic Supply Chains*. These days, Gattorna spends much of his time in the air—he speaks at 20 or so conferences worldwide each year—with other days spent in

the classroom. He is a professor at the Graduate School of Management at Macquarie University in his home town of Sydney, and a visiting professor at Cranfield University's School of Management in the U.K.

So what does he believe is needed to turn the concept of dynamic supply chains into a reality? Gattorna doesn't hesitate: "It will take strong and decisive leadership," he says. "None of this gets done if the leaders at the top have lost contact with the marketplace. They're the ones who have to be able to convert customer insight into successful implementation."

The professor is very clear about what constitutes great leadership. "First and foremost, it's about authenticity. You can't be someone you're not," he declares. Secondly, he notes that true leaders inspire, so people follow them in all kinds of circumstances. Third: Leaders are not afraid to take risks. They know how to manage risks, and when they make mistakes, they quickly learn from them.

Gattorna's critique of mainstream supply chain leaders is that they are often seen as sources of cost reduction. Yet not all customers have cost cutting as their primary focus; some want relationships; some want quick responses; others want innovation. So there is usually an immediate disconnect between those supply chain leaders and those kinds of customers. They are not speaking the same language.

In many industries, the sales and operations planning (S&OP) process can help create a common language and common ground on which the demand side and supply side can meet. But there is more that supply chain leaders must do to embrace the customer's inputs. Gattorna advocates visiting customers directly—with or without the cooperation of the organization's sales and marketing teams. And he underscores the value of starting to use "supply chain" less as a descriptor of a discrete function and

more as a philosophical term. "I don't care if you sit in finance or sales," he says. "Please understand that you're part of the supply chain."

Gattorna is insistent that leaders in general—and supply chain leaders in particular—must be able to understand and empathize with their customers' needs, and then formulate strategy and shape cultures inside their businesses in order to develop solutions that meet those needs. So, for example, if a customer's dominant buying behavior revolves around process rigor, then the leader must assemble a team that is intimately familiar with and experienced in process thinking and implementation. Or, if the customer's emphasis is on loyalty and relationships, then the "supply chain" team's characteristics should reflect that emphasis.

Getting with Customer Expectations

Often, at the end of the one- and two-day workshops that he conducts, Gattorna is asked by executives how they can kick-start the kind of supply chain transformation he describes. His audience regularly protests that it is hard enough to properly manage supply chain organizations even when there is alignment among the traditional functions. His advice: Start pilot programs within their areas of influence, and expand on the small-scale successes they achieve.

So how can the supply chain profession encourage development of stronger leadership skills? Gattorna returns to his behavioralist's viewpoint: After staffing each supply chain organization with multi-disciplinary teams, the best route is to encourage and watch for some individuals to emerge as leaders, and then to recognize them as such. "This way, we teach all managers that success comes only through aligning internal resources with customers' expectations," he says.

No argument there.

EIGHTH ANNUAL GLOBAL SUPPLY CHAIN SURVEY

SURVIVING TOUGH

By Ronald R. Johnson, Charles C. Poirier, Morgan L. Swink, and Francis J. Quinn

Ronald R. Johnson (rjohns50@csc.com) is a partner at CSC. Charles C. Poirier (cpoirier3@gmail.com) is president of ASCInstitute, LLC. Morgan L. Swink (M.Swink@tcu.edu) is the Eunice and James L. West Chair Professor of Supply Chain Management at the Neeley Business School at TCU. Francis J. Quinn (fquinn@ehpub.com) is editorial director of Supply Chain Management Review.

There is no question that during the recent economic downturn, companies turned to their supply chain and supply chain management (SCM) for help. Our 2010 Global Survey of Supply Chain Progress¹ shows that, as might be expected, they did so with varying results in terms of the impacts on costs, revenues, and customer satisfaction. Compared to previous surveys, we saw a reported drop in the level of overall cost savings and revenue increases attributable to SCM initiatives. Importantly, there was a sharp difference in performance on these measures between firms considered to be supply chain leaders and the others—what we term the followers and the laggards. For example, the leaders reported twice as much revenue gain as the followers.

This year's survey results further suggest that most firms are at or near the bottom of the economic trough and are slowly coming back to more favorable conditions. As expected, the leaders are rebounding faster than the followers and laggards. Yet from other information we have used to augment our conclusions from the survey results, we find that hiring is still conservative and the focus remains on cost reduction. Large companies remain conservative in their investments, foregoing new capital and concentrating on fixing existing capital. In that scenario, SCM becomes one of the major means to find cost improvement—right behind reductions in staff.

There appears to be a continuing emphasis on suppliers to help firms cope with adverse conditions. We see no lessening of that focus. Our survey showed clear evidence that companies relied more on suppliers to help with cost control, new product development, and meeting customer demands this year. At the same time, there was a continued expectation of finding better prices, or the buyer would shift its supply base. The key for suppliers was sustaining the most important customer base by offering help in both areas. This emphasis is expected to continue for at least another 12 months, as firms seek significant reductions to costs through

Yes, we've all experienced some formidable challenges during the economic downturn of the past two years. But things could have been a lot worse were it not for the supply chain's positive impact on costs, revenues, and operations. That's just one conclusion of our annual survey, which suggests brighter times ahead and encourages supply chain professionals to get ready for the upturn.

ECONOMIC TIMES



pressure on suppliers and changes to the supply base.

Let's review some of the other key findings before we delve more deeply into the survey details:

- The level of SCM-impacted cost savings declined last year. Respondents reported that savings in the highest range (11-to-20 percent) dropped from 20 percent in 2009 to 10 percent this year. On the other side, the number of firms reporting no savings/not sure of savings rose from 13 percent in 2009 to 20 percent in 2010.

- We observed a reversal in previous trends in the reported revenue increases due to supply chain efforts. Firms reporting no increase or unable to identify increases rose from 30 percent in 2009 to 47 percent in 2010. Clearly, the down economy took its toll on what had been consistent improvements in both areas—costs and revenues—for seven consecutive years.

- When asked what happened to the emphasis on SCM in the last 12 to 24 months, more than three-fourths of respondents reported that it had increased. Things might have been worse without SCM.

- When asked how the downturn affected cost of materials, 26 percent said they went up and 47 percent said they went down—typical of the mixed results in a down economy. Some companies must have found the way to use tough times to cut costs, while others were faced with adjusting to higher costs.

- Asked if the downturn had resulted in changes to market share, 38 percent said their share had gone up, while 23 percent reported it went down. Obviously, there was some shifting of the customer base, most likely to the firms able to offer better pricing and service.

Analysis:

The Economy's Impact in Four Key Areas

The 2010 survey contained four major sections that centered on the economic downturn's impact on the supply chain. These included the business impact on the supply chain, organizational structures, green initiatives,

and procurement activities. This section presents key findings in each of these areas.

1. The Business Impact on the Supply Chain

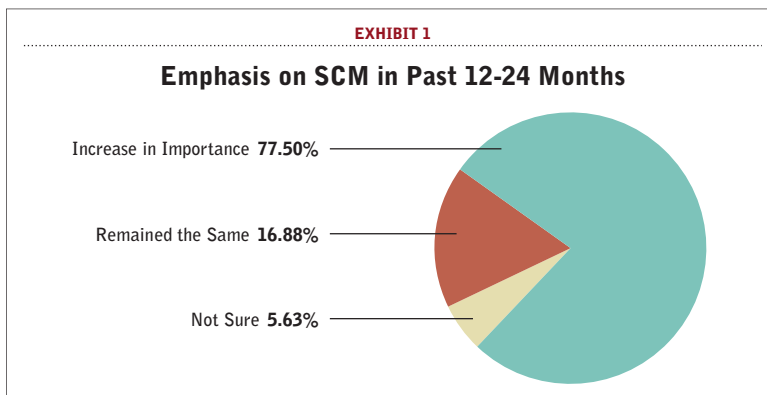
Greater Supply Chain Emphasis. So what happened to supply chain efforts and results during the economic downturn? The short answer is that the great majority of respondents reported a heightened emphasis on supply chain activities. A resounding 77 percent reported that the emphasis on SCM had increased during the preceding 12 to 24 months. (See Exhibit 1.) Clearly, the supply chain became a logical area of concentration to help counteract the effects of the decline.

Products and Services. When we asked about the economy's impact on product and service offerings, we were surprised to find 50 percent reporting no impact and another 21 percent noting little impact. It appears that SCM was focused squarely on costs and internal improvements, with firms keeping the current offerings as close to prime as possible. When we probed further and asked respondents to rate the impact on new product introductions, most of the responses cited minimal effect.

We also asked specifically how the firms rated the downturn's impact on sales and operations planning (S&OP), which has been receiving increased attention especially among the supply chain leaders. The most important impact here (cited as moderate to heavy by two-thirds of the respondents) was the "need for agile reaction to changes in customer demand." The second highest impact was the "need to better balance actual supply and demand." This requirement continues to gain in importance in our annual survey. The third most-cited area was the "need to use advanced planning tools." Other factors such as the need to rely on inventory to satisfy demand and to apply inventory management tools to decrease inventory turns came in with moderate to low responses.

Impacts on Leaders vs. Followers.

The next part of our impact analysis looked at differences in how the down economy affected leaders and followers. Overall, the results showed that the supply chain leaders have adopted a more strategic approach in dealing with the economic downturn. In particular, their responses indicated that they had a greater capacity to anticipate the need for change. They also exhibited greater flexibility than the others, which made them more responsive to changing market conditions.



Impacts on Business Performance. With regard to impacts of the downturn on business performance, we asked about SCM's immediate impact on cost improvement. Sixty-one percent reported that impact was moderate to high, while only 6 percent said there was no impact. In the specific area of cost of materials, 47 percent noted that these costs had been reduced, 26 percent reported an increase, and another 26 percent said costs remained the same. Among European respondents, a slightly higher percentage (59 percent) reported a reduction in material costs.

Probing further, we inquired into the downturn's impact on supplier offerings. The respondents showed a fairly normal distribution here—from none to a high degree of change. Some firms sought and received supplier help while others did not. Fifty-two percent, however, reported an increase in customer demands. This is not surprising as the survey highlighted the emphasis buyers were placing on suppliers for relief. In terms of differences by region, North American organizations reported customer demand had increased by roughly 40 percent and reduced by the same amount. In Europe, by comparison, organizations reported customer demand to have increased by roughly 61 percent and reduced by 11 percent.

Interestingly, 38 percent of all respondents reported that their market shares increased during the tough times, while 40 percent said it remained the same and 23 percent reported losing share. The leaders were likely to gain market share during the down economy, thanks in large part to their greater agility and flexibility. (See Exhibit 2.)

There was evidence that SCM continues to contribute to cost and revenue improvements, but not as much as in the past. For the first time since the surveys were conducted, 2010 showed some backsliding in results. Exhibit 3 shows SCM's impact on costs and revenues over the past three years. Followers and leaders have reached parity on cost reduction at around 6 percent. However, the leaders still hold a significant edge with regard to SCM's impact on revenues. In addition, from 2009 to 2010, the percent indicating "No Impact or Don't know/Not sure" went up from 30 percent to 47 percent.

While overall the results were lackluster in comparison to prior years, leaders did

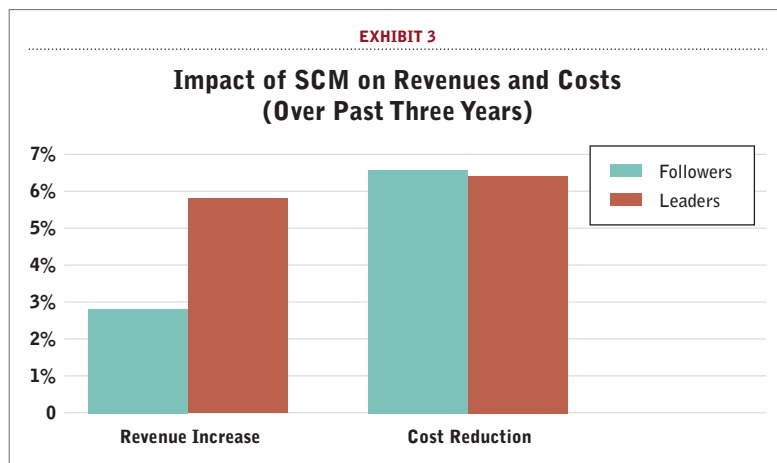
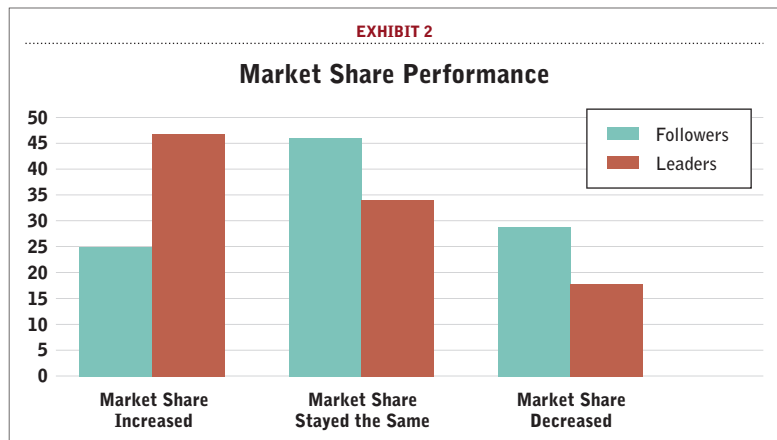
manage to do better in growing revenues. Their market share gains were reflected in increased revenues at nearly twice the rate of less accomplished supply chain firms (the followers).

2. Supply Chain Organization

Leadership and Management Involvement. We studied three aspects of SCM organizations in the 2010 study:

- Centralization—degree to which a company's supply chain activities are directed by a single SCM organization.
- Global control—number of regional activities that are coordinated globally.
- Functional span—number of supply chain activities (e.g., logistics, purchasing, planning) controlled by a supply chain office.

Leaders tend to have greater global control and functional span. The results further suggest that these organizational competencies are correlated with better responsiveness and lead time performance. A centralized SCM organizational structure seems to be a prerequisite to establishing global control and increased functional span. We found that organizational structures do, in fact,



vary widely from firm to firm. These included variations of centralized, decentralized, and centralized matrix SCM organizations.

This year's study was consistent with prior studies in that about half (49 percent) of the companies have turned the management of supply chain over to a single officer reporting to the CEO. Again, leaders are more likely to have a single officer in charge of a wide span of supply chain management activities and functions. In North America 75 percent of organizations have a V.P., Senior V.P., or corporate staff as the highest ranking official with supply chain-related responsibilities; in Europe this figure is closer to 36 percent.

Importance and Influence Within the



This year's survey results show that SCM continues to contribute to cost and revenue improvements—though not as much as in past years.

Organization. When asked if their supply chain organization was viewed as having core business importance, especially considering the economic downturn, fully 82 percent of respondents answered yes. We also asked about SCM's degree of influence in running the business. Fifty-two percent said to a great degree and another 35 percent replied to a moderate degree. In total, that amounts to nearly nine in 10 placing a significant amount of importance on the supply chain's role in the business. The top two functions being managed by the supply chain organization on a global basis were the same as in previous studies: sourcing/purchasing and logistics.

Approximately 60 percent of European firms reported that their SCM organizations had a clear understanding of how to redesign themselves in order to build required organizational capabilities. This compared to 44 percent of North American organizations.

As to the circumstances that will drive changes in the SCM organizational structure over the next five years, respondents cited the following:

- Seventy-one percent of European organizations believed that changes in product/service offerings would have a significant influence; among North American respondents, the number was 54 percent.
- Failure to meet performance expectations was considered significant by approximately 30 percent of the organizations in both North America and Europe.
- Twenty-one percent of North American companies

felt that regulatory compliance requirements would be an important influencer; the European organizations said that compliance requirements would have little or no influence.

- Half of the respondents from North America and Europe pointed to future leadership change as a significant influence. In the "Rest of the World" category, eight of 10 felt this way.

SCM's Impact on Organizational Changes. When we asked about the relationship between the economic downturn and organizational changes, three top issues emerged:

- *Changes in leadership*—59 percent reported a change in leadership as one impact. This likely indicates the introduction of new management whose goal was to shake up the SCM organization in light of the economic times.
- *Taking advantage of possible synergies*—this confirms the trend we've seen toward breaking down internal silos so that best practices can be applied across the business and not

just within business units or specific functions. Fifty-five percent of European organizations feel that they have taken advantage of potential synergies to a reasonable extent, compared to 33 percent in North America.

- *Structure impeding strategies and achievement of objectives*—this was a factor across the survey sample, though North American respondents rated it as more of a problem than did the Europeans.

Process Management. We asked a series of questions related to how much the SCM organization comprehended difficult issues that might trigger a need for organizational change. The responses were interesting and instructive. The most important issue (mentioned by 65 percent of the respondents) centered on responding to changing customer needs and the need to hang onto business—both expected responses in tough economic times.

That was followed by a question about responding effectively to changing needs of the firm's internal organizations. Up to 60 percent of the respondents pointed to the ability of the business to react positively to such matters as analyzing pertinent information that might impact the organization structure and effectively implementing structural changes. We conclude from these results and the reporting of the firm's ability to make effective changes to strategy and actions as evidence that organizations took the time during the downturn to get the internal house in order. Accordingly, we expect that supply chains will emerge stronger in the future.

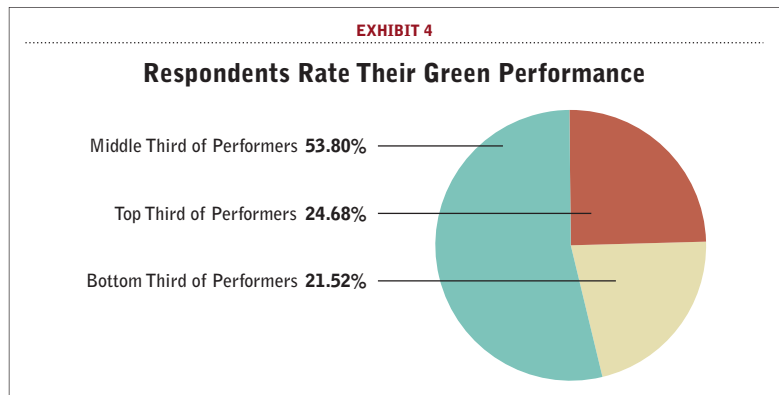
3. Status of the Green Supply Chain Organizational Approach to Green Initiatives. We first asked the respondents to describe their organization's approach to evaluating and implementing green supply chain initiatives. Almost half (49 percent) reported that they were currently implementing options and another 31 percent were evaluating options. When we asked firms to rate their performance versus others in the industry, we received another bell-shaped reply—about half of the firms putting themselves in the mid-range, the others closely divided between the top and the bottom third of performance. (See Exhibit 4.)

When we went further and inquired about the role that supply chain professionals were playing in the company's green initiatives, we found little change from previous surveys. Specifically, the majority said that the supply chain was either leading or supporting the effort.

The pressure to respond to environmental or social stewardship pressures was reported by fewer European respondents (25 percent) than North American respondents (44 percent).

Green Issues, Initiatives, and Impacts. Asked if green initiatives had produced possible savings or quantifiable savings, the respondents gave largely negative responses. Fully 39 percent reported no savings yet from green initiatives, while another 34 percent put the savings at only between 1 percent and 5 percent.

That pattern continued when respondents were asked if green had led to an increase in revenues. Almost three-fourths of respondents said there had been no

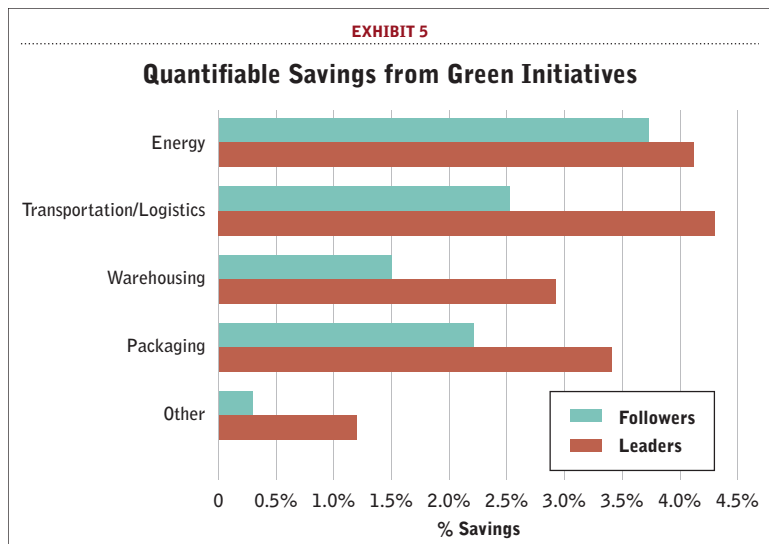


revenue increase and the remainder cited a revenue increase of only 1 percent to 5 percent. Clearly, green has a longer way to go before widespread positive results are achieved. Regarding the question of whether green or sustainability initiatives have led to any added revenue streams, the results revealed differences across regions. In North America, only 24 percent of organizations had improved revenues with less than 1 percent achieving an increase over 11 percent. Among European respondents, by contrast, 45 percent had realized green-related revenue increases and 6 percent exceeded an 11 percent increase (albeit based on a small data set). We did find that the supply chain leaders are making greater inroads in green initiatives. They reported higher savings in all areas, especially in transportation, warehousing, and packaging. (See Exhibit 5.)

4. Procurement

Sourcing Points, Economic Conditions. We saw a definite emphasis on re-thinking sourcing points in the 2009 survey. That trend continued in 2010, as 65 percent told us they were doing so. When we asked if the responding organizations had set cost-savings objectives for their procurement function, 70 percent replied affirmatively. In terms of how much, the range given was from a few percentage points to over 11 percent. In addition, more than two-thirds said that they had set objectives for the procurement function to generate cost savings over the next 12 months.

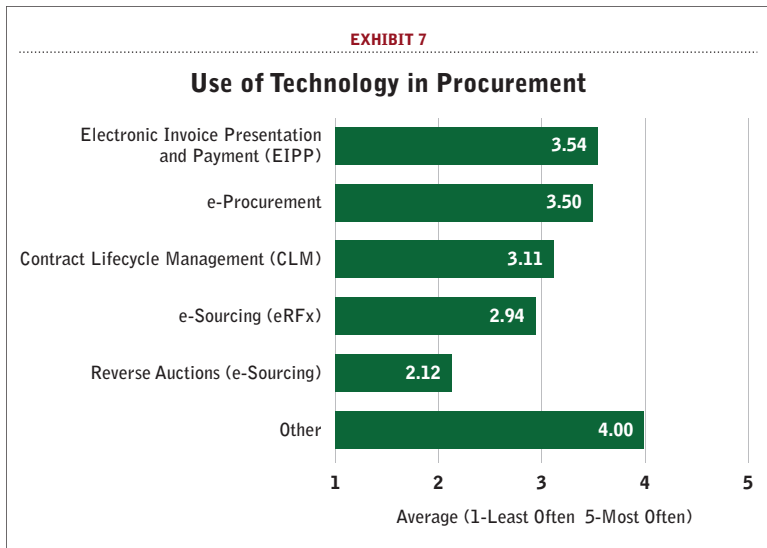
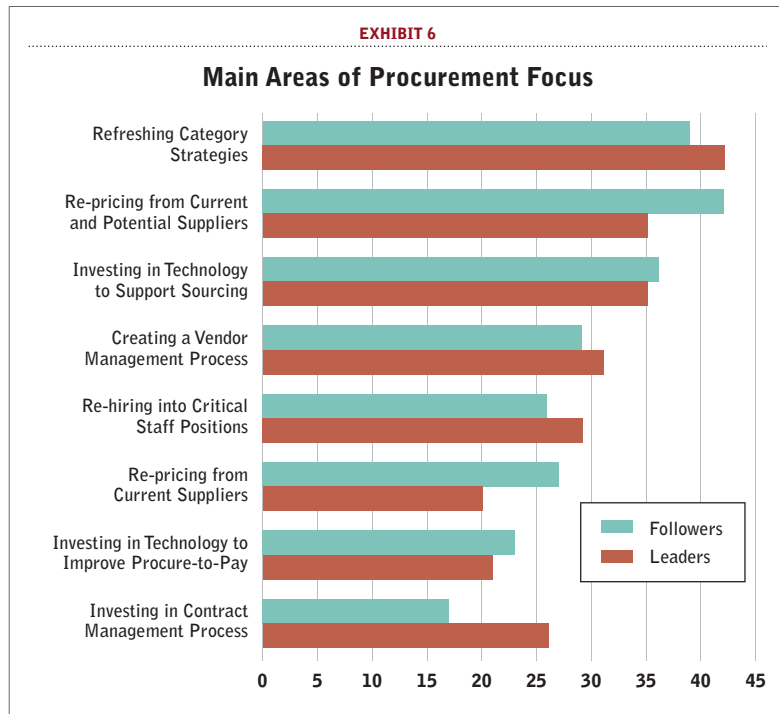
Critical Procurement Activities and Technology. As companies emerge from the economic downturn, we were interested to find out what procurement activities they would focus on going forward. As Exhibit 6 shows, refreshing category strategies and re-pricing from current and future potential



suppliers topped the list, both among the followers and the leaders.

Year after year, we keep asking to what extent firms regularly use technology in the procurement process—an element we have found to be critical to the success of supply chain leaders. Yet adoption of procurement technology continues to be lukewarm, as evidenced by the relatively low percentage of respondents that planned to invest in technology as a means of improving the procurement process (Exhibit 6). The 2010 responses continue to show lukewarm adoption rates.

As to the technology that was being regularly used, Electronic Invoice Presentation and Payment (EIPP) was most often mentioned. (See Exhibit 7.) There are a number of regional differences with regard to specific technology usage. For example, in North America reverse auctions are less commonly used than in Europe. However, this pat-



tern is reversed with regards to EIPP, which is noticeably more common in North America.

Finally, approximately 46 percent of European organizations reported a moderate to significant influence from the application of inventory management tools to reduce inventory turns. This compares to 22 percent of North American organizations.

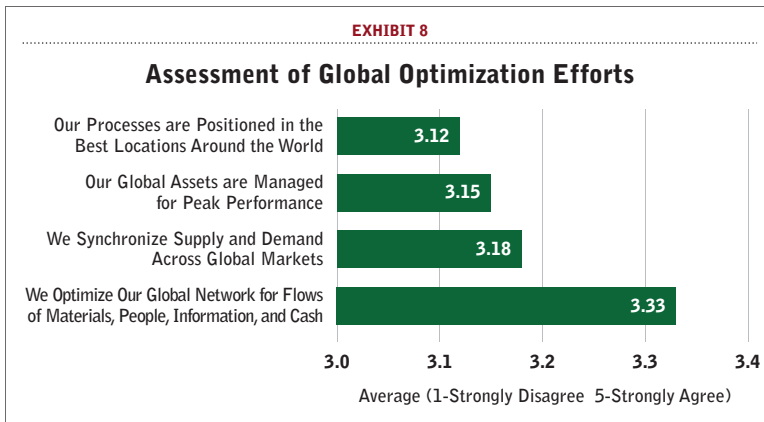
Global Network Results. We are seeing increased interest in extending SCM’s impact on a global basis. Asked if their firm was optimizing its global network for flows of materials, people, information, and costs,

49 percent of respondents to this year’s survey responded positively. We received lesser results when we asked if processes were positioned in the best locations around the world, with only 36 percent replying positively. This highlights an emerging challenge: Optimizing the supply chain is going to require more work on streamlining the global locations. This fact was borne out as we went further to ask if global assets are managed for peak performance. The results were mixed with only a slight advantage to the positive side. When we probed further about synchronizing supply and demand across global markets, the results were similarly mixed. (See Exhibit 8.)

Profit improvement activities are considered more critical to procurement by North American organizations with 36 percent describing it as “most important” and only 11 percent saying “least important.” By contrast, only 14 percent of European organizations regarded profit-improvement efforts as “most important” and 36 percent as “least important.”

A Renewed Call for Action

The overarching message from our 2010 survey is clear: Companies turn to their supply chain for help during difficult times. Without an effective supply chain, firms



were at risk to suffer even more economically and end up with lower revenues. We expect the emphasis on supply chain as a savior to continue for at least the next 12 months as the recession bottoms out and the economy moves closer to normal conditions.

With that message in mind, let's consider the following action items as guideposts for progressing along the SCM continuum:

- Make certain that the drive to address economic conditions does not negate the good work that has gone

into supplier collaboration and customer satisfaction.

- Use the downturn as an opportunity to collaborate with network partners to find new areas of mutual value.
- Like the leaders, do not accept economic conditions as an excuse for poor performance.
- Use post-sales support for customers as an example of how to enhance relationships.
- Apply lessons learned from past failures and analyze root causes to enhance risk management.

- Develop a comprehensive understanding of the potential supply chain risks and have a contingency plan ready for action.

Footnotes:

1 The Global Survey of Supply Chain Progress is a joint effort involving CSC, Michigan State University, *Supply Chain Management Review*, the Council of Supply Chain Management Professionals (CSCMP), and *Supply Chain Europe* magazine.

Details on the 2010 Survey

This year's survey attracted 164 complete responses, split evenly between manufacturing and service organizations. There were an additional 35 partial responses. The replies came from every major geographical segment in the world, the principal ones being North America, Europe, Asia/Pacific, and the rest of the world.

Twenty industries were represented in this year's survey, with 12 identified as containing manufacturing firms and eight representing service organizations. The respondents included both large and mid-sized companies, with sales in a range from \$250 million to over \$1 billion. The number of employees varied from less than 250 to over 30,000.

The respondents completed a comprehensive survey questionnaire designed to gauge their present competencies and future plans in such areas as supply chain management

policies and practices, supply chain continuity, and green and sustainability initiatives. The questionnaire specifically asked about results during the economic downturn. In particular, it probed into the role played by the supply chain in reducing costs and sustaining revenues while affecting customers across the organization.

There are general comments throughout the report relating to the differences between firms in North America, Europe, and Asia-Pacific. These comments are based on the data set available and reflect our best estimate of the subsequent findings and conclusions. Given these sample sizes, some approximate rules were applied to decide if differences between regions were statistically significant. The same held true with some specific questions that had a limited number of responses.

Sourcing Success Under Tight Time PRESSURE

By Chris Ahn, Ricardo Ruiz-Huidobro, Kumar Venkataraman, and Michael Hu

Chris Ahn and Ricardo Ruiz-Huidobro are partners with A.T. Kearney. Kumar Venkataraman is a principal and Michael Hu is a manager with A.T. Kearney. The authors can be reached through ricardo.ruiz-huidobro@atkearney.com.

The pressure to cut costs—and do it fast—shows no signs of letting up anytime soon. Not surprisingly, that pressure is often felt most intensely by the organization’s supply management professionals. But how best to respond to the challenge of sourcing under time pressure and achieving the desired cost-reduction results? The guidelines offered here can help answer that critical question.

Emergency room (ER) physicians constantly make critical decisions with limited information and under extreme time pressure. What separates best-in-class ER physicians from the pack is that they not only “do the right things,” but also “do things right.” In addition to possessing the knowledge to diagnose and select the appropriate treatment strategies, top performing ER physicians think creatively and adopt non-traditional tactics to “do things right.” First, they have the skill to adapt and modify textbook treatment approaches based on the severity of the patient’s condition and time constraints. Second, they judiciously take shortcut tactics to accelerate treatment processes if the patient is running out of time. And lastly, they effectively triage and mobilize the entire ER staff to work as a well-coordinated team to stabilize the patient as quickly as possible.

Similar to an ER physician treating incoming patients, executives are often placed in various time pressure scenarios where they must achieve rapid positive results—for example, cost savings—under a tight timeline. Specific challenges might involve delivering against an aggressive post-merger target; bracing for a worse-than-expected economic downturn to offset softening revenue; or enabling a rapid enterprise-wide transformation where early wins become the critical change catalyst. Companies often pursue an enterprise procurement transformation to meet these challenges. However, a systematic and enterprise-wide procurement initiative can often take well over a year to fully execute and deliver P&L impact.

Executives seeking to achieve rapid and high-impact benefits through their sourcing and procurement initiatives should embrace three key takeaways from best-in-class ER physicians who both “do the right thing” and “do things right” in a hectic, time-pressured environment. Expressed as business impera-



tives, these takeaways are:

1. Adapt your sourcing strategy to account for time-pressure complexity.
2. Leverage benefit-acceleration tactics.
3. “Shock” and mobilize the internal organization to drive sustainable transformation.

In helping clients leverage procurement to drive accelerated benefits, we’ve observed that companies can achieve some powerful benefits by successfully adopting these takeaways. These benefits include:

- A 3 percent to 4 percent increase in current year savings, with the P&L impact felt in under nine months.
- A 30 percent to 50-percent acceleration of the sourcing timeline.
- Greatly improved supplier relationships and trans-

parency that drive sustainable benefits for both parties.

This article examines the three key takeaways that can lead to a faster and fuller realization of the benefits from a sourcing/procurement initiative. We also include real world examples to illustrate each of the takeaways.

Takeaway 1: Adapt strategy to account for time-pressure complexity

Companies must first recognize that sourcing under time constraint presents significant structural challenges that may require some adaptations to the traditional approaches. The first of these challenges relates to reduced strategic options. Sourcing approaches that would be effective under normal circumstances are often rendered ineffective when time pressures inten-

sify. To cite one example, the threat to pull volume from incumbent suppliers to a more concentrated supplier footprint may not be viable under a tight time frame because the switching costs or co-committed capital outlay may be prohibitive. Similarly, tapping into a new low-cost country supply market may be less attractive due to the lead time required to fully dissect the tariff or regulatory implications of such a move.

The time crunch also results in increased supplier bargaining power—another major challenge. For one thing, the buying company has limited ability to time the market. It's hamstrung in attempts to launch sourcing events that take advantage of supplier market developments such as excess supplier capacity or a period of supplier consolidation. Further, a well-informed supplier can leverage time pressure to its own advantage by stalling negotiations and/or forcing the company to pay a future premium for concessions granted in the near term.

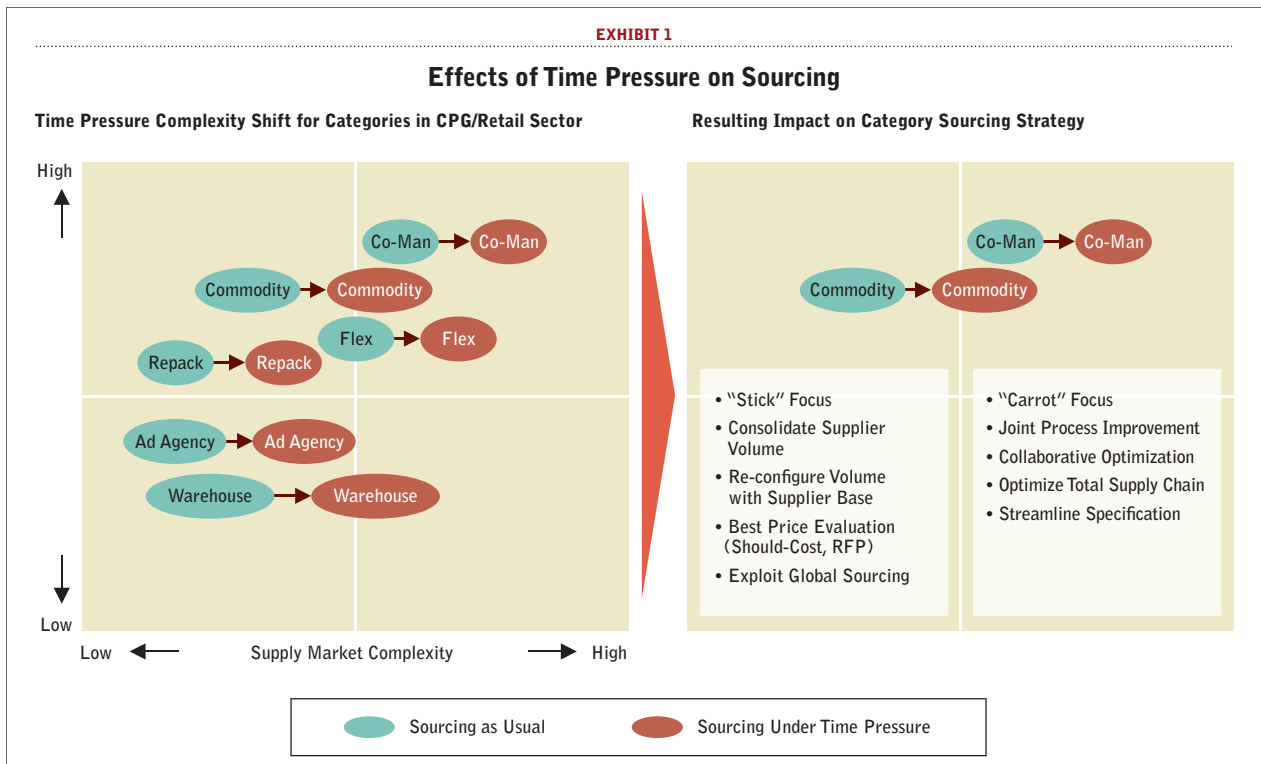
Finally, the time pressure to deliver results makes it even more critical to get the first pass right with respect to strategy development and downstream implementation. Pursuing a sub-optimal strategy can be disastrous if months pass without any meaningful results. If the initial strategy is not on target, any realignment that becomes necessary will be costly and time consuming. Moreover, a weak follow-through in implementation not only delays

time to benefit, but also creates business risks in terms of supply continuity, safety, and quality.

Moving from sourcing as usual to sourcing under pressure increases the supply market complexity, as shown in Exhibit 1. The graphic depicts the shift and then shows the impact on category sourcing strategy—in this example, the CPG/retail sector.

One consequence of the increased complexity is that the optimal downstream sourcing strategies under normal circumstances could now be rendered ineffective. As depicted in the right panel of Exhibit 1, time-pressure based shifts for commodities and contract-manufacturing categories necessitate an adaptation to the downstream sourcing strategy. When sourcing commodities like flour or cocoa under normal circumstances, large CPG companies are likely to employ a stick approach (as opposed to a carrot approach). The companies would focus on best-price evaluation through proven methods such as a comprehensive RFP bid or should-cost modeling. This would be followed by a hard stance on supplier negotiations, anchored on the threat to move volume.

When sourcing under time pressure, however, the stick approach may no longer work. Launching a full RFP bid takes too long as the hurdles to incumbent switching rise. The best approach in cases like this may, in fact, be a stick-and-carrot strategy. Here, the company seeks joint process improvements and win-win gain shar-



ing with the supplier, while still holding out the option of launching a competitive RFP bid. Incumbents may be more willing to grant timely concessions under this hybrid approach.

Takeaway 1: Case Example. A leading construction equipment maker faced mounting pressure to improve profit to fend off a recession-driven drop in demand. For its paint category, the company realized that it enjoyed moderate bargaining power over its suppliers. However, the long lead time for testing the highly specific paint mix under a supplier switching scenario precluded a full RFP-based bid option. Instead, the company pursued a win-win joint process improvement initiative with its strategic suppliers and sought an in-year retroactive rebate in exchange for committing to joint profit improvement and baseline volume for the incumbent supplier. By adjusting its category sourcing strategies, the OEM not only better deployed its internal resources but also accelerated its average time-to-benefit by more than 40 percent.

Takeaway 2: Leverage benefit-acceleration tactics

Recognizing the added supply market complexity inherent in time pressures and making the necessary adjustments in sourcing strategy is necessary to drive rapid benefits—but it’s not sufficient. What’s also required is optimal timing, which can be achieved through what we term benefit-acceleration tactics. To return to our ER analogy, the physician may opt for emergency surgery over a medicinal approach (that is, “do the right thing”). But she may also employ creative tactics to accelerate the benefits of the surgical approach (“do things right”).

We’ve identified several effective benefit-acceleration

tactics, described below, that have broad applicability across sourcing categories and industry sectors. (Exhibit 2 displays these acceleration levers and their applicability.)

Decompose and Conquer. This lever seeks to accelerate both the sourcing and implementation timeline by focusing on sub-components of a complex product category rather than the entire offering. This lever is ideal for products or services with decomposable components in which a few sub-components drive a significant part of the total cost. Third-party co-packing/trade customization provides a good example. Large CPG companies typically procure a wide range of co-packing product categories (for example, temporary unfilled point of sales [POS] displays, permanent unfilled POS displays, filled temporary POS displays, filled permanent POS, and so forth). Each category is further composed of a plethora of graphics, labeling and additional “value-added conversion” activities. Bidding out the entire offering would be prohibitive under tight time constraints. However, by focusing the sourcing effort on a common, low complexity sub-component such as the paper used across all the unfilled POS displays, CPG companies can reduce their sourcing timeline by 70 percent. Moreover, they can achieve 10- to 15-percent annual savings and 2 percent current year savings through payment term improvements or rebates.

Identify Hidden Gems within Existing Contracts. Companies often can achieve quick wins and bypass a broad-based sourcing effort altogether by reviewing incumbent contracts. By systematically comparing the contractual terms and pricing structure against industry-accepted norms, companies can identify contract clause outliers or gaps that are candidates for immediate adjustments from incumbents.

One promising category in this regard for is ad agency

EXHIBIT 2

Benefit-Acceleration Levers

Acceleration Lever	Lever Description	Why Different Than Usual?	Most Applicable When
Decompose and Conquer	<ul style="list-style-type: none"> Break down the category and focus sourcing efforts on the high-spend, low-complexity components 	<ul style="list-style-type: none"> Apply sourcing strategy on key component(s) rather than on the entire solution 	<ul style="list-style-type: none"> Sourced solution composed of sub-components with weak dependencies
Identify Hidden Gems in Contracts	<ul style="list-style-type: none"> Compare contract clauses and pricing structure against industry standards 	<ul style="list-style-type: none"> Focus on finding competitive gaps in incumbent contract structure rather than full sourcing event 	<ul style="list-style-type: none"> Client has high bargaining power Established supplier market with industry accepted contract structures
Seek Up-Front Payment	<ul style="list-style-type: none"> Utilize rigorous financial modeling to structure front-load gain-share of future benefits Supplier to provide front-loading of clients’s future share of benefit 	<ul style="list-style-type: none"> Up-front payment makes constraints such as supplier switching cost or implementation lead time irrelevant 	<ul style="list-style-type: none"> Client buys significant volume; high bargaining power over supplier Significant win-win benefit requires mutual commitment (enabler) Category amenable to financial engineering

services, which is a significant spend category for most large companies. The cost to switch ad agencies is relatively modest, creating good bargaining power for the buying company. Further, most creative ad agency services are typically contracted and managed by the marketing organization than by procurement; thus, the focus is likely to be more on creative value and customized service rather than on cost diligence. Recognizing this, a quick but rigorous benchmarking of contractual fee structure against industry standards can uncover gaps such as an unusually high bonus payment schedule. Quickly benchmarking incumbent contracts and then following up with negotiations to seek appropriate current year retroactive adjustments can yield current-year savings of 5 percent to 10 percent.

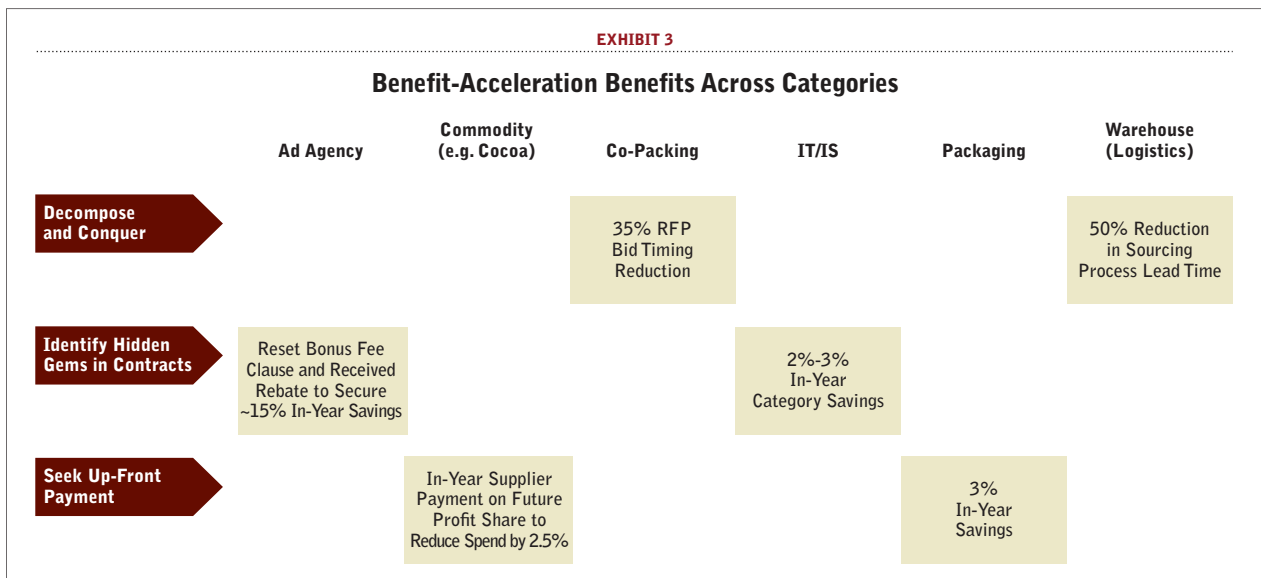
Another applicable category is IT/IS hardware leases. Large corporations often are mired in a plethora of hardware and software contracts and leases. In such instances, a quick scan of IT hardware leases can yield quick win opportunities. Often times, smaller hardware leases have expired, but the company is still paying unnecessarily on them. Correcting such neglected contractual gaps can deliver a 2 percent or 3 percent savings in addressable hardware IT/IS spend.

Seek Up-Front Payment. A powerful tactic in combating time pressure is to seek up-front payment from suppliers on future sourcing-derived benefits. This lever is ideal when a company and its supplier can strategically agree upon a shared win-win future scenario, such as joint process improvements and a commitment to increased business volume. By collaboratively structuring a win-win relationship and rigorously modeling the expected future value created, companies can then

request the supplier to front-load the company's portion of that future value stream. In return, the company is contractually obligated to deliver against its end of the bargain in the near future. The up-front payment mechanism not only confers immediate benefit to the company, but also provides a vehicle for making commitments and aligning incentives up front to ensure collaboration success.

Categories such as packaging or commodities are promising candidates for this tactic because companies often buy in large quantities and can potentially create significant win-win value by consolidating volume with incumbent suppliers. For commodities like flour, soy bean, and steel, the base commodity spot-market pricing and the supplier's conversion cost structure are generally well understood. This enables a company to accurately model the degree of value creation for a given supplier as a function of joint process improvements and incremental business volume (for example, increased revenue and improved fixed cost structure for the supplier). By accurately quantifying the future value created to both parties, a company can structure a deal seeking up-front payment from suppliers against the future win-win value-creation scenario. Note that this commitment not only expands the pie for both parties, but also aligns incentives to create a more transparent and strategic relationship. Through this approach, large customers of certain commodities can typically achieve substantial current-year savings of 2 percent to 4 percent.

Leveraging the benefit-acceleration tactics can deliver big and rapid benefits. Exhibit 3 shows the potential effects of applying benefit acceleration levers across representative categories.



Takeaway 2: Case Example. A global food and beverage manufacturer launched a rapid procurement initiative to build its cash position in order to enable strategic investments. By employing benefit-acceleration tactics such as “decompose and conquer” in transportation/logistics and “seek up front payment” in commodities, it was able to generate 3 percent in-year savings on its addressable spend. The company’s third-party transportation/logistics relationships involved a collection of contracts and services (customs brokerage, freight, warehouse management, trade customization services, etc.) that would require substantial effort to systematically define and specify in a formal RFQ bid process. The company wisely focused its competitive bid and negotiation efforts on key sub-components that had both a high proportion of the overall spend and relatively low complexity, such as cross-docking services. Through this approach, the company addressed a substantial portion of the overall cost profile in half the expected time.

In commodities, the manufacturer leveraged its significant market power as a buyer of cocoa. The company consolidated its supply base, which gave the winning suppliers a significant opportunity to both unlock scale-based profit improvements and increase market share. Further, the increased volume commitment served as a platform for structuring additional joint process improvements and risk sharing agreements. This risk/gain sharing strategy enabled the company to secure a hefty in-year, up-front cash payment on its share of the future value to be created.

Takeaway 3: “Shock” and mobilize the internal organization

In addition to executing the supply market-facing strategies and tactics, companies need to “shock” their internal organization into marshaling the necessary focus, resources, and sense of urgency to deliver under pressure. Most organizations need to be shocked to take them out of their business-as-usual mind set. When companies are successful here, we typically see three critical principles in place—adopt one voice, aim for one target, and get out of the comfort zone (see Exhibit 4):

Adopt One Voice.

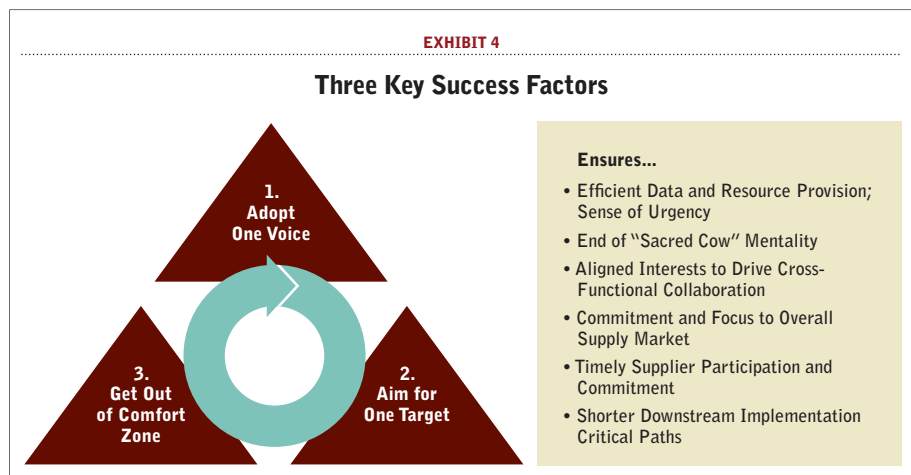
Delivering a coordinated and consistent messaging to the external supplier market is critical to project an image of preparedness and focus. This is especially important for large matrix organizations where

supplier relationships and contracts can extend across various business units. Adopting “one-voice” messaging can:

- Increase suppliers’ likelihood to respond to initial sourcing activities such as data collection and RFP response in a serious and timely fashion.
- Prevent suppliers from employing divide-and-conquer tactics—that is, providing attractive incentives or pricing on a sub-set of volume to individual business units or category owners.
- Put the company in a better position for downstream supplier negotiations.

Adopting one-voice messaging is important throughout the procurement initiative—from written communications such as initial supplier e-mail briefs, to RFQ sourcing bid letters, to face-to-face negotiations with downstream suppliers. Central to projecting one-voice messaging is to have a balanced negotiations team. The team should have at least two members who have cross-functional responsibilities across business units. In addition to the procurement leads, the team should have representation from other functions including supply chain, manufacturing and sales/marketing if appropriate. Companies often assign the incumbent supplier relationship manager as the lead negotiator. This could lead to sub-optimal negotiation performance as considerations of managing the day-to-day business may temper the negotiator’s ability to deliver a consistent message to the supplier.

Aim for One Target. To shore up cross-department collaboration and bust the silo mentality, a procurement initiative must align with the underlying interests and incentives of the various stakeholders. Often, each line of business, function, and department has its own annual productivity and continuous improvement targets and incentives. If an enterprise-wide procurement initiative is seeking to address a particular category whose baseline spend and savings target overlaps with



another initiative, the resulting confusion and conflict will inevitably lead to counter-productive bickering. For example, a sourcing event focused on six-sigma improvements at a third-party manufacturer's plant could overlap in scope with an existing business unit's annual manufacturing productivity plans. The solution is to get senior executive support and commitment to a single "benefit target" that maximizes the gain for the organization overall. This approach helps facilitate the cross-functional alignment needed to drive collaboration and resource allocation, while avoiding contentious turf battles.

Get Out of the Comfort Zone. To meet an aggressive timeline and maximize the likelihood of the sourcing initiative's success, senior leadership needs to push the internal organization beyond its comfort zone. This is particularly important in two areas—savings targets and new supplier qualification.

Supply management professionals need to set an aggressive savings target and announce it with confidence. A stretch target will inject a sense of urgency and serve as a rallying point for the initiative. As importantly, it will force the team to look into every nook and cranny for savings opportunities. In organizations with an entrenched culture of setting low expectations and delivering against conservative targets, it's critical that senior leaders state the savings message loud and clear. And in all organizations, they need to carefully monitor and evaluate downstream staff performance to ensure effective execution on the aggressive target. Setting a high expectation with no linkage to performance evaluation to the target goals is like having a loud bark with no bite. There is no real incentive to drive team members to truly push beyond their boundaries. On the flip side, if downstream performance evaluation is inextricably tied to beating the aggressive target goals, the staff is incented from day one to aim beyond their comfort zone.

Organizations also need to get out of their comfort zone with regard to accelerating the new supplier qualification process, which is critical to a high-impact sourcing event. For categories like flexible packaging, we found that when executives pushed to streamline the existing new supplier qualification process, they reduced the process by several months (a timeline reduction of 25 percent to 50 percent). This contributes greatly to shortening the overall critical path to sourcing benefit.

Takeaway 3: Case Example. A large pharmaceutical company launched an ambitious organization-wide procurement initiative to drive bottom line benefits. One key lesson the company learned from its recent post-merger integration was the importance of "shocking" and mobilizing the organization to achieve cross-unit momentum. The head of opera-

tions sought out key players from the merged organization to leverage best practices for mobilizing the internal organization. For example, the group convened with its business unit and functional heads to both identify a clear scope of the sourcing categories and potential existing initiatives. The goal: to target overlapping spend in order to create a one-target umbrella. Another best practice was to quickly assemble a cross-unit program management office and define a process blueprint for systematic supplier engagement to ensure a single consistent voice to the external supply market. Finally, the team engaged other executives in the C-suite to loudly communicate the aggressive target so as to drive the sense of urgency across the organization and throughout the ranks. Adopting such a disciplined and aggressive approach was the only way for the executives to mobilize the company's global organization in a way that would drive timely impact.

Balancing Rapid Cost Reduction against Long-Term Solutions

Companies need to balance these strategies and tactics for driving rapid benefit against potential longer-term considerations. Companies can ensure that they are not compromising sourcing options or injecting risks over the long term by asking the following questions:

Do the proposed strategy and tactics for rapid, high-impact sourcing:

- Require a long term contract lock-in?
- Preclude the organization from adopting or launching a different sourcing strategy in the near future?
- Compromise future quality or service levels?

A "yes" answer to any of these questions should trigger a thorough and objective trade-off analysis between the strategic/downside risks and the expected near-term savings benefits.

The following illustrates the type of trade-offs that need to be considered. A CPG company can choose to leverage the "decompose and conquer" tactic by sourcing only the input materials component of its overall co-packing category. In theory, employing this tactic does not preclude the company from launching a full-blown RFP sourcing process in the near term (that is, bidding out the turnkey solution from input materials to conversion to custom labeling). In addition, a focused and accelerated bid for input materials should not negatively affect the quality of supplier conversion or custom labeling activities. However, if the company lacks buying scale and supply market power, the leading co-packing suppliers could demand a long-term service contract in exchange for offering best-in-class pricing on input materials. This would fundamentally change the sourcing trade-off equation. In this case, the company must

assess the downstream risks of a contract lock-in before committing to booking the near-term savings.

As part of shocking and aligning the internal organization for rapid success, companies should assign a cross-functional steering committee or executive team as the “gatekeeper” in evaluating each of the proposed sourcing strategies and tactics. This will ensure that pursuing accelerated savings is not achieved at the expense of alternative options that can yield significantly greater future benefits or of quality or service levels.

Are You Ready?

Before launching a rapid, high-impact, high-pressure sourcing event, the leadership team should ask five broad sets of questions to test the organization’s readiness:

- Do you know how the time constraint will affect each of your major categories vis-à-vis the supply market? Do you have a good sense of how to adapt downstream sourcing strategies to achieve near-term benefits?
- Do you have a robust estimate of the likely benefit range achievable? Have you challenged your team to identify creative benefit-acceleration levers to maximize time-to- P&L impact?
- Have you secured the support of the C-suite and

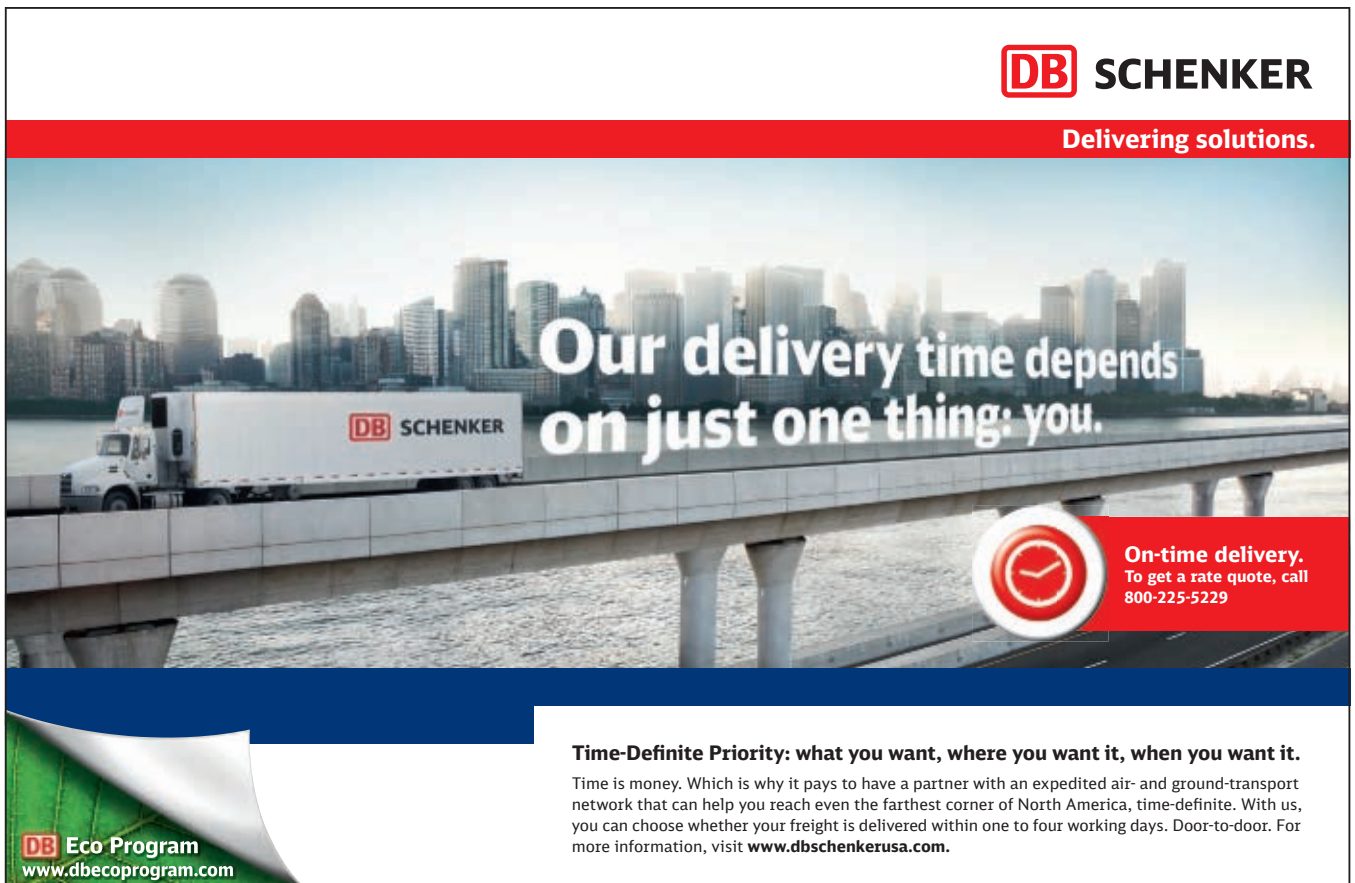
business unit heads in order to marshal the cross-organizational resources and drive the required sense of collaborative urgency across the ranks?

- Have you identified major existing internal initiatives that address the same spend baseline or supply base as your initiative? Do you have a change management plan for aligning the stakeholders on a one-goal mind set?
- Have you defined a cross-organizational process blueprint for engaging suppliers with “one voice” consistency?

Answering these questions in the affirmative—or at least working aggressively toward an affirmative answer—will enable you to not only do things right but also do the right things when it comes to high-impact sourcing. In this sense, you will be like the skilled ER physicians we mentioned at the beginning of this article. For these physicians, as for supply management professionals, the goal is the same: Success under pressure. ☺☺

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ARE SUPPLY CHAIN LEADERS READY FOR

By Tim Stratman

Tim Stratman is President of Stratman Partners Executive Coaching, Inc. He can be reached at tim@stratmanpartners.com.

THE TOP?

Why don't chief executives come from the top supply chain ranks as readily as they do from finance, marketing, and sales? Senior supply chain management roles constitute some of the best preparation possible for the CEO's position. But if they are to be seen as such by those who plan CEO successions, supply chain leaders themselves need new ways to think about the route to the top office.

There is an old Chinese proverb that says, "There are many paths to the top of the mountain, but the view is always the same." If the "top of the mountain" translates as the role of chief executive of your company, is one of those paths a career in supply chain management?

If you had asked this question 15 years ago, the answer would be "no." Today, that's changing, albeit slowly. More supply chain executives are starting to progress toward the executive suite. But if the few who do make it are to become many—as we believe they should—we need to give serious thought to what's needed for that to happen. In effect, we need to know how to chart a wider, more accessible path to the top of the organization chart. It is important to do so not only to elevate the supply chain profession but to benefit businesses by having more high-quality, well-rounded, operationally savvy executives vying for the top job.

Like Sir Edmund Hillary being the first to climb Mt. Everest, we can point to some pioneering chief executive officers (CEOs) who rose through their organizations as executives with significant supply chain and logistics operational experience. One of the most notable is H. Lee Scott, who served as president and CEO of Walmart Stores, Inc. from January 2000 to January of 2009. Scott was a major catalyst behind the improvement of Walmart's distribution network.

Another trailblazer is W. Bruce Johnson of Sears Holding Corp., who was executive vice president of supply chain operations before becoming interim CEO and president of Sears Holdings (it's yet to be seen if Johnson assumes the CEO role on a permanent basis).

However, the majority of Fortune 500 CEOs still come from disciplines such as marketing, sales, finance, and legal. While those paths are by no means inappropriate for development of the next corporate chief, they

are not the only paths. We believe that CEO succession committees would be helping to strengthen the top management team if they routinely considered supply chain executives as potential candidates.

There are two important reasons for our assertion. First, for those who deeply understand the breadth and depth of the supply chain experience, it is clear that supply chain management offers some of the most comprehensive and underutilized training grounds for high-potential leaders. The supply chain leader's vantage point encompasses the entire value chain. His impact extends from the supply base through his company's operating platform and on to the customer. The best supply chain leaders regularly interact with key players across this span. With the exception of general managers and CEOs, few if any other roles in a business share this comprehensive scope.

In addition, and perhaps most importantly, the two core skills that best define supply chain leaders—influence management and people/team development—typically define the best CEOs and general managers as well. We need to fully exploit this alignment, which is currently misunderstood and underleveraged. This will require us to explore our own perceptions of supply chain leadership—and to be open to making some changes in our beliefs and approaches.

Secondly, we need to accelerate the attraction of top talent to the discipline. Consider the mindsets of two intelligent and ambitious college students who are pondering supply chain careers. The first student sees strong evidence that that career choice is a great way to climb the organizational ladder, perhaps even making it to the top spot one day. She studies the careers of business leaders who graduated with supply chain degrees and went on to secure higher and higher positions, including CEO roles. The second student sees very few examples of this trajectory. Which student will be more compelled to pursue a career in supply chain?

Different Routes to the Top

It is important to call out a subtle but critical distinction regarding the career path to the CEO position. Increasingly, there are examples of executives who began their careers in marketing, sales, or finance who received supply chain experience on their way to the top. A recent case in point involves the relatively new chairman and CEO of Xerox Corp., Ursula Burns. Burns began her Xerox career with a degree in mechanical engineering and moved through a diverse series of assignments, including heading up manufacturing and supply chain operations. In many media announcements about her appointment as CEO, Ms. Burns' supply chain experience was called out. However, Burns didn't start out as a supply chain professional. Her career began in product development and planning.

Consider two hypothetical career paths. In one, the college graduate (let's assume he graduated with a B.A. in marketing) enters through the marketing function and after proving himself, he gets operational and supply chain experience before earning his first general management assignment. (See Exhibit 1.) Another graduate starts in the supply chain organization and after a successful tenure, moves on to pick up operations and marketing experience prior to becoming a general manager. This second career path, specifically its starting point, is the focus of our discussion.

Reaching the CEO's office via the supply chain organization is certainly possible and, as noted earlier, has some precedent today. However, we need to ask, "What will it take to create a well-worn path from the supply chain organization to the CEO's office?"

For a start, we must more fully understand and communicate the rich CEO training ground that the supply

chain organization offers. We need to promote the fact that many of the most important skills practiced by great CEOs carry equal importance for effective supply chain leadership.

The Importance of Influencing Well

In our practice, we have found that five traits separate the best supply chain leaders from everyone else: influencing skills, developing leaders and teams, customer-centricism, results orientation, and emotional fortitude. (See Exhibit 2.) Consider the emphasis that companies like General Electric Co., IBM Corp., and Cisco Systems, Inc. place on developing these skills—and the investments they continually make to do so.

Let's take a hard look at the first of the two core skills: influence. As management thinker Peter Drucker said, "The only definition of a leader is someone who has followers." Drucker went on to say that influence is required in order to acquire followers. Leaders use influence to help shape the actions, behaviors, and opinions of people around them. A leadership style that relies on influence contrasts sharply with one that uses the power of the position to force followers to conform to the leader's directives.

Over the last 10 years, value chain management has become increasingly critical to a company's success. Leading businesses such as Walmart consider value chain management a core strategy. The responsibility for ensuring that all the value chain players operate together as a seamless and powerful system sits squarely on the supply chain leader's shoulders. Achieving this alignment requires superb influencing skills that span internal and external boundaries.

We worked with a supply chain leader who was put in charge of a major inventory reduction project. The goal was to improve annual inventory turns from 12 to 18 for a major raw material used in one of the company's business units. This was no small task for many reasons: The supply base lacked appropriate concentration, the inventory ordering process was non-standard and decentralized, and the various manufacturing sites strongly resisted "outside interference." Our client needed to enlist the support of the business unit leadership team and various

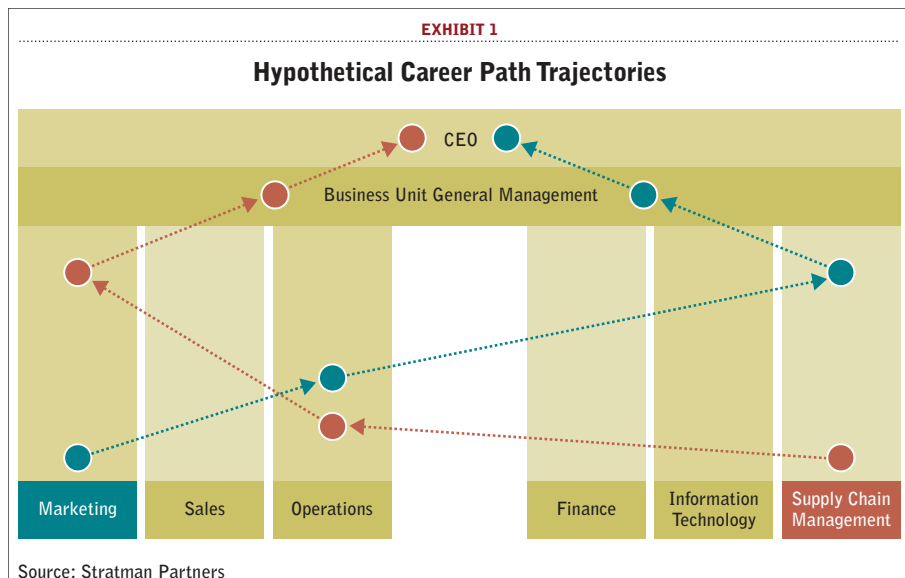


EXHIBIT 2

Five Traits Distinguish the Best Supply Chain Leaders

Leadership Qualities

- Strong influencing skills allow the executive to achieve cooperation and enthusiasm in the absence of direct authority
- Consistently builds strong organizations, sets high performance standards, top grades, and develops people
- High emphasis on attainment of tangible results in the forms of well defined operational and financial metrics
- Understands customer values and demonstrates the ability to add value to customer relationships
- Emotionally strong, confident, and willing to take intelligent risks

Manifestation

- Strong cross-enterprise relationships and alliances developed to achieve strategic goals
- Leader's brand highly associated with a strong team both within and external to the organization
- Consistently hit their numbers
- Is invited by sales and general management to engage with customers and has credibility around customer issues
- Strong and balanced executive presence

Source: Stratman Partners

and conviction. As she worked with her team to create an entirely new business focus, her ability to convey trust, confidence, and unshakeable determination excited her organization to take the leap. Due to her positive, influential leadership, her team followed her from the known into the unknown. Today, they are well on their way to transforming their business. This is influential leadership at its best.

The influence requirements of this CEO and our supply chain chief differ only in scale and scope. Imagine our supply chain leader refining her influencing skills over and over again with larger and more complex enterprise-wide supply chain projects. She just might end up becoming a CEO candidate.

The Importance of Developing Others

Now let's examine the skills sets needed to develop leaders and build strong teams. The supply chain officer faces some unique challenges in practicing these skills. Like a CEO's executive team, the supply chain function is inherently cross-functional and ubiquitous, touching nearly every corner of the enterprise. It embraces all functions: operations, finance, marketing, IT, and many others. Perhaps most testing of all: It regularly calls for building cross-functional, collaborative teams that include external parties such as suppliers.

We worked with a senior vice president of supply chain for a large manufacturer. A couple of years ago he was challenged to regionalize several critical supply chain activities. As a market leader, his company had the financial strength to consolidate its market position via two highly targeted acquisitions. With the acquisitions, supply chain complexity increased significantly. Prior to the acquisitions, 50 percent of the total spend was sourced domestically. Now 80 percent of the total spend was concentrated in Asia and the Pacific Rim. Different procurement processes, cultures, and commodity categories came with these acquisitions. The differences had to be rationalized to achieve the synergy advantages anticipated in the acquisition's financial projections.

The supply chain chief needed to establish a common vision for his function, build the most effective team possible, drive alignment between the supply chain organization and the business units, and achieve significant cost savings—a daunting set of tasks. To streamline the procurement process, eliminate redundancies, and improve compliance, the global organizations were to

other functions. This meant that the business unit would have to agree to underwrite all time, money, and resources for the project. The inventory management solution required the collaboration of sales, operations, finance, suppliers, and others. Many of these constituents didn't report to our client; regardless, she owned the operational and financial targets associated with the project.

To the uninitiated, this might seem like a relatively straightforward task. After all, the business unit would receive the benefits—that is, the reductions in working capital required—if the project was successful. Shouldn't that be enough to gain the cooperation of all involved?

Not necessarily. In the real world, each of these constituents had a "day job"—an array of other demands on their time and resources. They had their own bosses who expected them to deliver on all their objectives, not just this one. Securing a strong, passionate commitment from these individuals became highly dependent on our client's ability to wield effective influence to secure full cooperation and dedication. Fortunately, her influence created a sense of positive obligation on the part of those involved, compelling them to balance the project's demands with their other responsibilities. As a result, the project was successful and the team made a significant and lasting contribution.

Now let's turn to the successful CEO. We worked with a CEO who, in the words of Jim Collins, author of *Good to Great*, was an exceptional Level Five leader.¹ Her leadership embodied a powerful combination of modesty

be reorganized into regional procurement centers. This meant big changes for many employees.

During a private meeting with a key manager from the newly acquired company, the executive was discussing some scary changes—changes that could significantly affect the organization’s employees. An impressive moment came when the manager spoke up: “The only reason my organization isn’t running for the hills from your proposed changes is that they’ve heard great things about you and the quality of your team. Our best players want to be part of your team and will work hard to earn a spot.”

Throughout the acquisition and integration initiatives, the supply chain executive faced huge organizational challenges that touched every corner of the business. Not only did his assignment exercise his own leadership skills—particularly his ability to influence others and develop new leaders—but it expanded the suite of skills that would improve his chances of landing in the CEO’s chair.

If the cachet of supply chain management is to rise, we need to take action to make it so. Let’s begin by taking a new look at ourselves.

Expanding the Supply Chain Brand

Every business leader has a professional brand. In simple terms, your brand comprises the image and feelings that come to mind when others think of you. Your brand creates associations; hopefully, these are associations you desire. Like any commercial brand, a leader’s brand also creates expectations.

Your brand should reflect your essence—what you care about as a leader. It reflects what you value and how you create value. A brand needs to be proactively developed, refined, and managed. When a leader neglects to proactively develop his brand, be assured that those around him have “branded” him in their minds, and often in ways he will not like.

So what is supply chain’s brand? How well does it align to the brand of great CEOs? We need to think of ourselves as brand managers, with our brand being supply chain leadership. We need to realize that while we have a healthy brand today, we have several sources of untapped equity that when released, will significantly improve our opportunities to ascend to the CEO position. Following are three specific areas where we can act on that realization.



We need to think of ourselves as brand managers, with our brand being supply chain leadership.

1. Balance Strategy and Tactics. It’s our observation that the supply chain brand is more associated with tactical execution than with vision and strategy development. That was clear during dinner at a conference some years ago with several senior supply chain leaders. The conversation turned to the previous quarter’s financial results, and some of the leaders were describing what their teams delivered and how they did it. They demonstrated an impressive focus on results.

During the conversation, one of the leaders remarked, “We are like well-oiled machines when it comes to executing initiatives and delivering results. But you know, our people are also strategic thinkers. I don’t think my peers fully appreciate how good we are at developing vision and strategy. As long as we deliver the cost numbers, they don’t seem much interested in how we got there.”

That mindset can be changed through better communication and by being opportunistic. Here’s one instance of a golden opportunity: A supply chain manager applied a new logistics strategy to deliver significant cycle time reductions. The strategy challenged some of the company’s traditional business practices and beliefs—for instance, its long-time resistance to strategic partnerships. At a review with the business-unit president, the supply chain chief announced the initiative’s results, and quickly passed the baton to the next presenter.

Typically, the business unit leader would let the moment pass. However, this time, he turned to the supply chain boss and asked her, “Just how did you pull this off?” After she had explained the strategy—that included forming a strategic partnership—the president responded, “This is great stuff. Typically, I don’t get what you guys do and—don’t take this wrong way—I don’t really want to know the details. But the strategy you have just described is really powerful and has application across other areas of the business. I want my marketing folks to hear this story.” In the mind of this business-unit president, this supply chain leader had just added a “strategic” association to her brand.

Supply chain leaders should focus on creating more balance between the strategic and tactical associations to their brand. In the early weeks and months, it will almost certainly require an “over-correction” by aggressively looking for ways to develop strategic skills in key managers and deliberately showcasing these capabilities to the organization.

2. Balance Cost and Revenue. Another brand

association of supply chain professionals is a tenacious focus on cost reduction. Business leaders continue to experience intense pressure to cut costs everywhere, especially because their post-recession revenues are growing so sluggishly (if at all). In the current environment in particular, the supply chain organization has been the hero riding to the rescue. Many companies owe their last two years' profit and loss (P&L) performance to supply chain organizations that "found the cost" when top-line growth was nowhere to be seen.

However, the CEO brand stretches much further to encompass vision and strategy, largely because top-notch CEOs are renowned for being able to keep their companies' growth engines firing continually—and profitably. For these CEOs, if you are not growing, you are shrinking. For them, growth is very much about increasing sales, growing market share, expanding into new markets, and developing innovative new products.

So are supply chain leaders pegged in perpetuity as cost-cutters and tacticians? Not necessarily. They can pursue opportunities to expose their teams to important market- and customer-focused initiatives that put them closer to the bull's-eye of profitable growth generation.

One supply chain leader decided that the best way to get out of the "cost only" box was to form an alliance with his company's senior vice president of sales and marketing. The two leaders established a mutual commitment to create an experiential learning exchange between their organizations and in the process, to create value for their customers and several targeted prospects. They developed a plan to pursue value chain integration with their best customers—a plan that required sales, marketing, and supply chain representatives to work with select customers to pursue cost reduction and product innovation. The targeted customers represented more than 30 percent of the business unit's profit.

Throughout the process, the supply chain leader's team had numerous interactions with the CEO to review progress. Later, the CEO confided in us that he was "very impressed" to hear supply chain executives talk so much about customers. In fact, this cross-functional team was responsible for renewing all targeted customers at substantially higher margins.

3. *Emphasize Inspirational Leadership.* It isn't unusual for the supply chain brand to have a strong technical association. This technical bent, which emphasizes the "hard" vs. "soft" skills, can effectively mute the key role that inspirational leadership plays in supply chain success. Supply chain leaders need to attack this perception and in the process, unlock the untapped passion

within themselves and their organizations. When they do, they are leading like the best CEOs and pumping equity into their brand.

One supply chain executive had a two day offsite meeting with her leaders to kick off what she envisioned would be a transformation of her organization's culture. She was looking for more than a "shot in the arm"; she wanted her team to become authentically passionate about their mission. In advance of the meeting, she sent out an e-mail to her leadership team asking them to think about the following questions.

What are we really passionate about?

What are our current sources of inspiration?

What can we commit to achieving tomorrow that seems almost impossible today?

What value do we create that goes beyond dollars and cents? How do we improve lives?

These questions comprised the only agenda items for the meeting. The discussions over those two days were fascinating and resulted in an inspirational manifesto, developed by the leadership team, which guides the team's activities to this day. The manifesto wasn't full of soft, fluffy language. Instead, it called out specific behaviors, activities, and goal-setting processes that the team committed to embedding in their business culture.

The team embraced this quote from Richard Branson, founder of the famous Virgin brand, that reflects the essence of the culture they want to build: "I don't know whether the word insane is right, but you've got to love a challenge and you've got to be willing to push the limits beyond what other people think is possible." This is the spirit that these supply chain leaders are bringing to their organization. It would make any CEO proud.

Our Opportunity

Supply chain leadership is an exceptional and underexploited source of CEO talent. Outside of P&L management, nothing compares with the comprehensive nature of supply chain management, which spans all of a business value-creating processes. Success in this discipline leans heavily on some of the very leadership skills that distinguish the world's best CEOs.

As such, our challenge is to educate ourselves and our companies on these key points of alignment. We may need an assertive marketing campaign to make our point, but the effort will be well worth it. ☺☺

Endnotes

1 *Good to Great: Why Some Companies Make the Leap... and Others Don't*, Jim Collins, HarperBusiness, October 2001.

BLUEPRINT FOR CHANGE: Georgia's Procurement

Can strategic procurement best practices from the private sector be effectively applied to state government? The State of Georgia's success with its Procurement Transformation initiative answers that question with a resounding yes. Georgia completely revamped the people, process, and technology surrounding the procurement process—confirming the old wisdom that it's not only what you spend, but how you spend it that makes the difference.

By Brad Douglas

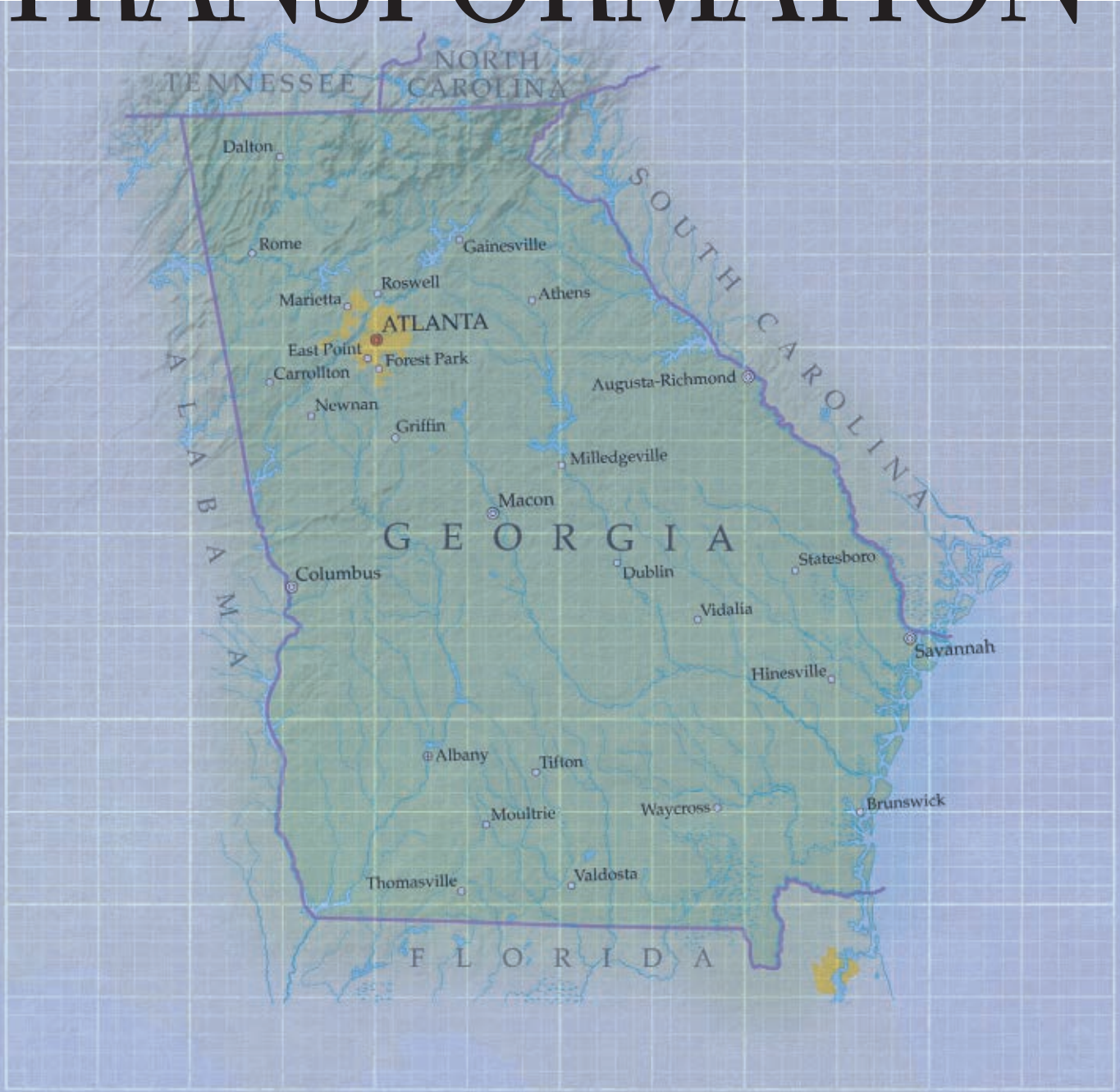
Throughout our shared history, few themes are as omnipresent in the national discourse as the always spirited debate over government spending. From the frustration with taxes that sparked the Boston Tea Party to the generosity exhibited in the Marshall Plan, Americans have always shown an inherent resolve that public funds be used wisely and an intuitive understanding that taxes, services, and spending are intertwined.

Today, with the worst recession since the Great Depression challenging our states, counties, and municipalities—indeed our very nation—the singular importance of realizing the full value of taxpayer funds needs no explanation. On every dollar rests government's ability to provide crucial services that shape the communities we call home.

As a record number of Americans struggle financially, there's no escaping this truth or the direct link between the taxpayers' financial well being and the fiscal health of the agencies that serve them. Nearly all state governments face record budget shortfalls as revenues decrease and many citizens find themselves in greater need of services than ever before. It's a situation shared by counties and municipalities nationwide. The State of Georgia is no exception. For fiscal year 2008, the state budget was \$20.5 billion.

Brad Douglas is commissioner of the State of Georgia's Department of Administrative Services (DOAS). A veteran private sector supply chain professional, he was tasked by Georgia's Governor Sonny Perdue to implement the nation's first large-scale effort to reform public sector procurement.

TRANSFORMATION



In fiscal year 2012, that budget will decrease to \$16 billion in the absence of additional federal stimulus dollars.

The course of action for governments during tough times has, historically, been rather limited. Spending cuts save money, but necessitate layoffs, furloughs, the shuttering of agencies, and the cessation of services. Likewise, running a budget deficit entails risks and is a temporary remedy. It is not a solution as most states, including Georgia, must have a balanced budget each fiscal year as provided for in their state constitution.

There is, however, another approach that is notably absent in government and needed today like never

We decided to undertake the transformation with a three-step approach that focused on people, processes, and technology in that order.

before: procurement reform. While no one can pinpoint the full extent of the money lost, it's almost cliché that government's spending practices are in need of a wake-up call. The \$500 hammers and acts of misappropriation of funds make the headlines, but they don't compare with the amount of money lost every day because of how public sector procurement is typically conducted.

While strategic procurement techniques are taken for granted in the private sector, their application in government remains rudimentary. Purchasing—the one function that directly addresses how public funds are used—remains a paper-pushing exercise at nearly every level of government. Constrained by a complex web of obsolete purchasing laws and earmarks, it bears strikingly little resemblance to the powerful financial strategy many companies use to drive bottom-line results.

The Procurement Transformation is the State of Georgia's effort to change that. What we had hoped to accomplish is nothing short of an entirely new approach to government procurement. We strove for a fact-based approach to sourcing and a modernized procurement code that has the potential to dramatically affect our ability to deliver the services our citizens need, and the performance, transparency, and results they deserve. We want Georgia's citizens to know, not hope, that their hard-earned funds are being used wisely and to their full potential. In short, we want to operate like a business, with a keen understanding of where and how money is spent—knowledge we can use to drive down costs.

Our efforts, and the lessons we learned, are directly applicable not only to our state, but to every government entity. It is my hope that what we are doing will serve as a blueprint for change on a large scale—change that will help make government more efficient and effective.

Leadership Creates a Vision for Change

Early in his administration, Governor Sonny Perdue resolved to apply private sector innovations and practices to government and created the Commission for New Georgia, designed to actively engage business leaders in the effort to improve state operations. Many well-known individuals took the governor's request to heart and agreed to participate in the task forces pro bono.

Each task force culminated in a clear list of recommendations on how to improve state government. One such task force was asked to review the State Purchasing Division and its purchasing practices. What it found was every private-sector supply chain

professional's worst nightmare—a reality that unfortunately reflects the norm, not just in Georgia at the time, but in the larger public sector. Tasked with establishing statewide contracts that would enable Georgia's agencies to leverage their combined buying power, the State Purchasing Division had little visibility and virtually no control over spending.

Collaboration among the division and agencies was non-existent. Procurement technology was lacking, as was employee expertise in supply chain fundamentals, including market dynamics, pricing strategies, and even proper procedures—a fact that put the state in court with suppliers on a regular basis.

State contracts negotiated by the division were not tracked. Nor was there any way to make them available easily to buyers, who simply didn't know where to look for them on static websites and procurement portals that made it difficult to know prices, let alone specifications. The purchasing process itself was equally flawed—a seemingly never-ending trail of manual requisitions and approvals where purchases often cost more to process than the items being bought.

Simply put, Georgia's state government had no real idea where, how, and with whom money was spent at any level of detail. Not surprisingly, most purchases were also made independent of strategic sourcing techniques and failed to leverage the state's significant buying volume. Illogical purchases, including widely divergent prices for the very same products, were the norm. At the end of the

day, the State Purchasing Division was a shopper with a checking account for nearly \$5 billion in addressable spend who couldn't tell you much about the purchases it made, let alone provide the fact-based perspective needed to effectively procure goods and services.

The task force made numerous recommendations, culminating in a ground-breaking vision: Georgia would create one procurement platform in which users throughout the state could shop for the goods and services they needed on state contracts. The same system could also be used by counties and municipalities if they opted, enabling us to create a powerful consortium of public entities at every level throughout Georgia. Integrated directly with the state's financial systems, the Procurement Transformation would provide the state with unprecedented line-item visibility over spend. This would effectively enable government for the first time to know how revenue was used and to negotiate with suppliers using that insight to further lower the state's costs.

In doing so, the task force laid the foundation for a first-in-the-nation approach to government procurement reform. Further, Governor Perdue—well aware of government's tendency to create plans only to have them gather dust—created the Office of Implementation to make sure the recommendations were acted upon.

When the opportunity to lead the State Procurement Division through the Procurement Transformation presented itself, I questioned what lay ahead. Would the lessons I'd learned in the private sector business world prove applicable in government, or would I, and the other private sector executives sought by the administration to execute its vision, find ourselves in a political no-man's land?

The governor's resolve answered those questions. With his strong urging, landmark legislation was passed to change Georgia's procurement code and lay the foundation for the Procurement Transformation. The Department of Administrative Services (DOAS) and the State Purchasing Division within it gained the authority to negotiate with suppliers after the RFP process—an ability almost universally lacking in public sector procurement and an impediment to strategic procurement practices unthinkable in the private sector.

Purchasing would also be centralized and the department would be allowed to redefine the skill sets required of new hires as well as their compensation packages. Budget would also be allocated not only for procurement technology, but also to bring consultants A.T. Kearney

on board as a partner to help execute the Procurement Transformation.

In our subsequent planning phase, we decided to undertake the transformation with a three-step approach that focused on people, processes, and technology in that order. In that way, the individuals driving the transformation would be brought up to speed first. Likewise, addressing the technology component last would ensure that we didn't automate an antiquated and flawed process.

With our foundation in place, we set to work—determined to create a completely new approach to public-sector procurement and contracting—one that would enable us to fully exert the buying power of one of the nation's most vibrant state economies.

People: A Fact-based Focus

We needed an organizational structure in line with our goals. The structure of the state purchasing division mirrored its focus on transactions—hardly what we needed

We quickly determined that existing procurement processes would require drastic change and complete reengineering.

to create the knowledge-based and strategic organization we envisioned.

My first introduction to the division made one thing clear: We had our work cut out for us. Purchasing personnel worked in an environment that exhibited nearly every stereotype of government. Performance was not demanded; it was joked that if you had a pulse you were hired. Paper-pushing was the name of the game. Commodity group expertise, while possessed by some, was hidden and stifled by the demand to be a bureaucrat and generalist. Not surprisingly, employees lacked professional development. After nearly three decades of existence, the division offered only two training courses: "Welcome to State Purchasing" and "Purchasing Fundamentals."

Even so, we reorganized the division by commodity groups—infrastructure, IT, goods and services—and changed the division's job requirements, making them more specific than existing applications that could be used for any government job. From here on out, we would seek purchasing professionals with certifica-

tions, experience with commodity groups, demonstrated negotiation expertise, and a clear ability to marshal the resources we needed to make the transformation a reality. Most importantly, we wanted people with the vision to achieve the fact-based approach to sourcing we knew held the key to operating the state like a business.

That approach would resonate in our hiring decisions from the top on down. After I was asked to serve as the commissioner of the larger DOAS, Tim Gibney, a veteran with extensive experience leading large-scale transformations, was brought on to lead the State Purchasing Division. Other hires followed, including a director of strategic sourcing hired from the private sector.

At the same time, our team set to work to train existing employees. We knew that some would be unable to make the transition, but we wanted to provide everyone with the opportunity to contribute to the Procurement Transformation. We created a Knowledge Center and training unit and began encouraging other agencies to utilize these resources as well.

All of our strategic hires shared my same vision for transforming procurement at the government level: You can't control, limit or direct what you don't know.

All of our strategic hires shared my same vision for transforming procurement at the government level: You can't control, limit, or direct what you don't know. In our case, what we didn't know was what we were purchasing, how much, and from where. In short, we had no visibility into how the state's budget was actually used.

Clearly, no real, sustainable business can operate that way, with no knowledge of the facts. Why were we trying to run that way? Why was government in general running that way? Our first initiative was a fact-finding mission. Armed with the facts, we could then make informed and intelligent spending decisions.

Process: Reengineering Required

We quickly determined that the state's existing procurement processes, which were focused almost solely on processing transactions, would require drastic change and complete reengineering of the solicitation process. Previously, those suppliers who won state contracts were the ones left standing after completing a time-consuming RFP process.

The process included little focus on the needs of the state, whether the supplier had the capabilities required, and even whether the goods and services being solicited were needed by agencies—a direct result of the lack of collaboration. That would change quickly as our investments in people intent to make the transformation a reality began to exert an impact.

Tasked with reviewing the existing purchasing workflow of each agency, Gina Tiedemann, the director of customer advocacy—a new position we created to ensure that the division addressed agencies' needs—met with department heads and users throughout the state. In that process, she reviewed their existing purchasing workflow with the idea of ultimately creating a technology—an empowered, automated process—capable of furthering our goals.

Almost entirely based on paper transactions and approvals, the existing purchasing process was unwieldy at best. Not only did it fail to deliver visibility over spending, but it was also time-consuming and labor-intensive.

Processing a simple purchase order took weeks, even months, particularly with geographically dispersed agencies where approvers had to sign off on each request as they received it in the mail.

Delegated purchasing authority was likewise low, requiring even the most basic transactions to be funneled through the entire process and in far

too many cases, the State Purchasing Division as well. After reviewing the existing purchasing process piece by piece, we were startled to find that nearly 80 percent of the work being done by the State Purchasing Division focused on various state agency procurements—not on negotiating state contracts as it was formed to do. Clearly, the division's very reason for being was not being realized. We quickly raised purchasing authority to \$250,000 for most purchases by state agencies and universities.

We also found supplier protests were far too common, although no one knew how many occurred or tracked that information. Suppliers with legitimate concerns typically waited 60 days or more for their challenges to be adjudicated. We resolved to lower their incidence, the wait time suppliers endured, and to measure the incidence of challenges for the first time.

At the same time we reviewed the state's purchasing policies and procedures in total. We changed them dramatically over the next year as the division reengineered the solicitation process from top to bottom, rewrote pol-

icy manuals and moved to eliminate inefficiencies in the procure-to-pay process. Most importantly, we changed the entire protocol to enable us to negotiate with suppliers as allowed by the new purchasing code—a capability we planned to capitalize on through the work of our new commodity-focused experts.

The changes were innumerable, but with a clear understanding of the process we were replacing, and a vision for something better, we were now ready to look at the technology that would enable us to execute our vision.

Technology: Cloud Computing Key

Our search for the technology we needed commenced with clear understanding of its importance. Convinced that the inability of the public sector to gain visibility and control over spending is the result of a technology gap as much as anything else, we knew we were in uncharted territory. With a dispersed organizational structure, historically there simply was no viable way for government to integrate numerous agencies with equally numerous locations on one, traditionally deployed procurement system. Absent a single version of the truth, paperwork was the only viable way to maintain basic oversight, albeit without any visibility over spend or details.

What we needed was a framework that would still allow agencies to operate autonomously and at the same time provide the State Purchasing Division with real-time, line-item visibility and the ability to interject in agencies' purchasing activities when needed. The ability to easily parse transaction data in numerous ways would also be crucial and arm our staff with the details and context they needed to identify new sourcing opportunities and successfully negotiate on behalf of the taxpayers.

The system would also need to be fully scalable and flexible. Counties and municipalities needed to be able to deploy it in a way that increased the state's buying power while enabling our communities to benefit from lower prices that only the state had the buying volume and clout to secure.

Our search was based on another, equally important criteria. Historically, low user-adoption levels foiled efforts to reform government procurement. Employees understandably made the most expedient purchases. No one used procurement portals. Historically, static websites listing contracts were the norm and asking the

rank-and-file with purchasing authority to scroll through a counterintuitive list of agreements negotiated by the state would never work.

The system we envisioned needed to be simple, enabling users to make the most intelligent purchases as easily as they did when using e-commerce sites at home. Finally, such a system would need to be integrated with our financial systems of record and easily accessible by participants in what we ultimately hoped would be the largest statewide-purchasing consortium in U.S. history.

It was a tall order, but cloud computing held the answer. Making such a system available via the Internet would make it possible to funnel spending through one system and gain the visibility over spend at the state, county and municipal level we wanted to achieve. Buyers would simply log into a virtual marketplace

Prior to the Procurement Transformation, only 6 percent of the state's spend was being actively managed. Today, nearly 60 percent of state purchases are being managed through strategic sourcing.

where they could purchase the goods and services they needed from state contracts negotiated by the division. Other purchases, conducted through the same system, would help our strategic sourcing professionals identify new opportunities to secure state contracts thus better leveraging the state's spend.

Ultimately, we choose two well-known and proven technology providers. Our PeopleSoft financial systems and supply chain modules would be integrated with SciQuest's on-demand online shopping environment and catalog management technologies.

In use by many of the nation's largest dispersed organizations—including some of the nation's best known colleges and universities, many pharmaceutical companies and leaders in healthcare—SciQuest's technologies had a well-documented track record for flexibility and consortium capabilities. User adoption levels were exceptionally high, with customers reporting that buyers found the purchasing experience remarkably similar to that enjoyed on popular consumer e-commerce sites—all while providing procurement with the visibility and control over spending it needed.

In addition, we created a Spend Cube, a statistical tool that would enable us to collect and combine disparate accounting data from throughout the state. This

would be of great importance in creating the fact-based procurement organization we envisioned because the data collected would help us drive the consolidation of spend.

Able to be reused and refreshed, such a tool would also enable us to conduct detailed spend analytics—examining purchases from throughout the state by product, supplier, commodity group and other criteria. This ability would enable us to create an accurate benchmark and in the pro-

purchasing process and policies.

Rolled out agency by agency in stages, the centerpiece of the new system was Team Georgia Marketplace™, our name for the virtual shopping environment that now made it possible for users to easily window shop, find, compare, and purchase the goods and services they needed on state contracts. The results achieved to date offer a powerful validation of the opportunity supply chain professionals have to make government more transparent and effective. They also bring to light the key lessons we learned and their importance to others in their efforts to achieve similar results.

The results achieved to date offer a powerful validation of the opportunity supply chain professionals have to make government more transparent and effective.

With the 12th agency brought on-board in May of this year, nearly \$2 billion in spend already stemmed from the people, processes, and tech-

cess, gain real visibility over spending statewide.

With confidence in our approach, we moved forward. Our effort would be one of the first projects overseen by the Critical Projects Review Council, a body comprised of the State's Chief Operating Officer, Chief Financial Officer, and Chief Information Officer—positions created by the governor. The council would regularly monitor and review our progress on the technology component of the Procurement Transformation, which we completed on time and under budget.

nologies inherent in the Procurement Transformation—all with line-item detail that can be used to identify and secure additional opportunities to lower costs and generate efficiencies. In total, more than 3,200 state employees utilize the system and the number is increasing exponentially as more agencies, state universities, counties, and municipalities deploy the platform to access Team Georgia Marketplace.

Results: Validation and More

In January of 2009 we began deploying the PeopleSoft and SciQuest technology at the core of the Procurement Transformation. We were confident that we would quickly see the full extent of the dramatic changes we'd already undertaken to develop the division's people into change agents empowered by a completely revamped

Among those deployed—including the Department of Corrections, the Department of Transportation, and others—many have rapidly moved to a paperless purchasing process. Buyers throughout the state are now able to purchase from all state contracts in the marketplace, covering more than 2 million goods and services. More than 100 preferred suppliers are also enabled electronically and doing business in the new system.

Prior to the Procurement Transformation, only 6 percent of the state's spend was being actively managed. Today, nearly 60 percent of state purchases are being managed—the result of the efforts of our strategic sourcing experts (See Exhibit 1). And more than 94 percent of the division's work is now focused on state contracts, not approving departments' purchases. This marks a full reversal from the situation we faced two years ago (See Exhibit 2).

With schools systems and other public sector entities—such as the Board of Regents of the University System of Georgia and the Newton County School System to name a few—deploying the platform, our vision for a powerful consortium that consolidates and increases the state's buying power is maturing as hoped. Our vision is rapidly taking shape.

Notably, the Procurement Transformation is already delivering dramatic financial benefits as well. While the lack of vis-

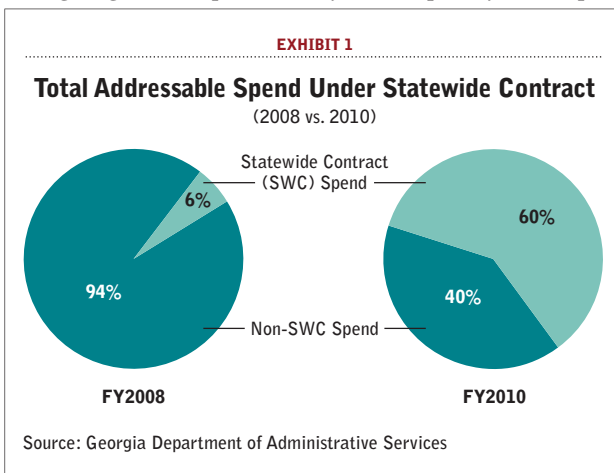
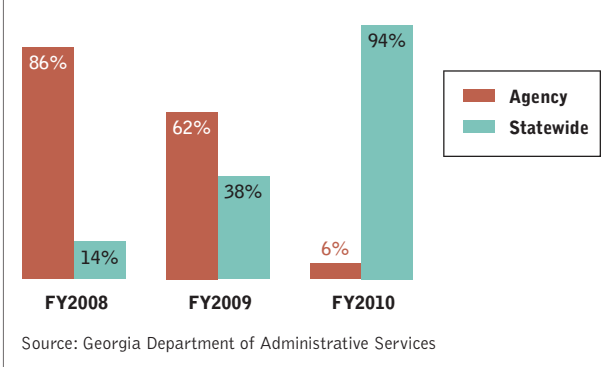


EXHIBIT 2

Shift Toward Statewide Contracts



ibility over spending prior to our efforts makes it impossible to know how money was spent before, just shifting spending to our highly leveraged state contracts will significantly lower costs this year, even as the innumerable soft savings commensurate with our shift to a paperless process add up.

Similarly, data from the Spend Cube tool is enabling us to negotiate terms and conditions that reflect not only what we know from purchases made through the Team Georgia Marketplace but also with a keen understanding of the opportunity we present to suppliers to do business statewide. The cumulative impact of these steps can be seen in some of the more than 80 new and renegotiated state contracts already in place and being used as a result of our resolve to purchase like a business:

- Our new contract for tires lowers the average cost by 22 percent.
- Copying and printing now costs between 9 to 87 percent less depending on specifications, such as black and white or color.
- Criminal background checks for new state hires now cost 65 percent less per applicant.
- We now pay 16.6 percent below dealer invoice for police cruisers.
- The labor rate for temporary IT staffing decreased by 15 percent.

There are other milestones to report as well. Supplier challenges now take an average of 14 days to resolve—a dramatic decrease from the 60 days they typically waited for their claims to be adjudicated. Further, only 1.5 percent of our contracts now are challenged as suppliers realize the benefits of doing business in a streamlined and intuitive process. In fact, our entire approach is now different. When suppliers challenge a procurement decision, we send them a thank you note. Quite simply, we want to know if we made an error.

Cycle times in the purchasing process are also far

shorter. On average, our new process shaves six weeks off the time required to conduct RFPs and a month off the request for quotes process.

Training also progressed as we hoped. We now offer more than 40 courses on procurement strategies and more than 5,000 employees benefited from the training to date. Thousands of suppliers have been trained as well.

Most importantly, the Procurement Transformation has proven, even in its early stages, to be absolutely crucial in helping Georgia address the difficult financial challenges. The initiative has made it possible to offset some of the state's many budget gaps by attaining the same goods and services for less, not through more painful alternatives. As our effort matures, the Procurement Transformation will exert an even greater impact on Georgia.

Lessons Learned

Other states are closely watching our efforts, with several actively looking at how to replicate them—something we are committed to supporting in hopes it will help alleviate the challenges all states face. Indeed, I was privileged to provide testimony on the Procurement Transformation to the U.S. Senate Budget Committee's Task Force on Government Efficiency on how technology can improve the nation's public sector. Clearly, there is growing recognition that procurement represents one of the most powerful, and virtually untapped, ways to maximize the value of public funds without increasing tax revenues.

Our efforts in Georgia would not have been possible without three prerequisites for success—what we view as the building blocks necessary to realize our vision for a new, strategic, private sector inspired approach to government procurement. The key prerequisites: leadership's complete endorsement and steadfast support of our efforts; legislators' commitment to make the statutory changes required to free purchasing from a bureaucratic role; and the budget needed to attain the people and technologies needed. All of these aligned to make our new approach viable.

Today, as the economic crisis continues to test the resolve of Americans to always leave our great nation stronger for the generation to come, there is no question that every dollar spent must reflect greater discipline. The days of spending without consequence and of putting process and bureaucracy over the best, most intelligent use of public funds are over. While our efforts in Georgia are far from complete, it is my sincere hope that it proves a singular point: It is not only what you spend, but how you spend it that makes the difference. ○○○

SUPPLY MARKET INTELLIGENCE:



Think

Supply market intelligence (SMI) is a proven approach to reducing risk and gaining a competitive advantage. It begins with the collection and analysis of market data—but doesn't stop there. The leaders excel at engaging key stakeholders in the SMI process and then disseminating the information in a way that leads to better business decisions. It's a new way of thinking that can pay big benefits.



Differently, Gain an Edge

By Robert Handfield

Facing increased uncertainty in economic markets, organizations are increasingly aware of the need to closely monitor market conditions and respond appropriately through improved supply chain strategies. As more organizations seek to build sourcing strategies that capture cost savings opportunities, they are finding major shortfalls in the market intelligence and cost modeling capabilities that form the basis for effective strategies and negotiation. Further, they are discovering that the needed integration of market intelligence into operational decisions, including budgets, profit objectives, market pricing, technology insights, and global expansion is generally not well executed.

The result is misalignment between demand and supply planning, and major gaps in operational performance and risk mitigation. To address this situation, organizations need to develop deep market intelligence that will provide insights into core elements of market trends, commodity pricing, global capacity, and government and regulatory changes that could have an impact on global sourcing. They also need insight into economic trends that will affect their organization's supply chain. Unfortunately, these capabilities seem to be lacking in most organizations, based on the results of a study we recently conducted among supply management executives. Our research

Robert Handfield (rhandfield@scrcdesign.com) is the Bank of America University Distinguished Professor of Supply Chain Management at North Carolina State University, and Director of the Supply Chain Resource Cooperative (scrc.ncsu.edu). He also serves as an Adjunct Professor with the Supply Chain Management Research Group at the Manchester Business School.

is based on interviews with subject matter experts in a number of industries who have deployed or are in the process of deploying Centers of Excellence for supply market intelligence (SMI). In addition, we surveyed 89 global supply chain executives through the International Association of Commercial and Contract Management (IACCM). (See sidebar for more on the study sample.)

This article explores the concept of supply market intelligence. We describe how companies are structuring their supply management organizations to optimally collect market data, identify best practices for synthesizing and deploying this information, and establishing metrics for measuring outcomes of SMI. Further, we discuss how some leaders are now beginning to extend the application of SMI to other strategic business decisions that lie outside the realm of contracting and category analysis—an activity that is positively affecting decisions in annual budgeting, customer markets, technology integration, and financial budgeting. We believe that the innovative application of SMI to these areas, though still in a nascent stage, will enable many organizations to achieve superior market performance and outcomes.

What Is Supply Market Intelligence?

One of the foundational themes underlying this research is that an effective SMI organization does much more than simply collect and analyze data. Truly successful SMI organizations excel at engaging stakeholders in defining knowledge requirements as well as disseminating information to ensure that it is effectively applied in key impacted business sectors across the organization.

Supply market intelligence can be defined as a process for creating competitive advantage and reducing risk through increased knowledge of supply market

dynamics and supply base composition. SMI includes:

- Global market intelligence—forecasting and market intelligence to assist sourcing professionals in making strategic decisions.
- Benchmarking—price and process benchmarking to assess sourcing performance.
- Global competitive sourcing—identification of strategic sourcing opportunities in global markets that will lead to cost reduction.
- Emerging market sales and channels—sourcing and purchasing initiatives to support expanding activities in emerging markets.

The process of creating intelligence involves the application of individual and collective cognitive methods to weigh data and test hypotheses within a secret socio-cultural context, according to Rob Johnston, Director of the Center for the Study of Intelligence. Johnston's observation, noted in our review of government intelligence services, recognizes that SMI is much more than a set of analytical tools. Specifically, sourcing executives need to realize that creating intelligence is inherently an unstructured process in that it requires the analyst to first interpret the user or stakeholder requirements before even beginning the process of data collection. Johnston notes that the importance of making explicit something that is not well described (which is the very interactive, dynamic, and social nature of intelligence analysis) is a fundamental component of creating an intelligence analysis capability.

In his book, *Analytic Culture in the U.S. Intelligence*

Details on the Study

Our research involved detailed interviews with eight senior supply management executives in different industries who had developed Centers of Excellence for market intelligence. The industries represented spanned a wide variety of environments, including automotive, oil and gas, healthcare, manufacturing, retail, technology, and others. This diversity emphasizes the importance of SMI capability across a wide variety of contexts and environments.

Subsequent to the interview coding process, we developed a survey to identify the extent to which a larger sample of organizations were deploying best practices in establishing competitive MI processes. This survey was then administered to the International Association of Commercial and Contract Management (IACCM) membership, an organization of approximately 1,000 members who are either buy-side or sell-side contract managers. A response was obtained from 59 managers, a 5.9 percent response rate. Respondents consisted mainly of buy-side contracting entities, a handful of supply side contractors, and some respondents that managed both. The majority of respondents were from North America and Europe, with some Asian representatives.

Community, Johnston describes the typical intelligence analytic process, in the words of an analyst:

"When a request comes in from a consumer to answer some question, the first thing I do is to read up on the analytic line. I check the previous publications and the data. Then I read through the question again and find where there are links to previous products. When I think I have an answer, I get together with my group and ask them what they think. We talk about it for a while and come to some consensus on its meaning and the best way to answer the consumer's question. I write it up, pass it around here, and send it out for review."

The fact that there is a significant cognitive element of this basic description ("when I think I have an answer") suggests that asking the right question is an important component of the SMI process. In particular, there is a need to generate a hypothesis to drive the analysis and to gain consensus and do a final check. These are key elements that set the right direction and enable the stakeholder to proceed.

Defining the Need for Market Intelligence

Organizations collect different types of data and intelligence. So what is unique about supply market intelligence? To answer this question, we first need to define exactly what kinds of information people require to render better sourcing decisions. Our analysis found that they most often want information on product and service market conditions for a particular sourcing requirement.

There are clearly a number of potential outputs from an SMI analysis. These typically center on commodity cost driver analyses and supplier monitoring to prevent major disruptions in supply. The former could focus on identifying both internal cost drivers (leverage, order volume, proximity, contract management) and external drivers (such as overall demand, raw material costs, investment in R&D). Another output is a PACE (Pressure Action Capability Enablers) framework that evaluates pressure points in the industry, actions taken by industry players, capabilities required to support actions taken, and business enablers to mitigate pressure points. Regional analysis of market share, growth rate, and projected revenue would fall in this output category as well.

Supplier monitoring outputs would include quantitative financial analysis—calculating financial ratios from income statements and balance sheets and comparing them with industry average numbers for public companies and checking for solvency of each supplier. It would also include

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qualitative analysis such as capacity utilization, economic impact, job losses, and impacts of currency fluctuations. A SWOT analysis based on these internal and external risk factors are other important SMI outputs.

To a large extent, the need for market intelligence and development of these outputs needs to be formally scoped prior to actually executing the tasks. Our survey results suggest that in most cases, the primary consumers for this output are category managers, who are seeking to enter into a new sourcing event for a specific category (maintenance, copper, steel, and so forth) as part of an overall category strategy. In other cases, requests are for internal business requirements that require analysis of spend data, production levels, customer spending trends, market pricing, competitive actions, and other miscellaneous forms of data collection. As the financial risk in the supply base has increased, there is a growing demand for risk information and specific risk monitoring assessments.

Requests for SMI come in a variety of formats. Some occur as part of an annual budgeting process. Others are periodical, requiring some advance notification—for instance, a category team contacts an SMI group with a request for a sourcing event that will be occurring sometime in the future. Still others are short-term, ad hoc requests for “quick-hit” information that can provide a quick update on a specific issue or risk (“Is this supplier about to go under?”) SMI organizations need to be prepared for all forms of requests, and establish a process and realistic expectations as to their ability to turn around these requests. Best practice companies are in effect “getting ahead” of these requests, by establishing formal requirements for stakeholders to engage the team.

This characteristic of establishing stakeholder requirements is clearly the most important of the SMI attributes associated with the intelligence-gathering process. This is made all the more important because of the investment required to complete a full market intelligence report. Our research shows that the typical lead-time required for most SMI reports is 60-90 days at a minimum. Best-practice companies we studied can provide an overview (high level insights) in 10 days, or an in-depth analysis (detailed information leading to strategic recommendations) in 45 days. These companies are relying heavily on external sources for market intelligence data gathering and reporting, and have structured their groups to primarily facilitate and engage with stakeholders.

One common mistake we observed is organizations creating a centralized SMI team without considering what information will be gathered and how it will be

used. To cite one example, a senior commodity manager at a large oil and gas company expressed her frustration at information obtained from a team of MI analysts in Asia who were disconnected from the day-to-day activities of category managers dealing with decisions that required forward-looking perspectives. Essentially, the analysts were providing information on what was already known about a category.

The ROI OF SMI

The supply management executives we interviewed repeatedly expressed their frustration with the process of justifying the quantifiable benefits of funding an SMI group. This has become especially challenging in the current economic environment in which just about every company in every industry is facing head count and budget cuts. Many CFOs are quick to cut funding for an SMI group, mainly because they don't recognize the tangible value that this function brings not just to sourcing cost savings, but also to corporate strategy, budgeting, market pricing, and competitive advantage. Best-in-class companies have dedicated SMI groups that are committed to full-time research and reporting of market indices, price inflation, cost economics, market trends, and other elements that feed into budget planning and marketing initiatives across the enterprise.

There is a growing trend toward the use of external resources to conduct supply market intelligence.



The frustration expressed by these executives who were seeing their teams reduced was, in fact, part of the motivation for this study. To delve more fully into the issue, we collected information on relative levels of funding committed to by different organizations. One of the relevant metrics is a simple measure of \$B of spend supported by SMI per analyst. The majority of companies we spoke with have a very small number of fully dedicated individuals assigned to SMI data collection and analysis. Instead, most organizations have individuals who are held accountable for conducting MI as part of their broader roles and responsibilities. In theory, these individuals might be expected to devote one-quarter or one-half of their time to SMI activities. In practice, however, their time is being consumed by other “fire fighting” activities—so that expected time allocation is misleading. In addition, many SMI team members are required to provide other forms of analytic support in

addition to external SMI, such as spend analytics, compliance information, and contract pricing and renewals.

In general, organizations interviewed said that they required one FTE for each \$1 billion to \$2.5 billion in spend. This estimate is somewhat misleading, however, as this also includes part-time SMI resources who have other duties as well. Again, one of our observations is that if SMI is a “part-time” activity, it often falls to the bottom of the priority list.

Organizational Structures

A fundamental tension exists regarding the role and scope of an SMI organization. Strained financial budgets have drained sourcing organizations of the resources needed to conduct detailed external market research and cost models. Yet it is these very resources that are best able to develop critical insights into environmental shifts that can enable teams to fully leverage their sourcing capabilities and identify potential bottom-line savings.

Our best-in-class companies recognize that SMI is a differentiated activity that requires a dedicated cadre of individuals with specialized skills, supplemented by external MI resources that improve responsiveness to stakeholder needs. However, the survey respondents for the most part are equally split between those assigning MI to sourcing managers as part of their category management responsibility and those that have a developed centralized MI team. Others have assigned individuals to an SMI team but also given them business intelligence and analytics responsibilities with other parts of the organization. (See Exhibit 1.)

Category managers are at the center of the tension mentioned above. Many executives we spoke with expressed frustration with the way in which category manager roles are structured. They noted that these individuals were often being pulled in so many directions that it impeded their true understanding of the category. This, in turn, dictated the need for dedicated

internal and external market intelligence resources. Our research showed that many category managers do not have the experience or know-how to conduct the detailed research required to build an intelligence profile for a market. Reflecting this, several organizations are assigning analysts full time to category support. These individuals are performing the analytics and market research to support the category lead.

Some of our study participants asserted that MI should be driven into these managers’ roles through formal reviews, with the expectation being that they need to become experts within their category. This has important implications for how organizations need to structure talent and training for individuals in these roles. Finally, we observed that the leading companies with centralized SMI teams are leveraging external resources to gather external data, which we discuss below.

The Role of Outsourcing in SMI

Organizations utilize a variety of data sources as input into MI reports for stakeholders. Suppliers are the most obvious data source, mainly via Requests for Information (RFI). RFIs can be structured in such a way to yield detailed cost estimation, competitive information, and other forms of data that can be triangulated across various suppliers to provide insight into market conditions. One caveat: RFIs are often biased and do not reflect true market conditions. To complement this information, therefore, companies often subscribe to secondary research such as trade journals, website, and third parties. The third major form of external information is income statements and financial balance sheets, provided through services such as D&B and Hoovers. A smaller set of companies are now relying on external information provided through third party outsourced MI providers such as Beroe and Spend Cube.

Finally, a minority of companies undertake detailed MI reports through focused interviews with subject matter experts. We believe this approach often provides the most in-depth contextual information and detailed “street knowledge” that is often key to making strategic sourcing decisions. The big challenge here is that few people have the access and time to track down and interview these valuable sources of information. (Exhibit 2 gives a breakdown of the various data sources used.)

There is a growing trend toward the use of external resources to conduct supply market intelligence. Research suggests that 65 percent of companies are using some form of external resources for SMI, and an increasing number of them are utilizing several parties. This is not surprising as companies increasingly recognize that triangulation of results from multiple parties

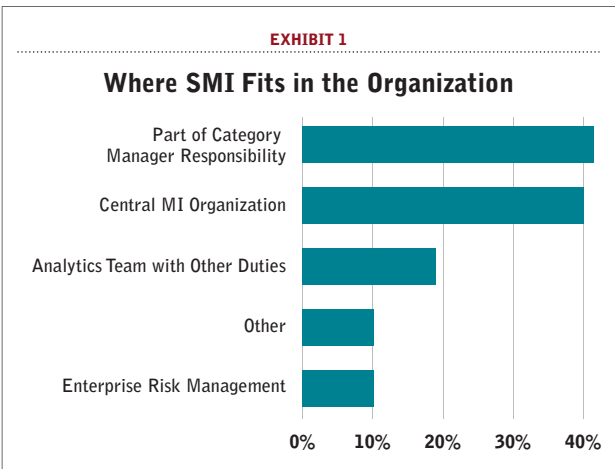
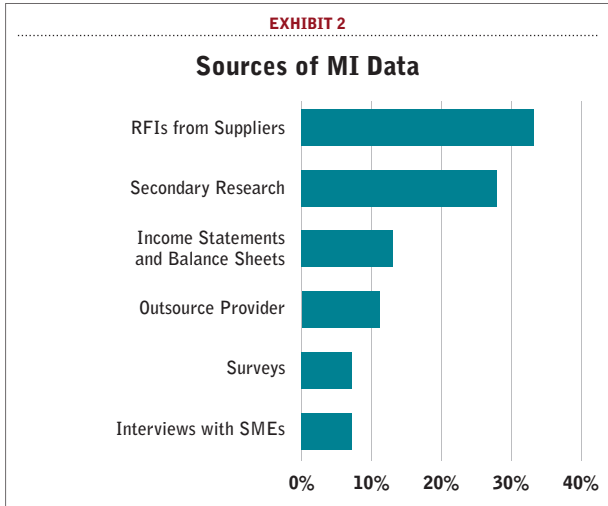


EXHIBIT 2



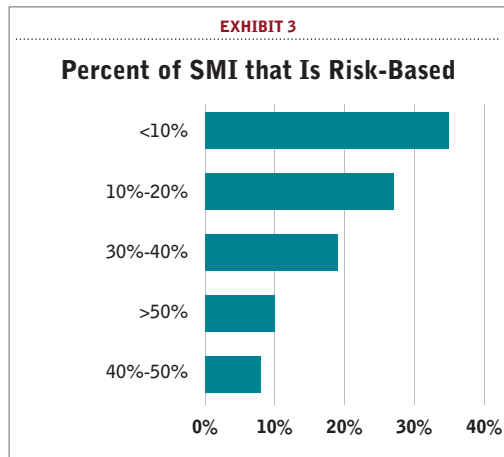
is essential to building solid market intelligence. When the same message comes from multiple parties, the probability of its veracity increases.

Our survey found that most companies have between one and four external full time equivalent (FTE) dedicated individuals as part of the MI team. In a few cases, these external team members are co-located on-site. They work closely with the internal team to better understand requirements and to more closely integrate with the business and its resources. This external presence still represents a relatively small portion of the overall MI budget; three-fourths of the respondents spend less than 20 percent of their MI budget on external resources. A handful of companies are heavily reliant on external sources of information, which we defined as spending more than 50 percent of the budget on outsourced providers.

Risk Assessment

Almost all of the companies interviewed noted that risk assessment was part of the output of the MI team, with external providers doing the bulk of the transaction risk assessment. In almost all cases, financial risk was the primary element tracked by MI teams. As shown in Exhibit 3, however, fully two thirds of the executives surveyed (the top two bars in the exhibit) said that their risk-based MI constituted less than 20 percent of the total market intelligence effort. So while supply risk is important, there are clearly other forms of MI that are also viewed as critical in this environment.

EXHIBIT 3



Measuring the Outcomes

The majority of respondents to our survey said that the main methods of assessing the outcomes of SMI are the traditional cost savings measures attributed to category teams. Yet, we believe that this is an unreliable and often short-term metric because it does not fully capture the value of SMI to the business. In many cases, effective SMI can be extended to better inform strategic decisions in production levels, capacity, outsourcing, technology initiatives, and growth and revenue-producing opportunities. Comparatively few companies, however, are applying SMI to create these types of opportunities. In many cases, the reason is that the SMI message is not being heard in the appropriate forums where these strategic decisions are being made.

To capture the full benefit of an SMI report, many companies conduct internal customer surveys after the report to evaluate how well the project served the client's needs. Internal customers could include lines of business or functional groups such as marketing, production, IT, or logistics. These surveys focus on internal customer feedback using scales as well as open-ended questions that provide a mechanism for evaluating how well the information met the internal customer's requirements. The results are evaluated to understand how well the SMI team performed and how the process could be improved. In many cases, internal customers' most important criteria is the speed of completing an SMI report. As such, the analyst needs to set expectations at the outset in terms of what can be delivered within the customer's expected time frame.

It is also important to conduct a thorough post-mortem of the process. As Rob Johnston of the Center for Study of Intelligence emphasized to the author in a 2009 interview, information distilled from the post-mortems need to be made available as "lessons learned" that can be filtered back through the organization.

One related observation regarding the knowledge transfer of SMI outcomes: The majority of organizations we spoke with do not effectively transfer SMI knowledge and information to parts of the organization that could strategically benefit from this information. This is a major shortcoming that was underscored by the frustration expressed in multiple interviews we conducted with market intelligence directors. Clearly, the opportunity for leveraging SMI into other parts of the business represents a significant and unexploited opportunity to achieve a

major competitive advantage. There remains a major gap in understanding how to transfer SMI into business decisions.

Seven Insights for Advancement

In the course of our research, seven insights emerged on successful supply market intelligence. Companies that want to develop this competency—and realize the associated benefits—should carefully consider them.

1. *Organizations with successful SMI programs may not necessarily excel in data collection and analysis.* Rather, they succeed in developing a team of internal MI analysts who are proficient in defining knowledge requirements and disseminating information in a way that leads to better business decisions. Current research suggests that successful organizations are creating Centers of Excellence for MI, with analysts co-located in multiple business units globally and coordinated through centralized processes.

2. *The leaders increasingly recognize that category managers are often not well equipped to conduct MI analyses, mainly because of the demands on their time to perform other activities.* This justifies the need for a dedicated MI function. Further, the ROI on these individuals dictates that it does not make sense for them to be conducting routine market analyses. The executives interviewed believe that over time these individuals should become full-fledged experts in their category. Best-in-class companies are all focused on having their category leaders rely on an SMI Center of Excellence for coordinating data collection, analysis, synthesis, and insight as a core foundational component of sourcing strategy. Internal MI analysts are best equipped if they come from an engineering, financial, supply chain, or cost accounting background.

3. *There's a growing trend towards outsourcing of MI data collection, synthesis, analysis, and reporting.* Third parties are proving these services in such areas as global market analysis, benchmarking, inflation/deflationary pricing, value-chain mapping, global cost-reduction sourcing opportunities, and emerging markets. Implicit in this trend is that best-in-class companies recognize that MI is fundamentally about the application of individual and cognitive methods to weigh data and test hypotheses. As such, the primary role of an MI function is not to collect and process data. Rather, the goal is to fully understand internal client requirements, context, and the process of applying the information to business decisions.

4. *Best-in-class companies establish expectations to internal customers about what can and cannot be delivered through an SMI Center of Excellence.* The breadth and depth of data will determine the lead time required to create a specific report. Clear scope guidelines must be communicated to and acknowledged by the cli-

ent in the early stages of proposal development. This gives the internal customer an understanding of what can be produced within a given time horizon vis-a-vis the outputs required for that customer to make a business decision. For example, if an internal customer wants an in-depth analysis of a market in ten day's time, this is not feasible. However, a high-level overview of market characteristics may be possible within this time frame.

5. *The research points to the importance of conducting performance evaluations of SMI reports, and of tying these back into lessons learned that can be communicated to the organization.* Many companies seek to tie SMI investments to cost savings. In our opinion, this is difficult to do in a systematic way. While anecdotal data can point to cost savings achieved by applying SMI to specific projects, these are highly contextual and specific in nature. Instead, best-in-class companies are relying on a systematic evaluation of client feedback, focused on a long-term and strategic understanding of the importance of SMI to key enterprise-wide procurement metrics and value.

6. *Most organizations are not effectively linking SMI reports and insights into operational decision making.* In mature organizations, for example, cost models need to be aligned with savings projects and profit targets for corporate and business unit level budgeting processes. Our research identified several examples of how successful organizations are achieving this. The key is to have multiple communication channels—for example, through simple lunch-and-learn discussions that provide opportunities for face-to-face dialogue, discussion, Q&A, and debate.

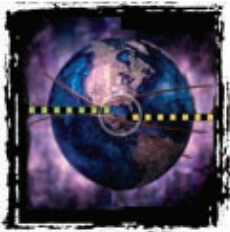
7. *Finally, the majority of organizations do not have a good process for meaningful, ongoing monitoring of supply risk.* While many track the financial health of suppliers, they are not capturing other market-level information. Thus, they remain susceptible to intelligence failure because of the inherent nature of surprise associated with supply market incidents. Surprise is not attributable to omission or commission of information. Anticipating surprise, then, requires analysts who can think broadly about a problem expressed to them by an internal customer and who understand the business context of the potential risk. This may require “structured brainstorming”—thinking about the unthinkable—around potential risks that are not immediately apparent to the organization. ☺☺

Author's Note: Thanks to all of the subject matter experts who participated in the interviews as well as to the survey respondents. Special thanks to Tim Cummins of IACCM for his guidance and support in collecting the survey data and to Vel Dhinagaravel of Beroe, Inc. for facilitating interviews and providing additional insights into the development of this article.

Keeping an Eye on Software Asset Management

The potential to use cloud computing for business-critical applications remains limited. This means decisions regarding demand and consumption of software assets must still be made internally and managed effectively.

By Jan Stenger, Venkat Tummalapalli, and Michael Roemer



Jan Stenger (jan.stenger@atkearney.com) and Michael Roemer (michael.roemer@atkearney.com) are principals with A.T. Kearney. Venkat Tummalapalli is a consultant with the firm and can be reached at venkat.tummalapalli@atkearney.com.

For years, software vendors required customers to pre-pay for licensing fees and regular maintenance to cover patches, upgrades, and support. Today, these upfront payments have largely

been replaced with a pay-for-usage model. And increasingly, some independent software vendors are offering “cloud” delivery whereby virtual resources—infrastructure, applications, and data—are deployed via the Internet.

Cloud services are scalable and priced on a pay-per-use basis. They are best known as software-as-a-service or SaaS, platform-as-a-service or PaaS, and virtual infrastructure-as-a-service or IaaS. While cloud computing continues to enjoy market momentum and can result in significant savings, each cloud service has a different life-cycle position and contributes different levels of value. (See Exhibit 1.)

In addition, there are several barriers to adopting cloud computing, from loss of data security and power to control IT services, to lack of transparency into IT costs. Indeed, to this latter point, while SaaS delivery models might be effective for some functional markets, many executives do not consider SaaS for use in business-critical applications because key prerequisites—such as IT cost transparency and standardization of IT service offerings—have not yet been achieved. So, while pay-per-use licenses may enhance cloud offerings, they will not replace on-premise software anytime soon.

As such, key decisions about software asset management must still be made internally.

Consider, for example, businesses that are not leading-edge adopters of Microsoft technology. They often fall into a demand-management trap in which they fail to perform proper due diligence on what is actually needed before entering into Microsoft enterprise software agreements. This leads to product proliferation, lack of standardization, and sub-optimal asset utilization, which almost always inhibit value creation.

For these reasons, companies have to maintain control over their software assets—making sure that demand and consumption patterns are properly aligned and balanced. We now turn to a case study to explain why this is true.

Managing Software Demand

Like most consumers of Microsoft software, this large European high-tech company was challenged to keep up with version upgrades of its software license agreement. Our work began with a portfolio cleanup, identifying loopholes in the purchasing process to ensure that all products purchased were aligned with usage. The procurement function was reorganized, and a demand-management strategy was used to prune software licenses.

Next, we focused on consolidating the reseller supply base and deflecting volume to a preferred reseller to improve negotiation leverage. As a result, the company reduced addressable spend by 16 percent and its reseller footprint by 96 percent.

A review of current inventory relative to projected usage revealed that the company was not

a leading-edge adopter of Microsoft products. Because of its slow pace in adopting Microsoft's options (which, again is typical among large organizations), the company decided to cancel its Microsoft agreement, buy out all required licenses, and use a "select" model to purchase required licenses ad hoc post-Vista and -Office 2007 upgrades. (See Exhibit 2.) Afterwards, the company can repurchase required licenses under a more appropriate procurement vehicle.

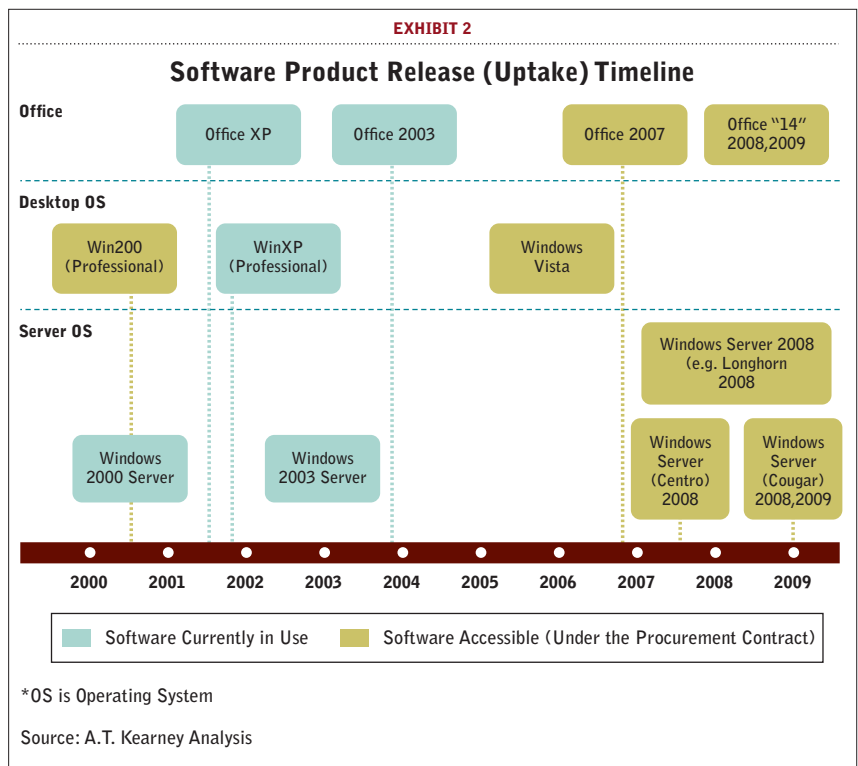
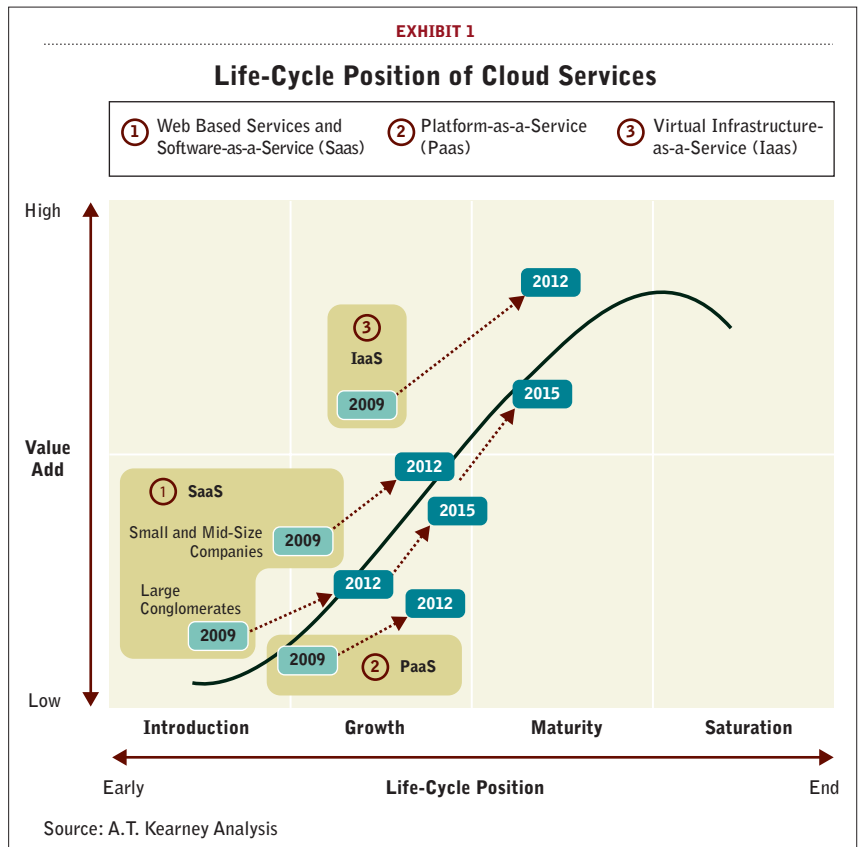
During the buy-out estimation process, the company maintained an agnostic negotiation stance with Microsoft, continuing to standardize open-source software and leveraging software substitutes where possible. Also, some server demand was diverted to a standard Linux software, which reduced dependence on Microsoft and, perhaps more important, sustained competitive tension for future negotiations.

Learning its lesson about relying on a vendor for software demand management, the company designed its future model to include centralized license management. This will prevent excess inventory and improve asset utilization across all business units.

Looking Under the Hood

While developing a comprehensive software demand-management strategy is challenging, it is an indispensable tool even in today's world of cloud computing. Companies can reap significant financial rewards by "looking under the hood," understanding their existing use of assets and aligning their software demand and consumption patterns.

As our case-study client discovered, the best companies keep their eye on software asset management and align procurement vehicles to internal demand and consumption patterns, as the use of cloud computing in business-critical applications is still limited.



Three ways to prepare for **GROWTH** (while containing costs)

We asked a panel with more than 75 years combined experience in logistics and distribution to identify three warehouse/DC best practices that improve the distribution network, reduce the work, and leverage the most important asset in any organization—its people.

By Maida Napolitano, Contributing Editor

Economic conditions may be much improved from the dismal depths from which they emerged, but we're not quite out of the woods yet. A status quo of high unemployment, sagging consumer demand, and lingering financial constraints has kept controlling costs

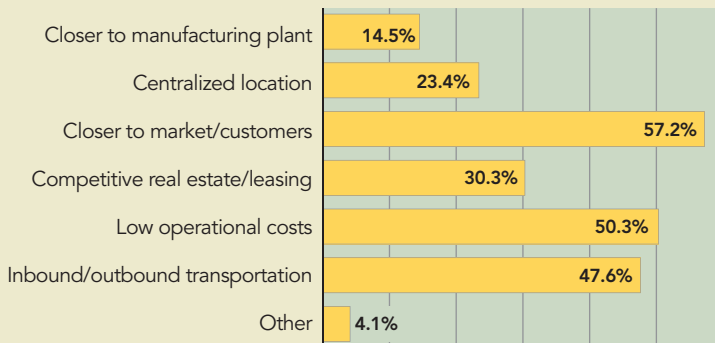
the prevailing theme in warehouse and distribution management.

As Vice President of IT Business Systems for Tommy Hilfinger USA, Inc. and president of the Council of Supply Chain Management Professionals (CSCMP), Bob Silverman says he's seeing this scenario play out firsthand. "The recession has forced companies to do more with less, and often capital isn't available," he says. "Even when a solid ROI can be demonstrated with a project that would improve distribution operations, the project sponsor can't get it funded."

Ann Elliott, CEO of Solertis Logistics Consulting, agrees that money remains tight across the board. "Many operations have been challenged to perform with fewer people and a smaller payroll." Unfortunately, a smaller team can sometimes compromise the ability of a company to provide the highest levels of service that customers have been expecting.

EXHIBIT 1

Optimal characteristics for a DC location



Source: Saddle Creek Corp. research, 2010

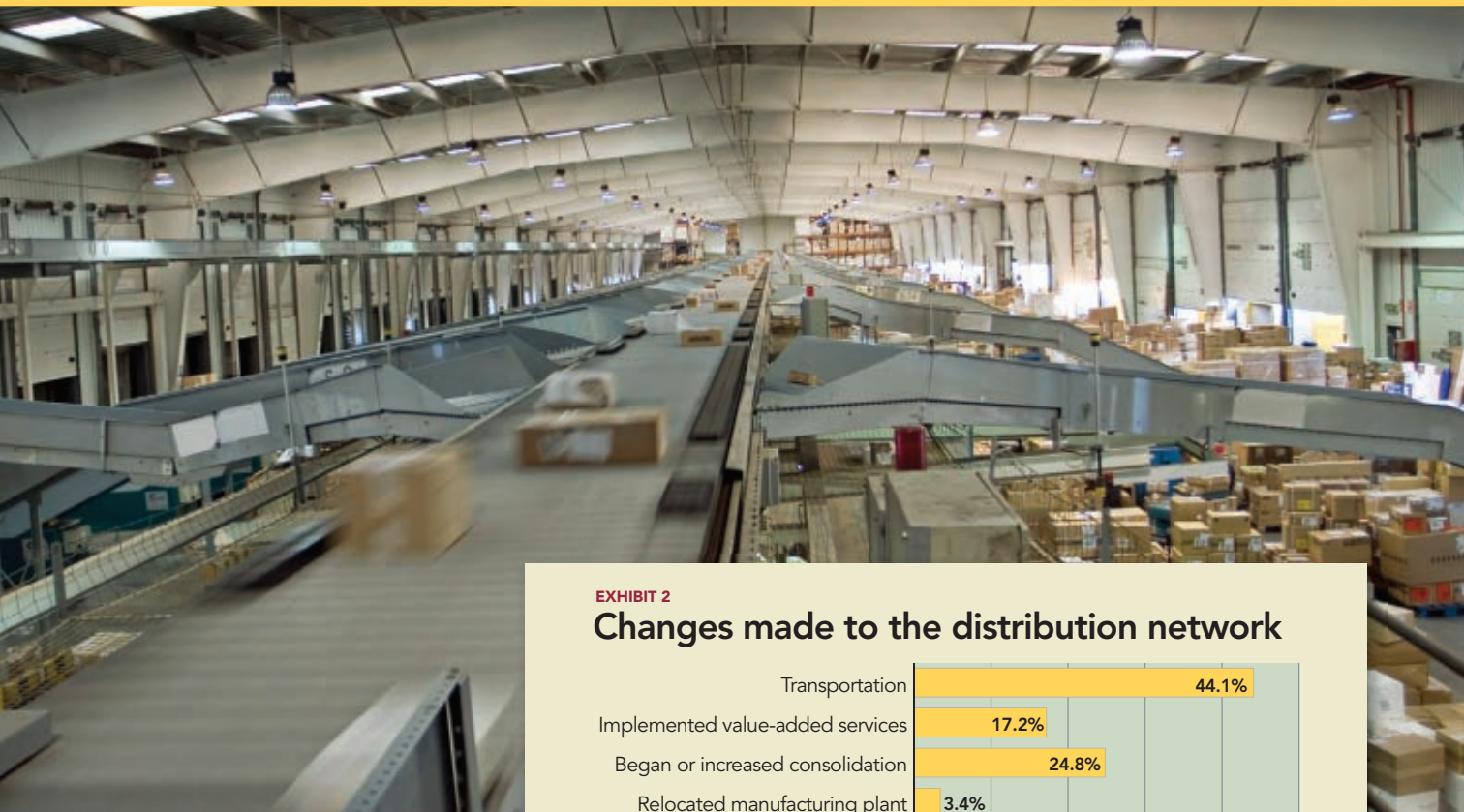
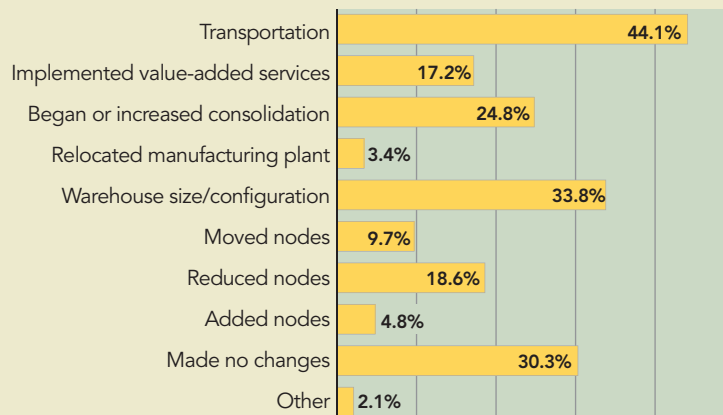


EXHIBIT 2

Changes made to the distribution network



Source: Saddle Creek Corp. research, 2010

In fact, the effects of this economic tsunami reverberate far beyond the four walls of the warehouse/DC to the entire distribution network. In a recent survey conducted by Saddle Creek Corporation on distribution network trends, two-thirds of the 235 responding logistics professionals confirmed that they have made changes to their supply chain distribution network design as a result of recent economic challenges.

“Companies have had to reevaluate their supply chains carefully in an effort to identify opportunities to create efficiencies and cut costs,” explains Tom Patterson, senior vice president of warehouse operations for Saddle Creek Corporation. “Adjusting network strategies has allowed many companies to accommodate marketplace demands and significantly impact their operating costs while maintaining strong service levels.”

That said, here’s the \$64,000 question for logistics management professionals: How do you prepare your operation for growth while still keeping

a close eye on controlling costs?

To help answer this daunting question, we assembled this panel of experts who have more than 75 years combined experience in logistics and distribution. They’ve identified three warehouse/DC best practices that steer clear from fancy equipment investment and, instead, focus on tried-and-tested solutions that improve the distribution network, reduce the work, and leverage the most important asset in any organization—its people. But better yet, these three best practices have a history of resulting in substantial benefits with minimal costs.

So, pay attention because these solutions may not only cut your costs today,

but may serve as a point of differentiation for your business as the economy slowly but surely improves.

Redesign your distribution network to match today’s needs

With such a fluid economy, changes to your business and your customers’ requirements are inevitable. It’s always a smart move to regularly improve and update your network. Of course, the 25 percent reduction in distribution costs that many companies realize from a network study doesn’t hurt either.

So, where should you locate your DCs so as to optimize your network?

Respondents to the Saddle Creek survey clearly had their preferences. Most said that they valued a location closer to their market or customers (57.2 percent) rather than a location closer to the manufacturing plant (14.5 percent), suggesting the priority placed on last-mile distribution. (See Exhibit 1.)



“That last-mile can be a challenging and costly segment of the supply chain for many companies because economies of scale break down due to smaller shipment sizes and traffic congestion in urban settings,” explains Saddle Creek’s Patterson.

Low operational costs and readily available inbound/outbound transportation also rated highly when selecting a geographic location (50.3 percent and 47.6 percent respectively). Patterson believes that this is because managers are looking more closely at their total cost, recognizing the value of a more holistic approach to their business.

The survey also reveals how companies are zeroing in on three key areas for change in their distribution network design: transportation (44.1 percent), warehouse size and/or configuration (33.8 percent), and consolidation of shipments from suppliers (24.8 percent). See Exhibit 2. And when asked which network changes were most effective, respondents cited changes in transportation such as modal shifts, re-negotiating fuel surcharges, and transportation network restructuring.

Some are changing packaging and product design to help increase freight density and lower freight costs.

At the warehouse level, many companies, particularly those with \$2.5 billion or more in gross global sales, have reported changing the size/configuration of their warehouses. (See Exhibit 3.) Other changes at the warehouse level include: improving inventory control, reconfiguring warehouse layout/racking and slotting, adding small parcel shipping lines and stations, adding a slow-moving section to a DC, simplifying warehouse processes, renegotiating real estate leases, and right-sizing regional nodes.

To prepare for growth in such an

unpredictable market, Patterson suggests a shared-space approach to strike a better balance between fixed and variable space as a way to improve supply chain effectiveness. In a shared-space approach, a third-party provider manages two or more client operations in a single facility with overflow capacity. This allows companies to bring products closer to market without increasing overhead, manage seasonal or promotional fluctuations, and accommodate business growth.

Companies are able to adapt more quickly to changes in the marketplace and better serve their customers without investing in permanent personnel, space, and equipment. Patterson cites an example in their Lakeland, Fla., campus where a shared-space approach works very effectively for two of Saddle Creek’s

customers: a well-known beverage producer and a leading food manufacturer.

“These two companies share space in a 487,000-square-foot warehouse which offers fixed space for each customer on opposite ends of the facility and a central area to handle any overflow on an as-needed basis,” he says. “The arrangement allows the beverage customer to improve efficiencies by reducing its number of distribution centers while accommodating seasonal business fluctuations. At the same time, it gives the food manufacturer a cost-effective, centrally-located space to accommodate anticipated growth.”

Patterson adds that neither customer pays for unused space, and both now have the flexibility to handle whatever the future might bring.

EXHIBIT 3

Changes made to the distribution network by company size

	Less than \$100 million	\$100 to \$500 million	\$500 million to less than \$1 billion	\$1 billion to less than \$2.5 billion	\$2.5 billion or more
Changes to transportation	48.5%	43.9%	62.5%	42.1%	38.7%
Implemented value-added service	30.3%	19.5%	0.0%	10.5%	12.9%
Began or increased consolidation	27.3%	31.7%	18.8%	15.8%	25.8%
Relocated manufacturing plant	0.0%	2.4%	0.0%	0.0%	12.9%
Changed warehouse size/configuration	27.3%	31.7%	50.0%	10.5%	45.2%
Moved nodes to new locations	6.1%	12.2%	0.0%	0.0%	22.6%
Reduced nodes	6.1%	14.6%	18.8%	21.1%	38.7%
Added nodes	3.0%	9.8%	0.0%	0.0%	6.5%
Made no changes	33.3%	34.1%	25.0%	31.6%	22.6%

Source: Saddle Creek Corp. research, 2010

A high percentage of companies of all sizes are focusing on transportation changes.



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2

Leverage technology to improve efficiency

In many industries the trend has been towards smaller, more frequent orders. Retailers who used to place bi-monthly bulk orders for their distribution centers are now placing thrice-weekly orders for individual stores. These types of orders have put more of a burden on what is already the most labor-intensive area in the warehouse: picking.

Tommy Hilfiger's Silverman suggests utilizing technology to reduce the amount of work expended by pickers to get their jobs done. "Often by studying profiles of how work flows, similarities can be uncovered to improve productivity," he explains. With pickers spending 80 percent of their time travelling and only 20 percent on picking, Silverman proposes batch-picking orders requiring

significant travel distances to dramatically reduce unnecessary travel.

Small orders would be combined one of two ways—either a master pick list would be generated for the aggregation of orders still allowing them to be individually picked, or the SKUs for multiple orders would be consolidated into a batch and individual orders could be subsequently picked downstream.

"Some warehouse management systems (WMS) have the functionality to intelligently aggregate orders or other tasks," says Silverman, "but often it's easier to have a programmer develop a small application to combine orders to

create a wave based on a criteria that is most appropriate to your operation."

For example, orders with the same SKU, one-line or one-piece orders can be combined and batch picked separately from the rest of the orders.

This same concept of uncovering similarities in picking can also be applied to replenishment tasks. Let's say a DC has four sizes of the same product. If this product was stored in reserved storage by size, four different pallets would have to be retrieved to replenish the product in a forward-pick area. If the sizes were mixed on the pallets, perhaps only two pallets would have to be retrieved to fulfill the replenishment.



What is defined as best practices in picking and packing?

The chart below is an excerpt from Warehousing Education and Research Council (WERC)'s *Warehousing & Fulfillment Process Benchmark & Best Practices Guide*. WERC uses this guide in their recently launched WERC Warehouse Certification Program in which the organization can certify an individual warehouse facility's capabilities and ability to perform core warehousing functions. For more information about this program, go to www.werc.org.

Pick & Pack	Best Practice
Strategy and Methods	Picking strategy supports current and forecasted customer requirements and will include multiple optimized pick/pack processes. Optimized wave picking and task interleaving.
	Review pick processes and strategy for each product at least once per quarter. Modeling and simulations are run frequently.
Tactics and Equipment	Pick areas are optimized to support current and flexible enough to handle future demand.
	Conveyors or other automated MHE to bring orders into each required pick zone, eliminating travel time for pickers (Pick to Light, AR/AS, flow rack, auto pick equipment, may be used).
	Operator pick efficiency and travel time are system managed and optimized.
	All pick/pack areas laid out ergonomically to reduce employee fatigue and injury.
Pick Documents	Excellent housekeeping.
	Pick travel path minimization through order picking in travel path sequence using serpentine approach.
Transactions	Batch picking of the same SKUs for multiple orders, or wave pick sequencing to plan picks per zone in advance.
	RF terminals, wireless speech system, or similar 2-way data transfer system enables automated order communication to personnel, portable printers used.
	Transactions are in real time.
	Single system of record, no data redundancies.
Performance	RFID tag/Electronic Product Code tracking integrated into pick process when required.
	Record of daily activity by major task and staffing levels displayed on warehouse floor. Employees are included in continuous improvement programs.
	Productivity targets set and measured, showing an improving trend and/or meeting goals.
	Customers can review performance activity level via on-line reporting.

Source: Supply Chain Visions & WERC, 2010



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What benefits can be expected?

Silverman reports significant productivity savings often in the range of 20 percent to 30 percent for the tasks that are consolidated. “Of course, you’ll ultimately need to confirm to the WMS that these orders have been correctly picked, so everything reconciles properly—sometimes this can be accomplished by the external program electronically confirming the picks,” he says. He adds that for operations without a WMS, this external application can provide the systemic picking intelligence that is often otherwise lacking.

Cross-train your “All Stars”

To weather the storm, a typical knee-jerk reaction in many companies has been to significantly reduce staff and batten down the hatches. “Getting out the hatchet and chopping staff levels is never a good long term strategy,” says Solertis’ Elliott. “A better response that we observed in several of our clients was to avoid layoffs by freezing wages and implementing salary reductions of up to 10 percent.”

As a best practice, she suggests cross-training your top people. “Pick some of your best performers and most reliable staff members and rotate them through areas

that interest them and through areas where you want to increase your pool of talent,” she explains.

If you don’t already have a formal cross training program in place, she recommends that you create one with prestige, visibility, and accolades to acknowledge and reward your best performers without adding additional cost to your operation. “This will demonstrate that you are investing in your staff and will further engender their loyalty, trust, and support, encouraging

your best people to stay through the lean times.”

When the going gets tough, good managers are those who step up to become better leaders. It’s the responsibility of these leaders to innovate creative solutions to everyday problems,

instead of doing things the way they always have. That’s what “best practice” is all about. ☺

Maida Napolitano is a Contributing Editor for Supply Chain Management Review and Logistics Management

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