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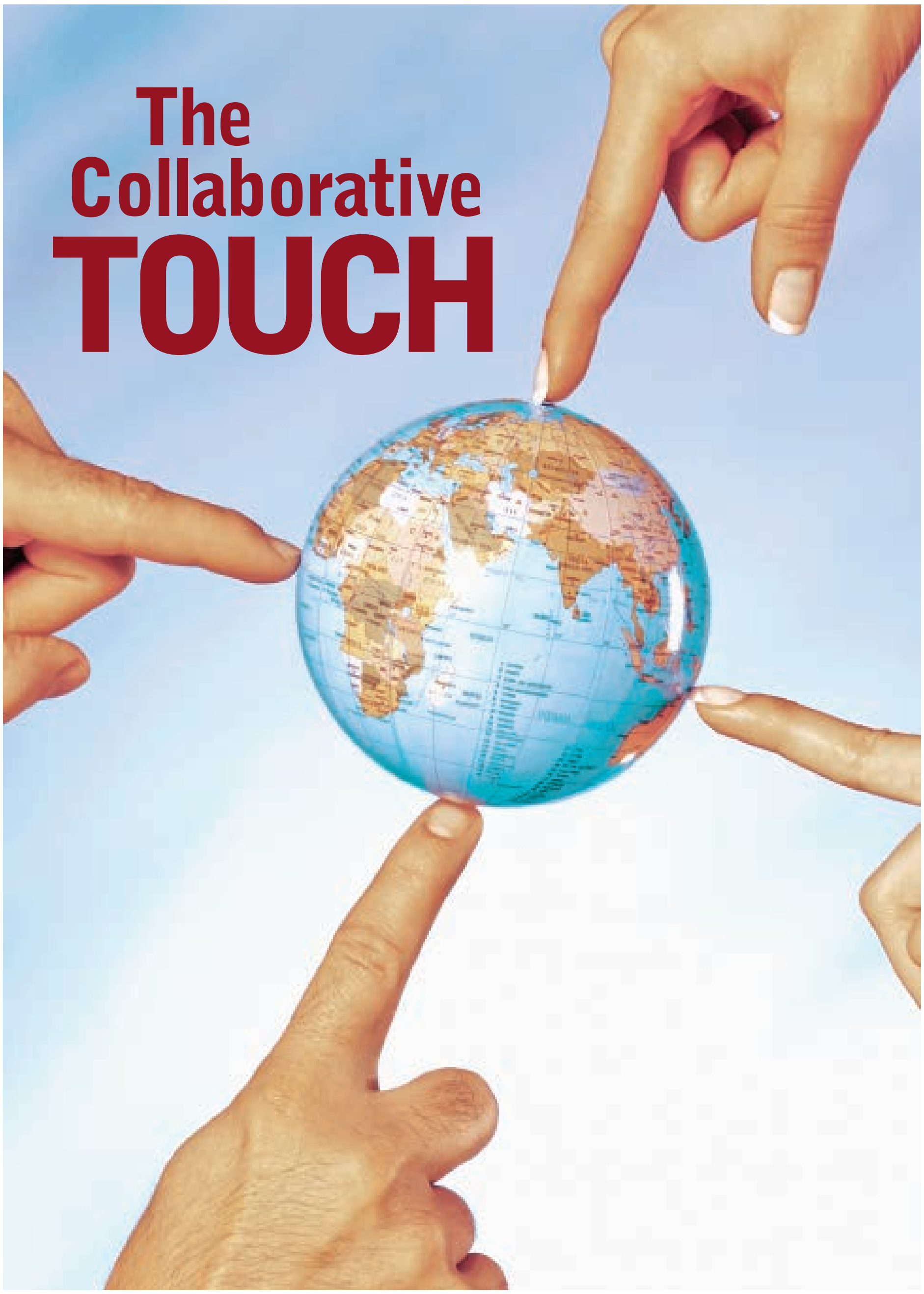

FEATURES

COMMENTARY

September/October 2012 Volume 16, Number 5

SupplyChain Management Review

FEATURES

SPECIAL REPORTS

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Collaboration: Still a Hot Topic

Frank Quinn, Editor
fquinn@ehpub.com

SCMR has been in business for 16 years now and, although we haven't done a quantitative analysis on this, one the most popular topics over that time period has been collaboration.

In fact, in our very first issue, Volume 1, Number 1, we ran an article from Andersen Consulting (now Accenture) on the "Seven Principles of Supply Chain Management." (Interestingly, that article has far and away been the most requested and reprinted in the magazine's history.) But the relevant point here is that collaboration underpins many of the principles articulated in that article. To cite one example, in advocating for a more collaborative relationship with suppliers, the authors argued for "gain sharing arrangements to reward everyone who contributes to the greater profitability." Pretty radical thinking for 1997!

Today, supply chain professionals are still seeking ways to become more collaborative with their partners. A growing number, probably even the majority, understand that a relationship that emphasizes cooperation over coercion works to everyone's advantage. The sticking point often is how to get to that point. The insights in our September/October issue may help.

Our first feature article on Gartner's annual listing of the Top 25 supply chains contains a telling insight from authors Debra Hofman and Stan Aronow on the common characteristics shared by these leaders. Among those traits, the leaders differentiate themselves by managing their supply chains as extended networks of trading partners—a collaborative group of customers and customers' customers, suppliers and suppliers' suppliers, third-party logistics providers, and so on.

Collaboration, too, is the foundational element of a concept called Alliance Management, which Bob Engel relates in his story. In this consultant's view, Alliance Management advances supplier relationship management by a giant step. It takes the transactional discipline inherent in SRM, but then adds the element of mutual value creation. The article describes the potent benefits of this approach and offers readers a six-step process to help them create value jointly with their suppliers.

We learn in another feature article ("Collaborating for a More Sustainable Supply Chain") that collaboration also can be a key to more sustainable supply chains. Collaboration, in this instance, comes in the form of a Sustainable Supply Chain Community of Practice—a General Services Administration-led initiative to bring government agencies and private industry together to conserve energy, reduce waste, and generally make supply chains more efficient.

The danger of devoting so much attention to the practice and theory of collaboration is that some readers might take a ho-hum attitude—as in, haven't I read all this before? But research and anecdotal evidence says that while collaboration is not a new topic, we're still being challenged to get it right and gain the benefits. It's a hot topic that needs to stay hot.

Francis J. Quinn

SUPPLYCHAIN MANAGEMENT REVIEW
Editorial Offices
111 Speen St. (Suite 200),
Framingham, MA 01701-2000
1-800- 375-8015

InSIGHTS

BY LARRY LAPIDE

Speak Financially, Get Results

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.

A long time ago I got my doctoral degree from the University of Pennsylvania's Wharton School of Business in an area called Operations Research (O.R.). As a newly minted graduate, I'd explain to people unfamiliar with the discipline that it involved the use of the scientific method and quantitative analysis to solve business problems. I had been trained in decision making, quantitative modeling, and optimization techniques.

When someone would ask what my favorite graduate course was, I would carry on excitedly about my methodology course. It was taught by a famous professor who delighted students with stories about companies that had successfully used O.R. to solve some of their most pressing business problems. Math applied to the real-world of business—what course content could be better than that? At least that's what I thought at the time.

Finance is the Language of Business

Fast forward to a recent discussion I had with some colleagues about courses that should be added to a supply chain program. When asked for my opinion, I responded "Introduction to Accounting." Why accounting and not O.R. methodology? I'll try to explain below.

During my 35-plus years of business experience, several things have made me realize the importance of accounting and financial reports to understanding what really makes a business tick. Here are several points to consider.

First, in my November 2008 *SCMR* column titled "The Operational Performance Triangles," I presented a triangle that can be used to help conceptualize whether a balanced set of operational performance objectives align to competitive corporate strategies. Two points of the triangle, Efficiency and Asset Utilization, represent those types of performance objectives that directly affect a company's income statement and balance sheet, respectively. (The third point on the triangle represents Customer Response objectives that do not directly affect financial reports). My point in that column was that supply chain professionals need to understand how the first two types of operational objectives—efficiency and asset utilization—relate directly to financials.

Second, my research and experience with Sales and Operations Planning (S&OP) processes has convinced me of the critical importance of translating unit-based operational plans into monetary (i.e., financial) terms. In this way, S&OP teams can maintain the visibility they need to help navigate companies towards achieving financial goals—especially those related to profitability and Return-on-Assets (ROA).

Third, whenever a large-scale project is to be undertaken, a business case analysis must be developed in financial terms. So before a supply chain project can get started, executives need to be convinced that it will improve financial performance over the long run.

Fourth, and lastly, I'm now completely convinced that all future supply chain leaders will need to be good business people first and supply chain experts second. For this to happen, they must become conversant in the language of business, which is accounting and financially based.

Luckily for me, I took some elective introductory courses in economics and accounting during my graduate studies in O.R. While the accounting course involved a lot of painstaking, time-consuming detailed calculations on paper (we didn't have today's computerized spreadsheet software back then), the hard work helped me better understand the financials of an enterprise. I learned to read balance sheets and income statements while developing an appreciation for the value of corporate assets.

Companies spend a substantial amount of upfront money to build assets to manufacture and distribute supply as well as to deploy inventories in anticipation of customer demand. They expect to quickly get returns on their investments. Intel, for example, spends billions of dollars to build semi-conductor fabrication plants. So the company operates them 24/7 to make sure that it is maximizing its long-run ROA on these huge investments. Short-term margin and profit generation alone cannot justify these investments.

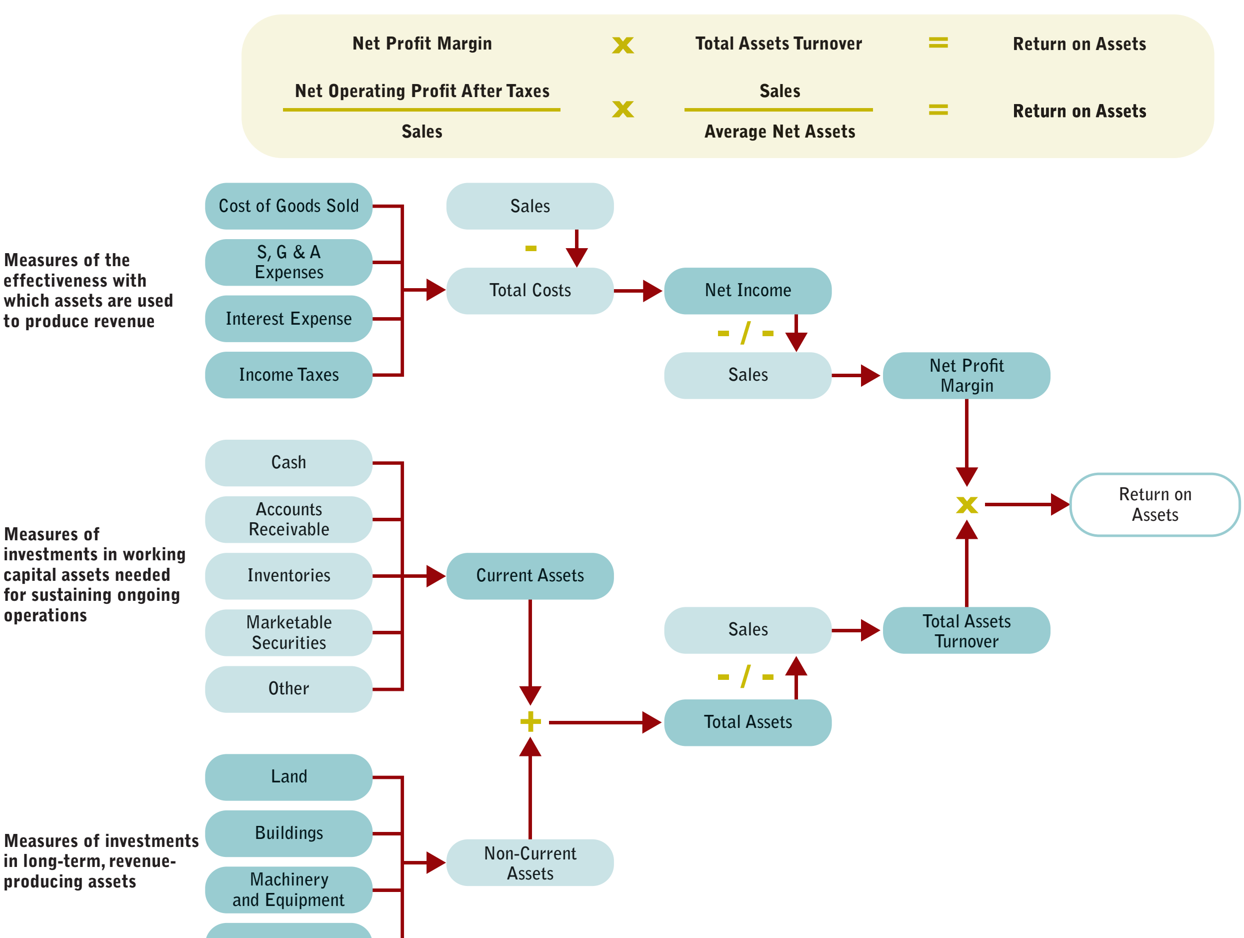
The DuPont Model

Put very simply, all supply chain managers should become conversant in accounting and finance if they want to get ahead. Once conversant, they will be able to build business cases that will resonate closely with executive-level thinking. The DuPont Model (shown in Exhibit 1) is a good blueprint to use when developing a business case. The model, which according to Wikipedia was established in the mid-1920s, has been used by managers over the years to translate operational plans into their expected financial impact on ROA. While simple, the model is robust in showing the interconnections among operational productivities, revenues, operating costs, assets and inventories, and their impact on ROA.

Using a model such as this allows managers to translate operational supply chain improvements into their financial meaning. For managers that adopt the model and follow my advice to "think financially," their executive presentations will go from being "bored-level" to "board-level." This will help them to get the executive approvals as well as those promotions they are looking for!

EXHIBIT 1

The DuPont Model



Source: www.12manage.com

GLOBAL LiNKS

BY PATRICK BURNSON

Brazil's Ambitious Agenda

While the next few months may see a stall in its torrid pace of development, there's little doubt about Brazil's resolve to conquer hemispheric markets and penetrate new ones.

By Patrick Burnson

Patrick Burnson is the executive editor at *Supply Chain Management Review.* He welcomes comments on his columns at pburnson@peerlessmedia.com

A number of supply chain summits, forums, and conferences have focused on Brazil this year—and for good reason. The country is chief among rapid-growth markets (RGMs), not only in this hemisphere, but around the world.

According to Alexis Karklins-Marchay, co-leader of the Emerging Markets Center at Ernst & Young, while slower expansion in Brazil and other RGMs is likely in the remaining months of 2012, it will "only be a blip" before returning to significant growth by next January. Mark Pearson, managing director of Accenture's Supply Chain Management practice, says that by 2020 Brazil could reach five million households earning $30,000 or more per annum. Pearson adds that economic data and projections are a key starting point for companies seeking to expand their sales, sourcing, or manufacturing presence in rapid-growth countries like Brazil. But, far more "granular analyses" are needed to make growth manageable as well as profitable, he argues.

Meanwhile, supply chain managers will be weighing their options when it comes to shipping and sourcing from the well-established manufacturing sectors in Brazil's southeast and the industrial clusters in Manaus, the capital of the Amazonas state, in the North.

Even though Brazil is South America's largest exporter and importer, U.S. multinationals must still work around the country's tariff and non-tariff barriers. Analysts with *Transport Intelligence (Ti)* in London, report that the country's trade administration is fairly good, although businesses complain that customs procedures are burdensome. The country's border administration is fair, too, although transport infrastructure—in particular, railroads, roads, and ports—is relatively underdeveloped.

But *Ti* analysts say that the telecommunications infrastructure is more than adequate for today's shippers. The country boasts an open and competitive air transport sector, too. Brazil is the world's largest producer of regional jets.

Other economic statistics are similarly impressive.

- Brazil ranks third in production of shoes and soft drinks, fourth in commercial aircraft, eighth in steel, and tenth in automobiles.
- The country is home to Latin America's largest forestry based industry, and boasts the world's fifth-biggest rubber industry and the seventh largest paper and pulp industry.
- Brazil is the world's sixth-largest market for cosmetics, with annual sales of $9 billion.
- The textile sector is made up of 30,000 companies which generate annual sales of approximately $21 billion.
- The country contains 22 percent of the world's arable land surface.

If there is one caveat these days, it is that border security remains weak. This problem is hardly unique in South America, and Brazilian trade authorities are adamant about solving it.

Infrastructure a Work in Progress

So, given this complex risk/reward scenario, is it any wonder that aggressive global players are seizing the advantage? Strong demand from China for Brazilian commodities such as steel and iron ore has resulted in that nation becoming Brazil's top export trade partner, surpassing the United States. Furthermore, Brazil is pursuing an energetic policy to expand its supply chain infrastructure across the continent for greater access to Asian markets.

As it stands now, Brazil's port system desperately needs updating and expansion as many ocean cargo gateways are experiencing serious congestion in the country. Indeed, *Ti* analysts note that of the 34 public maritime ports under the jurisdiction of the Special Secretariat of Ports of the Presidency (SEP), 16 are managed directly by the state and local governments—a bureaucratic nightmare. The other 18 are administered by "dock" companies, which are joint stock companies whose major shareholder is the federal government. Adding to this confusion is the fact that the SEP also is responsible for formulating policy and implementing measures, programs and projects to support the development of infrastructure of seaports.

Brazil is an example of how one giant sovereign state and its supply chain stakeholders are shaping destiny with ambitious plans of their own.

Because of the poor state of the ports, many private alternatives have been built in order for companies to move their commodities to market quicker, *Ti* analysts observe. For example, Brazil's mining mogul, Eike Batista, announced plans to build one of the world's largest ports. The project has attracted both local and foreign investors. Batista came up with the idea of building a new port after experiencing constant delays in getting iron ore from his mines onto ships bound for China.

The port will include a cement causeway that will stretch about 1.8 miles into the ocean. It will have a four-lane highway, pipelines and conveyor belts that will move raw materials onto vessels heading to China. The Acu Super Port, nicknamed "highway to China," will be completed this year at a cost of about $2.7 billion. The port will be a 10-berth terminal off the Brazilian coast.

Work is also underway to improve rail and road access to the Port of Santos, which up until recently has been a choke point for goods moving in and out of the southeast.

Grupo Libra, the first private company to manage a sea terminal in Brazil, recently completed a dredging project at Santos' navigation channel. Analysts say the company will likely make similar improvements in Rio de Janeiro, where it holds several terminal concessions.

The Port of Rio Grande—a southern gateway having a strategic importance that goes beyond the limits of its national borders—is another resource worth tracking. According to port administrator Jaime Ramis, it will soon become "the hub for the region," including Argentina, Paraguay, Uruguay, and Bolivia. Indeed, the Port of Rio Grande is able to accept 8,500 twenty-foot equivalent units, while the average in Brazilian ports is 2,300 TEUs. It is also preparing to become a logistics center for the southern end of Brazil's hydrocarbons offshore deposits and booming oil industry.

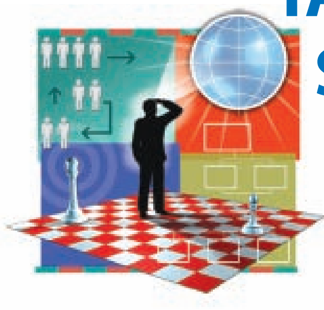
Despite Brazil's vast network of navigable rivers, inland waterways currently account for only 13 percent of waterborne traffic. That, too, is changing, however. The Agencia Nacional de Transportes Aquaviarios, the federal agency that regulates inland waterway, has been aggressively promoting private investment for the past decade. And there have been encouraging signs that international companies are preparing to expand operations into this cost-efficient distribution mode.

Brazil Shaping Own Destiny

As we have surmised before, the Panama Canal may not be the global transportation "game changer" many expect. Brazil is an example of how one giant sovereign state and its supply chain stakeholders are shaping destiny with ambitious plans of their own. Witness the string of new highways planned to extend Brazil's reach from the Atlantic to the Pacific via landbridge to Peru. Odebrecht, the Brazilian firm that built part of the existing highways, plans to invest $10 billion on infrastructure in Peru over the next five years on a range of power, water and road projects.

The project is being dubbed "InterOceanica," and analysts suggest that this inevitable byproduct of South American integration will make Brazil the leader in boosting the continent's trade with China and the rest of Asia.

Finally, because risk mitigation is now top-of-mind with most U.S. supply chain managers, this could be another reason to invest closer to home. Sudden and dramatic supply chain disruptions in Japan (earthquake) Thailand (floods), and India (blackouts) may make this hemispheric neighbor even more attractive as a way to "hedge bets" with a more sustainable sourcing strategy.



The Culture-Talent Management Connection

By Ken Cottrill

Ken Cottrill is Corporate Communications Consultant, MIT Center for Transportation & Logistics. He can be contacted at kencott@mit.edu

Corporate culture—or a lack thereof—shapes an organization's value system. And the values that characterize a company influence the types of individuals it hires, how they perform in the organization, and how long they stay in the job.

There are many anecdotes about the negative impact of uninspiring corporate cultures on staff retention. These include cultures that are overly bureaucratic or too focused on micro-management, and ones that encourage finger pointing rather than constructive problem solving. Sadly, relatively few companies appear to leverage corporate culture as a positive employee retention tool.

One of the exceptions is Coyote Logistics LLC. Headquartered in Chicago, the third party logistics provider employs about 1,100 people. Coyote has clocked spectacular growth rates since it was created in 2006. It effectively doubled the size of its work force in 2011, and plans to add another 500 people this year. CEO Jeff Silver is not worried about a shortage of talent thanks largely to the way in which his organization's work force and culture are aligned.

Four Traits of the Brand

Named to the Inc. 500 list of the fastest-growing privately held companies in the U.S. for two consecutive years, Coyote posted revenues of $558 million in 2011 and is on course to near the $1 billion mark this year.

"Our brand is our culture," says Silver. Following a rebranding exercise, Coyote identified four characteristics that represent its brand: True, Tenacious, Smart, and Tribal. The four descriptors define the way the organization positions itself internally to employees and externally to customers and carriers.

True. The 3PL is a non-asset-based truckload, less-than-truckload, and intermodal service provider that moves 2,800-plus loads per day across North America. Coyote focuses on backhaul opportunities.

As Silver points out, traditionally the truck brokerage business has not been associated with trustworthiness. The industry's early evolution involved "guys sitting in basements and trailers and there was a lot of black box mentality." Cargo was accepted and moved if the right margins were on the table; if not, loads were rejected or delayed. This tendency to put short-run profitability ahead of customer service has given the industry a less than stellar reputation in the trust department, Silver maintains.

Coyote's "True" characteristic addresses this issue. Central to its business model is a "no excuses" philosophy where every load that is accepted is moved—even when unprofitable. "Anyone who works here has to have that [mindset]," he says. "We talk about it all the time— not taking short cuts. We don't optimize on margin."

Silver's rationale is that a reputation for dependability is good for business because shippers are more likely to repeat the experience and their referrals drive more orders.

Tenacious. Tied to the "True" descriptor, "Tenacious" reinforces the notion that an operator never quits on a load that he or she is responsible for.

Smart. Silver is a graduate of MIT's Masters of Engineering in Logistics program (now the MIT Supply Chain Management program), as are two other members of his executive team. Five more MIT alumni will join the company this year. Graduate degrees from schools such as Georgia Tech and Northwestern's Kellogg School of Management also feature on team members' resumes.

The aim is not to collect prestigious school names. Rather, it is to provide the smarts that leading 3PLs need not only to compete globally, but also to offer high-level analytical and consultancy services in areas such as network optimization.

There is an important talent management payoff, too. While logistics is still regarded in many quarters as a blue collar activity, Coyote employees understand that it is every bit as sophisticated as more esteemed departments or disciplines. "Logistics is a cool place in which to work," says Silver, "and it helps us when bright college students think that way," says Silver.

Tribal. This characteristic defines how employees work together, and hence how Coyote gels as a competitive organization.

As the company name suggests, there is a pack mentality that is nurtured from the first day on the job. The absence of a dress code, open-plan offices where there is no such thing as an executive suite, and an emphasis on frank discussion across the organization, are among the features designed to reinforce employees' affinity with the tribe.

Self-Built Pipeline

These characteristics underpin a corporate culture that is at the center of Coyote's approach to staff recruitment, development, and retention. HR is headed by Chief People Officer Marianne Silver. Her team includes a Director of Recruiting, eight corporate recruiters, and a recruiter for IT.

The company shuns hiring individuals from other 3PLs, preferring instead to start with a "clean slate" when introducing new people to the organization. Most recruits are fresh out of school, but the right individuals with work experience are also considered. There are staff members with backgrounds in professional sports and the car rental business, for example.

Every new employee goes through intensive training, and Jeff Silver uses the initial training sessions as an opportunity to infuse the Coyote culture. "Any day I am in Chicago I try to spend at least an hour with the training classes," he says. Senior executives make a special effort to meet recruits on their first day with the organization.

Also reinforcing the culture is a strong ethic of self responsibility. "Like any other job or relationship, you get out of your job at Coyote what you put into it. But because of our environment, culture, and growth opportunities, even more so here than in other companies," Silver says.

If someone is unhappy about any facet of their role, then they are expected to speak up. "Our executives do not work in a separate office. They sit out on the floor, so it's on you to come and talk to us," he notes.

While the supply chain industry grapples with the challenge of building a talent pipeline, Coyote Logistics is creating its own pipeline.

Silver was asked recently whether he worries about the culture being diluted as Coyote grows. "I used to worry about that, but we are getting good at recruiting the right people, and there is a positive feedback loop where the people who are already here reinforce the culture and bring more energy."

That feedback loop also plays a key role in maintaining a supply of talent, because employees recommend the company to their social and professional circles of contacts. While the supply chain industry grapples with the challenge of building a talent pipeline, "we are creating our own pipeline," says Silver.

Culture Compass

Coyote could encounter staff retention issues down the road as other 3PLs learn from its business model. But Silver believes that a more competitive logistics industry benefits all successful players in the long run.

Meanwhile, there are a number of lessons that the industry can draw from Coyote's talent management approach. One is the merits of developing your own talent at a time when training budgets are being slashed and there is more emphasis on poaching employees from rivals.

But perhaps the most important lesson of all is that a strong corporate culture is the glue that binds the workforce together. And by aligning employees with the organization's growth goals, corporate culture sets the agenda for how these individuals are hired and progress along a career path.

THE SUPPLY CHAIN TOP 25

Raising the Bar

By Debra Hofman and Stan Aronow

Debra Hofman is Managing Vice President and Stan Aronow is a Research Director at Gartner Inc. They can be reached at Debra.Hofman@gartner.com and Stan.Aronow@gartner.com.

The 2012 ranking of supply chain leaders from Gartner includes a broad mix of global companies—a few new to the list, but most having recorded multiple appearances. These leaders share certain characteristics that drive day-to-day performance while solidifying the foundation for future growth. Their standout performance is raising the supply chain leadership bar for companies everywhere.

Gartner's Supply Chain Top 25, published since 2004, is an annual ranking of leaders in the global supply chain. At its core, the Supply Chain Top 25 is about demand-driven leadership. Every year, we identify the companies that push the envelope of supply chain innovation. Our goal is to raise awareness of the supply chain discipline, as well as how it impacts the business, and to catalyze the debate and the cross-fertilization of ideas about what supply chain excellence really means.

What Is the Definition of Excellence?

Our methodology, detailed below, is based on a composite score for each company that is made up of a set of financials combined with an opinion component, providing a balance between objective and subjective components. In completing their ballots, voters are asked to identify those companies they believe are furthest along the journey toward the demand-driven ideal, as defined in Gartner research and on the voting website.

What does it mean to be demand-driven? Exhibit 1, on page 12 captures the organizational ideal of demand-driven principles as applied to the global supply chain. This model has three overlapping areas of responsibility:

• **Supply management**—Planning, sourcing, manufacturing, logistics.

• **Demand management**—Marketing, sales, and service.

• **Product management**—R&D, engineering, and product development.

Excellence is a matter of visibility, communication, and reliable processes that link all three of these functional areas together. When these processes work together, the business can respond quickly and efficiently to opportunities arising from market or customer demand. Defining characteristics of supply chains built to this design include the ability to manage demand rather than just respond to it, a networked rather than linear approach to global supply, and the ability to embed innovation in operations rather than keep it isolated in the laboratory. The demand-driven model is inherently circular and self-renewing, unlike the push supply chains of our factory-centric industrial past.

Inside the Numbers

In the 2012 ranking, the top five contenders include three perennials and two relative newcomers. (See table on page 14 for the complete rankings.) First is Apple, maintaining its No. 1 position despite some bumps this year, using first-to-market advantage, scale and brand to wield supply chain as a competitive weapon. Already a stellar performer on the financial metrics we use for the ranking and well-respected in the voting portion of the methodology, Apple astoundingly raised the bar even further, getting to a near-perfect score.

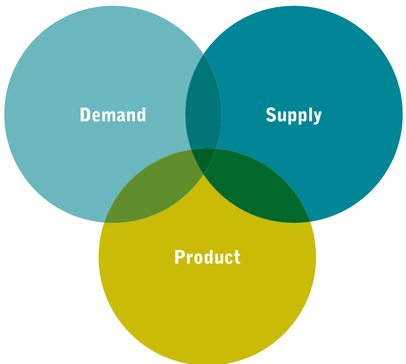
Both Dell and Procter & Gamble have been in the top 5 every year of the ranking. Dell, having paved the way with its configure-to-order model, has transformed itself and developed a sophisticated go-to-market strategy that tailors supply chains by segment. Procter & Gamble, an iconic supply chain thought leader, has an unparalleled ability to orchestrate demand and connect the supply chain to the shelf and its customers' moments of truth. P&G continues to push the envelope of innovation and performance.

Amazon and McDonald's were both new to the ranking in 2010 and have moved steadily up since then. With a three-year weighted average revenue growth approaching 40 percent, Amazon delivers consistently reliable product supply to its shoppers—no small feat given the range of products it offers, the complexity of its network, and its continued expansion into new channels and services. McDonald's, back to double digit growth this year, gets a lot of respect from peers for its ability to deliver growth in same-store profitability while managing a more complex product portfolio driven by its McCafe line.

Movers and shakers in the middle of the ranking include Unilever (10), Intel (7), and Nike (14), three companies that have been steadily rising on the list and leading the way for others in their global supply chain transformations with impressive results. Coca-Cola, known for its "last mile" distribution prowess, returns at No. 6 with strong peer recognition and ROA—even while it navigates the integration of its bottlers in North America. Cisco returns at No. 8, setting the pace with a robust risk management program and collaboration up and downstream in its value chain. Ranked ninth, Walmart remains a mainstay. And despite some challenges in the past year in Mexico, the company continues to get a lot of respect from peer voters for its contributions

EXHIBIT 1

Demand-Driven Principles



Source: Gartner

to supply chain best practices over the years.

Colgate rises to No. 11 this year on consistently industry-leading, double-digit return on assets and a strong governance model. Long a recognized leader in direct store delivery, PepsiCo (12) is collaborating with retail partners to reduce out-of-stocks at the shelf and increase the visibility and accuracy of its demand signal. Samsung (13), well known for its advanced S&OP process, continues with strong growth and profitability in a tough market. Inditex, the European-based retailer best known for its Zara brand and the tight integration between product design and supply chain, returns for the third time to the ranking at No. 15.

Rounding out the list in the 16-25 section we see a combination of newcomers, the newly-returning, and old-timers who continue to lead the way in supply chain. We're excited to welcome two heavy industrials among the newcomers: Caterpillar (20), an early leader in the concept of segmentation with its well-known "lane strategy," and Cummins (23) a major player in the engine and power generation markets recognized for its best-in-class parts and service network. Leading industrials are traditionally strong in upstream supply management, including the agility required to profitably balance their long and complex supply chains against volatile demand. We look forward to seeing them share best practices with the supply chain community through the Top 25.

Two remaining newcomers come from the consumer and retail sectors. H&M, the successful Swedish retail apparel group, joins the list for the first time this year at No. 17, with a consistently high-flying ROA on top of a proprietary distribution network of centrally controlled stores. Kimberly Clark, joining at No. 25, has brought an innovative approach to logistics partnerships to North America and is now focusing on continued improvements in on-shelf availability and predictive demand planning.

Johnson & Johnson (22), the only life sciences company on the list, returns with a compelling vision for an ambitious supply chain transformation program. Hewlett-Packard (24), another perennial, runs one of the most complex supply chains in high tech, and is reaping the cost benefits from being the first PC OEM to move from coastal to Western China. Research in Motion (RIM), the maker of BlackBerry mobile devices, fell to No. 19 this year, after a difficult 2011. Given that our methodology relies on financial metrics for 50 percent of each company's score, this fall is not a surprise. Yet RIM also took a hit in the voting portion of the score, despite its impressive Value Chain Express strategy.

New to the ranking last year and coming back strongly this year are Starbucks (16), with a return to growth and a focus on supply chain talent; Nestle (18), focusing on supplier development and raw material sourcing strategies; and 3M (21), best known for product innovation and returning to double-digit growth and ROA.

The companies populating our Supply Chain Top 25 ranking this year are an impressive group and all have some best practice aspect of their supply chain operations that is applicable to the rest of the community of practice. In addition to each supply chain's unique value proposition, there are commonalities that we see across them in terms of underlying characteristics and trends on where they are focusing their transformation efforts.

Characteristics of Leaders

At Gartner, we've been researching and writing about the importance of being demand-driven since 2003. Since that time, we've published hundreds of pieces on the transformation to a demand-driven value network. We continue to research these concepts and advise companies as they recognize the value of becoming a demand-driven organization.

While every supply chain organization develops unique strategies and focuses on differentiated initiatives, we've found in our research that there are certain key characteristics that define the leaders. We have talked about some of these in past articles, and they remain important foundational elements to being demand-driven. But they are not easy to attain, and what differentiates the leaders in the Top 25 is that they are further along the journey than others. Demand-driven leaders go beyond best practices to build a foundation for growth and continual learning that constitutes an engine for superior competition.

These are among the key characteristics of the leaders we've observed:

Outside-in Focus. The concept of developing and maintaining an outside-in focus is almost synonymous with the phrase "demand driven." The galvanizing prin-

The Gartner Supply Chain Top 25 for 2012

Rank	Company	Peer Opinion[1] (173 voters) (25%)	Gartner Opinion[1] (37 voters) (25%)	Three-Year Weighted ROA[2] (25%)	Inventory Turns[3] (15%)	Three-Year Weighted Revenue Growth[4] (10%)	Composite Score[5]
1	Apple	3241	651	20.2%	74.1	51.5%	9.69
2	Amazon	2713	435	4.4%	10.0	37.7%	5.40
3	McDonald's	1121	283	16.0%	142.4	7.2%	5.37
4	Dell	2131	546	6.8%	35.6	2.7%	5.30
5	P&G	1940	622	9.2%	5.5	2.5%	5.05
6	The Coca-Cola Company	1818	372	13.0%	5.8	19.7%	4.85
7	Intel	1006	406	16.2%	5.0	17.8%	4.63
8	Cisco Systems	1243	582	8.4%	11.0	5.5%	4.46
9	Wal-Mart Stores	1874	410	8.8%	8.3	4.2%	4.24
10	Unilever	1043	534	10.2%	6.0	5.5%	4.21
11	Colgate-Palmolive	697	342	19.6%	5.3	4.2%	4.17
12	PepsiCo	917	427	10.2%	7.7	17.6%	4.05
13	Samsung	1014	291	9.4%	17.1	15.9%	3.67
14	Nike	1073	278	13.3%	4.6	5.2%	3.55
15	Inditex	397	225	17.3%	4.0	10.3%	3.37
16	Starbucks	940	191	14.3%	6.2	6.3%	3.28
17	H&M	385	24	28.6%	3.6	5.7%	3.09
18	Nestle	651	196	15.9%	4.9	-9.5%	3.06
19	Research In Motion (RIM)	254	104	17.0%	11.3	13.3%	3.00
20	Caterpillar	876	226	4.6%	3.4	22.7%	2.67
21	3M	856	70	13.2%	4.4	8.4%	2.65
22	Johnson & Johnson	798	176	10.7%	3.2	2.1%	2.55
23	Cummins	142	52	11.9%	6.0	20.0%	2.22
24	HP	598	192	6.2%	13.7	2.8%	2.22
25	Kimberly-Clark	463	182	8.9%	6.1	3.5%	2.21

1. Gartner Opinion and Peer Opinion: Based on each panel's forced-rank ordering against the definition of "DDVN orchestrator"
2. ROA: ((2011 net income / 2011 total assets) * 50%) + ((2010 net income / 2010 total assets) * 30%) + ((2009 net income / 2009 total assets) * 20%)
3. Inventory Turns: 2011 cost of goods sold / 2011 quarterly average inventory
4. Revenue Growth: ((change in revenue 2011-2010) * 50%) + ((change in revenue 2010-2009) * 30%) + ((change in revenue 2009-2008) * 20%)
5. Composite Score: (Peer Opinion * 25%) + (Gartner Research Opinion * 25%) + (ROA * 25%) + (Inventory Turns * 15%) + (Revenue Growth * 10%)

2011 data used where available. Where unavailable, latest available full-year data used. All raw data normalized to a 10-point scale prior to composite calculation.

Source: Gartner (May 2012)

ciple here is to design the supply chain starting with the customer experience, and work back upstream through the supply chain. While the concept is relatively simple, its implementation is anything but. It requires a fundamental re-orientation not only in mindset, but in the way groups are measured and in the way networks and business processes are designed. An outside-in focus is not synonymous with a customer focus: companies can be—and often are—focused on the customer from the inside-out, as witnessed in service metrics such as on-time shipments or fill rates.

Embedded Innovation in Supply Chain. In our Demand Driven Value Network model, first published in 2004, the inclusion of a "product" circle to accompany supply and demand carried an explicit message about the importance of connecting traditional notions of supply chain with the new product development and launch process. The point is to ensure that new products are brought to market that satisfy the total customer experience profitably and effectively. Leaders understand the balance between operational excellence and innovation excellence (see Exhibit 2). Supply chain considerations

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must be taken into account early on in the new product development and launch process. And the fact that new products require different supply chain strategies than existing products must be taken into account in the supply chain design process.

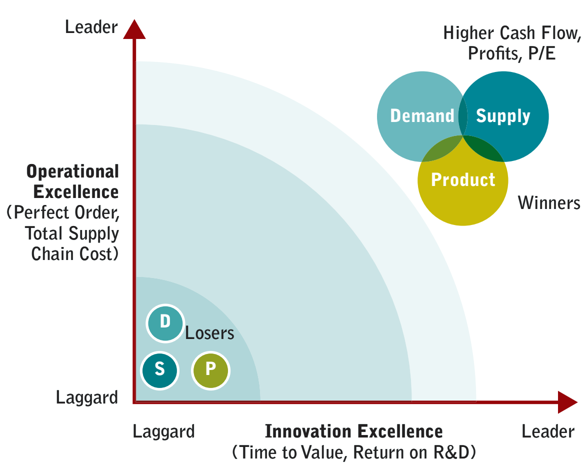
Extended Supply Chains as Networks. Leaders take the notion of the organization as value chain one step further, designing and managing their supply chains as the extended networks of trading partners—customers' customers, suppliers' suppliers, logistics providers, contract manufacturers, third-party warehouses, etc. —that they really are. What they're doing is orchestrating a set of activities across the network, aligning goals based on each player's value proposition that will result in the desired outcome from that network—the profitable delivery of final product to a customer.

Excellence Addicts. All companies measure. What most still struggle with is how to focus on the metrics that matter—and even more importantly, how to interpret and then act on those metrics to achieve a desired outcome, namely to improve operational results. From our years of research in this area, we find that most organizations are, in fact, awash in supply chain metrics. They find themselves so caught up in the tactical aspects of measuring—defining, collecting, sorting, translating, rationalizing differences—that it becomes an end in itself, and suddenly they realize they've lost sight of the bigger picture.

The best companies—the ones we call "excellence addicts"—have a very different approach to metrics. First, they know what to measure. But they also understand that the whole is greater than the sum of the parts, that it is, in fact, a system, and that the purpose of the metrics is to make the entire system work better. When

EXHIBIT 2

Operational Excellence and Innovation Excellence



Source: Gartner

individuals in these companies get together to discuss and interpret a set of numbers, the conversation isn't about whose fault something is; it's about where things broke down in the system, how to fix them, and then how to take it to the next level. They are ruthless in constantly examining their own processes to push the envelope of performance.

Three Trends Evident

Each year, our analysts talk to and research the supply chains of hundreds of companies. Through these discussions, we note the trends: What are the leaders focusing on, where are they investing time and effort, and what can be applied broadly? Overall, we've seen companies continuing to invest in resources and assets for growth, a trend that started last year and is continuing. The global economic recovery has been uneven and halting in some cases, but, companies' outlooks are increasingly expansionary in terms of the markets they serve and the products they offer.

There are three trends to note:

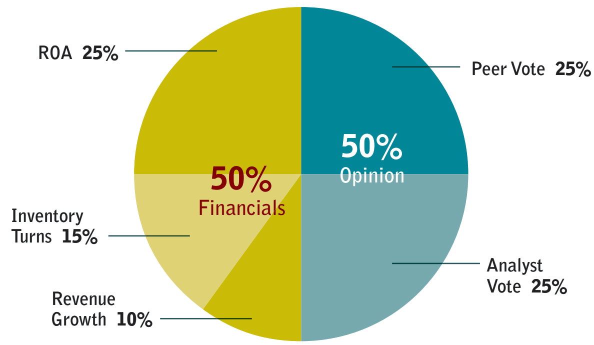
1. Supply Chain Risk Management and Resilience. Despite investing for growth, companies also know that the potential for disruption at anytime remains real. Many are looking to improve the resiliency of their supply chains to mitigate this risk. In turbulent times, and in the face of growing complexity and risk, leading companies need sustainable, resilient supply chains that support profitability and drive industry leadership. This requires managers to re-evaluate the layout of their supply network designs to make them more resilient to future catastrophes. It may also include designing products that allow more flexibility in supply and manufacturing, increasing long-term alternative sources of raw materials and logistics capabilities, and expanding outsourced manufacturing capacity. Leading companies such as Intel, P&G and Unilever improved multitier supply chain visibility and advanced network management capabilities to be agile in the face of disruptions. Overall, leaders have remained focused throughout the past year on building resiliency into their global supply chains. We see this continuing to be a highly valued supply chain characteristic.

2. Simplification. Many companies tell us that they have exhausted easily gained efficiencies within their existing supply networks and product portfolios. Further improvement will require structural changes to streamline the flow of supply, and eliminate less profitable product and portfolio complexity. Supply chain leaders are adopting complexity optimization strategies to eliminate infrequently used product features, service offerings, suppliers and distribution network capacity that does not add sufficient value to customers. Supply chain segmentation has emerged as a critical enabler of supply chain simplification, and while this is a concept that has been around for a few years, leaders are aggressively adopting it to reduce complexity.

3. *A Shift Toward Multi-Local Operations.* Manufacturers and retailers have long sought ways to balance the trade-off in their supply network designs between global economies of scale and the demand for local responsiveness. Leading companies are reassessing their sourcing and manufacturing networks, and rebalancing their supply network strategies in favor of multi-local design, supply and support. More specifically, they are shifting from a centralized model, where these functions support global markets, to a regionalized approach, where capabilities are placed locally, but architected globally.

EXHIBIT 3

Supply Chain Top 25 Methodology



Source: Gartner

Supply Chain Top 25 Methodology

One of the reasons this list has worked over the years is its transparent methodology. From the beginning we have sought direct feedback from supply chain professionals and incorporated suggested changes into the methodology where possible. As a result, the list reflects not only what Gartner analysts think about supply chain leadership, but what the community as a whole respects.

The Supply Chain Top 25 ranking comprises two main components: financial and opinion (see Exhibit 3). Public financial data provides a view into how companies have performed in the past. The opinion component offers an eye to future potential and reflects future expected leadership, which is a crucial characteristic. These two components are combined into a total composite score.

We derive a master list of companies from a combination of the Fortune Global 500 and the Forbes Global 2000, with a revenue cutoff of $10 billion. We then pare the combined list down to the manufacturing, retail and distribution sectors, thus eliminating certain industries, such as financial services and insurance, which do not have physical supply chains.

Financial Component

ROA is weighted at 25 percent, inventory turns 15 percent, and growth 10 percent. Inventory offers some indication of cost, and ROA provides a general proxy for overall operational efficiency and productivity. Revenue growth, while clearly reflecting myriad market and organizational factors, offers some clues to innovation. Financial data is taken from each company's individual, publicly available financial statements.

The weighting within the financials is the same as last year. Prior to 2010, inventory was weighted at 25 percent. We had considered dropping it altogether. As much as inventory is a time-honored supply chain metric—one of the few "real" supply chain metrics on a company's balance sheet—there have always been issues with it, not the least of which is that higher turns don't always point to the better supply chain. At the same time, it's a metric that's widely known and understood, both inside and outside the supply chain community. Despite the issues, it's not entirely invalid as an indicator, particularly if combined with other metrics. Therefore, we decided to leave inventory in, but reduce its weighting.

Since 2009, we've used a three-year weighted average for the ROA and revenue growth metrics (rather than the one-year numbers we had previously used), and a one-year quarterly average for inventory (rather than the end-of-year number we had previously used). The yearly weightings are as follows: 50 percent for 2011, 30 percent for 2010, and 20 percent for 2009.

The shift to three-year averages was put in place to accomplish two goals. The first was to smooth the spikes and valleys in annual metrics, which often aren't truly reflective of supply chain health, that result from events such as acquisitions or divestitures. It also accomplishes a second, equally important goal: to better capture the lag between when a supply chain initiative is put in place (a network redesign or a new demand planning and forecasting system, for example) and when the impact can be expected to show up in financial statement metrics, such as ROA and growth.

Inventory, on the other hand, is a metric that's much closer to supply chain activity, and we expect it to reflect initiatives within the same year. The reason we moved to a quarterly average was to get a better picture of actual inventory holdings throughout the year, rather than the snapshot, end-of-year view provided on the balance sheet in a company's annual report.

Opinion Component

The opinion component of the ranking is designed to provide a forward-looking view that reflects the progress companies are making as they move toward the idealized demand-driven blueprint. It's made up of two components, each of which is equally weighted: a Gartner analyst expert panel and a peer panel.

The goal of the peer panel is to draw on the extensive knowledge of the professionals that, as customers and/or suppliers, interact and have direct experience with the companies being ranked. Any supply chain professional working for a manufacturer or retailer is eligible to be on the panel, and only one panelist per company is accepted. Excluded from the panel are consultants, technology vendors, and people who don't work in supply chain roles (such as public relations, marketing, or finance).

We accepted 246 applicants for the peer panel this year, with 173 completing the voting process. Participants came from the most senior levels of the supply chain organization across a broad range of industries. There were 37 Gartner panelists across industry and functional specialties, each of whom drew on his or her primary field research and continuous work with companies.

Organizations must receive votes from both panels to be included in the ranking. Therefore, a company that had a composite score fall within the Supply Chain Top 25 solely based on the financial metrics would not be included in the ranking.

The regional breakdown of voters continued to be a particular emphasis for us, and we made significant progress this year. In the past, North American voters made up 80 percent of the total, despite many efforts to get a more even regional distribution. Last year, we made some inroads toward increasing the percentage of voters from Europe and Asia/Pacific. This year, the improvement was even more robust, providing a more balanced global view of supply chain leadership, with 43 percent from North America, 33 percent from Europe, and 24 percent from Asia/Pacific. We expect this trend to continue towards fully balanced regional representation.

Polling Procedure

Peer panel polling was conducted in April 2012 via a Web-based, structured voting process identical to previous years. Panelists are taken through a four-page system to get to their final selection of leaders that come closest to the demand-driven ideal, which is provided in the instructions on the voting website for the convenience of the voters.

Here's a breakdown of the voting system:

• The first page provides instructions and a description of the demand-driven ideal.

• The second page asks for demographic information.

• The third page provides panelists with a complete list of the companies to be considered. We ask them to choose 30 to 50 that, in their opinion, most closely fit the demand-driven ideal.

• After the subset of leaders is chosen, the form refreshes, bringing just the chosen companies to a list. Panelists are then asked to force-rank the companies from No. 1 to No. 25, with No. 1 being the company most closely fitting the ideal.

Individual votes are tallied across the entire panel, with 25 points earned for a No. 1 ranking, 24 points for a No. 2 ranking and so on. The Gartner analyst panel and the peer panel use the exact same polling procedure.

By definition, each person's expertise is deep in some areas and limited in others. Despite that, panelists aren't expected to conduct external research to place their votes. The polling system is designed to accommodate differences in knowledge, relying on what author James Surowiecki calls the "wisdom of crowds" to provide the mechanism that taps into each person's core kernel of knowledge and aggregates it into a larger whole.

Composite Score

All this information—the three financials and two opinion votes—is normalized onto a 10-point scale and then aggregated, using the aforementioned weighting, into a total composite score. The composite scores are then sorted in descending order to arrive at the final Supply Chain Top 25 ranking.

Raising the Leadership Bar

The goal of the Supply Chain Top 25 is to help raise the bar for leadership in the global supply chain. Companies that move fastest into global markets with innovative products—coupled with supply chains that are customer-driven, adaptable to change and resilient to disruption—will be the winners. We look forward to continuing to share the lessons learned, providing a platform for informed and provocative debate, and helping the supply chain community provide vital contributions to the global economy.

ALLIANCE MANAGEMENT: Engaging Suppliers the

By Bob Engel

Bob Engel is the Senior Practice Leader of the Supply Chain Management Service Line for Resources Global Professionals, a professional services firm. He can be reached at Bob.Engel@resources-us.com.

Alliance Management kicks SRM up a notch. By focusing on collaboration and two-way communication, it opens up new windows of opportunity in the buyer-seller relationship. When implemented properly with key suppliers, Alliance Management can lead to smoother operations, greater value, and higher profitability—for both parties!

Right Way

When veteran supply chain professionals hear the term "alliance management," they often cringe. They think back to the days when consultants began heralding this concept as the next great breakthrough in buyer-seller relationships. It sounded good—work with your key suppliers as if they were true partners so that both of you would benefit. But when trying to implement this logical idea, the old habits proved to be an insurmountable obstacle. Buyers reverted to the traditional master-servant relationship and the Alliance Management goal of mutual benefit through collaboration was seldom achieved.

Back then, a program like Alliance Management was considered "nice to have." Today, however, it's become a competitive necessity. In a dynamic environment of global supply chain complexity, new product development pressures, and continuing economic challenges, the need to capture the greatest possible value from our supply base has never been greater. This article is written to share with the supply chain community a reality that most of us already know: Our supply base holds the key to valuable opportunities to help us save money and increase the value for the dollars we spend. The way to achieve that is through Alliance Management.

Defining the Terms

In examining these opportunities, the first order of business is to define the terms—in particular, the difference between Supplier Relationship Management (SRM) and Alliance Management. The two are not the same.

According to the Institute for Supply Management (ISM), the term "supplier relationship management" refers to the practice and process for interacting with suppliers. SRM generally incorporates such elements as supplier contracts, terms, service levels, delivery requirements, and the like. In practice, SRM is typically a one-way communication channel—that is, from the buyer who conveys direction, control, and information to the supplier.

Our supply base holds the key to valuable opportunities to help us save money and increase the value for the dollars we spend. The way to achieve that is through Alliance Management.

Alliance Management takes SRM to a higher level. The practice includes all of the major elements we just mentioned but adds a foundational component of collaboration. In the relationship both parties are, in fact, "allies". Their actions focus on creating value and benefit for both parties. In true Alliance Management, both buyer and seller jointly engage in reducing overhead, cutting costs, simplifying business processes, and improving the alliance to ensure growth. In other words, it's a two-way collaborative relationship in which both the buyer and supplier benefit by providing value to each other.

There's an interesting parallel here with strategic sourcing. Strategic sourcing has been defined as an organized and collaborative approach to leveraging targeted spend categories with the objective of selecting those suppliers that are best suited to provide knowledge and value. Similarly, Alliance Management can be defined as the organized and collaborative approach to managing the supplier relationships.

The success of this collaborative approach very much depends on the people involved in the relationship. Through the formation of Alliance Management teams, representatives from both the buyer and the seller will regularly sit down at the table to work together on fostering a long-term, mutually beneficial alliance. These discussions typically will have four overarching objectives:

1. To ensure that the relationship remains healthy.

2. To establish a mechanism for addressing and resolving issues—recognizing that most relationships will have issues and the objective is to resolve those issues.

3. To provide an atmosphere and platform for setting continuous improvement goals that go beyond the agreement's basic terms and conditions.

4. To ensure that contractually agreed-upon performance metrics are monitored and measured. (Too often, we see that once agreements are negotiated and signed, they find their way to the file cabinet with little effort to measure "how are we doing?")

Thinking about our description of what's involved in Alliance Management, you've likely already concluded that it would be physically and economically impossible to include all of your suppliers in the program. And you are right. Later in this article, we'll detail how to go about identifying and selecting those suppliers to formally engage in an Alliance Management initiative. For now, let's just state our premise up front: With the key suppliers, it is well worth the time, money, and effort to establish a collaborative Alliance Management program.

Why Alliance Management Now?

The face of supply chain management in today's environment is changing rapidly in ways we enumerate below. Because of these changes, a commitment to alliance management—in terms of time, money, and resources—has become a necessity and not an option. Consider how these changes in our environment underscore the need for strengthening supplier relationships.

• **Shifting Demand-Supply Balance:** Prior to the global financial collapse of 2008/2009, economic life was fairly consistent and for the most part prosperous. Demand was heavy; it was supply that proved challenging for many commodities and services. However, over the past several years, and as a direct result of the recent global financial collapse, we have witnessed widespread cost containment and cost reduction initiatives. This, in turn, has resulted in less demand and over-supply in most cases (though not all).

• **Changing Sourcing Strategies:** With the volatile economy of the past several years, sourcing groups within companies have been required to make mid-course corrections with regard to their sourcing approach and strategies. Today, in addition to pricing, factors like supplier solvency, reliability, and attention to quality are in focus. The result: risk mitigation has been added to the sourcing decision tree process.

• **Expanding Sourcing Domain:** The executive C-suite for most companies has turned to their supply chain management leadership for additional cost savings and value creation. Reflective of this, SCM leaders are being asked to look into areas of spend that were traditionally off their radar screen. A sampling of these areas includes legal services, marketing and advertising, financial services, facilities, and professional services.

• **Increased Logistics Complexity:** Until recently, logistics was almost a secondary factor in sourcing decisions. Logistics professionals often felt frustrated having to repeatedly articulate the importance of shipping, warehousing, and inventory management. But with globalization and its attendant complexity now the norm, the pivotal role that logistics plays in the business has become clearer to everyone. How long will it take to ship, what governmental and regulatory issues will pose challenges and potential delays, how will natural disasters and the contingent planning for them affect our logistics strategy? All of these factors speak to the importance of logistics in our buying decisions.

• **Emergence of e-Procurement and Technology:** Supply chain functions today are seeking ways to be more efficient and productive. A big part of this is finding technologies that will allow sourcing staffs to concentrate their time and energy on strategic issues and not just transactional activities. In the context of Alliance Management, it's about selecting those suppliers that can incorporate technology efficiencies in the day-to-day ordering, shipping, and inventorying activities. Having the right procurement technology not only results in more streamlined processes, but also allows the buyer to concentrate more on strategic imperatives.

• **Heightened Emphasis on Compliance and Controls:** The Sarbanes-Oxley Act of 2002 (SOX) certainly provided some "high anxiety" regarding how companies conduct their financial affairs. The initial wave of SOX review focused on issues relating to financial reporting and transparency. Because this initial concentration on financial issues, most companies are now incorporating additional focus in other process and control areas such as supply chain management. All aspects of the supply chain function—processes, sourcing, supplier relationships, and so forth—should be part of the SOX review. Suppliers are being included in discussions to ensure that compliance, price verification, and security issues such as theft and fraud are being addressed.

Alliance Management is a two-way collaborative relationship in which both the buyer and supplier benefit by providing value to each other.

Cultural Issues with Alliance Management

Before detailing our specific recommendations for implementing an Alliance Management program, it's important to point out some of the cultural issues that, unless addressed, can stand in the way of success. Organizations develop a culture around the way activities are performed—including, of course, in the supply chain space. With the introduction of Alliance Management, many of these long-held cultural beliefs and attitudes will have to change. Two in particular are especially sticky: an inherent distrust between supplier and buyer in existing relationships and the buyer's fear of losing control.

In most buyer-seller relationships there is an inherent, though not always obvious, distrust between the parties. Naturally, suppliers want to charge more for their products and services while buyers like to "lower the pricing hammer." What emerges from these conflicting objectives is an element of distrust—most often coming from the supplier side. Alliance Management provides a new stage upon which to eliminate this negative element and build a new relationship based on mutual trust and collaboration. If we can sit down in a collaborative and good faith spirit with our partners, the relationship will be a whole lot more enjoyable—and profitable.

Various techniques can be employed to help overcome any sense of distrust and gain buy-in from the supplier side. One of the most effective I've seen is related in the following anecdote.

A colleague and very good friend of mine was at one time the CPO of a Fortune 500 utility company. Among his objectives was to not only initiate a strategic sourcing program for key commodities, but also to develop an effective Alliance Management program with incumbent and newly selected suppliers. One of their key suppliers was a cable manufacturer who made the cable line for electricity.

To set things on the right course, the first Alliance Management program meeting was held at the manufacturer's facility that made the cable. My friend wanted to drive home the point of two-way communication and dialogue. So early in the meeting he said to the supplier people in attendance: "Tell me what we are doing that doesn't make sense to you." There was not a word, not a peep from anyone in the room. He then repeated the request several times until finally one of the floor supervisors said:

"Follow me and I will show you what you are doing that is really dumb."

They followed the floor supervisor to the actual line where the cable was being manufactured, a process that basically involves braiding strands of wire in a straight line. At the end of the braiding line, there were a series of 90-degree turns—one right, two left, and then one right again. The supervisor explained that in the specifications he received from this utility company, one of the requirements was for "no markings on the outside of the cable." But the supplier had built into its manufacturing process a machine that marked the outside of the line with three-foot markings to help the field lineman with measurement. Because of the "no markings" requirement, however, the cable company had to build a workaround in the process so that markings would not be applied.

The neat part of this story is that my CPO friend had with him his lineman operations manager as part of the team. When the manager heard this, he said: "You've got to be kidding me (or a variation thereof). I don't know who in our company developed that specification, but I need those markings. And because there were none, I have to use tape measures to figure out my runs. If I had these markings, it would have saved me over 10 hours a week in man hours." This story underscores the importance of both parties understanding the value of an alliance management program.

On the buyer side, one of the big cultural issues to be addressed is the sense of losing control. Buyers traditionally have enjoyed the feeling of control over their suppliers. "Do it my way and you will fit in nicely into our supply chain plans," has been the prevailing sentiment. For many buyers, the thought of losing control can be a cause for uncertainty and anxiety. But to have an effective Alliance Management program, you simply have to get over it. Control needs to give way to collaboration.

Many people on the buyer's side may have difficulty giving up control; after all, they are being asked to undertake a major change, and change can be difficult for many. But they must be made to see that change in this matter is essential to the success of the business. If persuasion doesn't work, then "forced change" may have to come in play. The reality is that all facets of business are rapidly changing. We see joint ventures, information sharing, globalization, and a host of other leading indicators that confirm that being in control doesn't necessarily translate to success.

Six Steps for a Successful Program

By this point, we hope to have captured your attention regarding the potential advantages of Alliance Management. The next logical question, then, is how to implement a program that captures those advantages. We recommend the following six steps to help ensure a successful Alliance Management program.

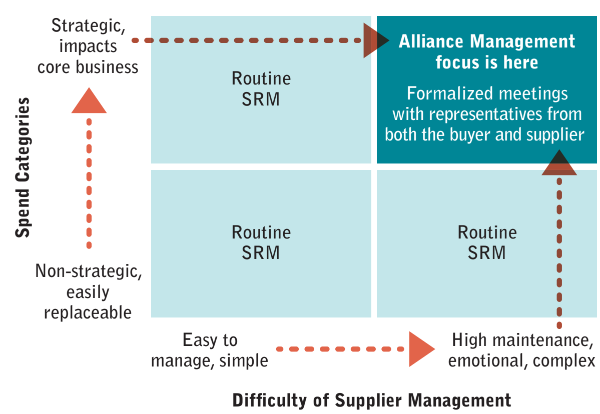
Step 1: Focus on the Core Relationships

Earlier we mentioned that it is neither practical nor desirable to establish an Alliance Management relationship with all of your suppliers. This should be reserved only for your key, or core, suppliers—that is, suppliers that are critical to your business needs and, as such, warrant the time and resources involved in an alliance management program. But how to determine which suppliers fall into this category?

The matrix shown in Exhibit 1 can help. It simply takes all of your supplier relationships and puts them into one of the four quadrants. The Y axis represents the spend categories and goes from low criticality to highest criticality—that is, from the non-strategic, easily replaceable spend to the strategic buys that impact the core business. The X axis is the difficulty and complexity of managing the relationships. Those suppliers that fit into the top right-hand quadrant—i.e., suppliers that are critical to your business and are relatively complex to manage—are the top candidates for a formal Alliance Management program.

EXHIBIT 1

Where to Have Alliance Management Teams



Source: Resources Global Professionals

Most suppliers will fall into one of the remaining quadrants and are best managed through routine SRM processes. The level of effort will be different in each of these remaining quadrants—for example, the easily managed strategic buys (upper left quadrant) will get more attention than the easily managed non-strategic buys (lower left quadrant). Yet the basic SRM process used outside of the Alliance Management quadrant will be essentially the same.

Step 2: Form the Alliance Management Team

With those suppliers that warrant an Alliance Management program, the next step is to form the team to manage the relationship. Team members should come from both the buyer and supplier sides. In selecting their team members, the buyers and sellers should emphasize the characteristics discussed below:

• *When identifying the respective team members, involve users from various levels of the organization that will be affected by the sourcing decisions*. These include (but are not limited to) technical, operational, administrative, and executive personnel. The point is to get the internal users actively involved in the management process of the alliance.

• *Select team members with a variety of perspectives.* Just having technical specialists on the team, for example, will limit the scope and effectiveness of the alliance management initiative.

• *Include non-believers as well as supporters.* The hope is that the non-believers will not only offer challenging viewpoints, but will ultimately understand the value of the program and will support it with the fervor of a convert. (A secondary benefit is that they will become fans of the supply chain organization.)

• *Most importantly, choose team members who will commit to the time effort required to make the program work.* The time commitment for a functional team member will vary from company to company, but in most cases will represent 5 to 10 percent of the person's time. When approaching a functional manager to put one of his or her people on the team, the team leader must be prepared to answer two key questions: (1) How much of this person's time will you need? (2) How will participation in the Alliance Management team help our particular functional area?

Here are a few other points to consider in team selection. Be wary about placing persons with either dominant or passive personalities on the team. The former could subvert the collaborative spirit required ofAlliance Management while the latter will contribute little in moving the relationship forward.

With regard to the frequency of team meetings, note that it will vary depending on the commodity and service and the maturity of the relationship. Early on, the team needs to meet more often. In addition, at least twice a year a senior executive from both the supplier and the buyer company should attend the meeting. This will accomplish two objectives: (1) the team sees first-hand the importance that senior leaders place on the alliance and (2) the leaders are kept up to speed on how the relationship is progressing—it's a great communication tool.

Step 3: Share the Agreement with All Team Members

Furnishing all team members with a copy of the contractual agreement is essential in the development of a sound buyer/supplier relationship. A lack of understanding among team members as to exactly what's involved in the agreement results in confusion and non-focused meetings. At this point in the relationship, the negotiating is over with and team members (from both sides) need to down to the business of executing against that agreement—with a unified focus.

Too often, we see instances where companies have the right mindset in fostering supplier relationships. But if the team members are not aware of the specifics of the agreement, the performance objectives, and the required commitment levels, how can you expect them to form a successful alliance?

Step 4: Constantly Assess Satisfaction and Status

An agenda item at every meeting should be the status of the relationship and whether it continues to move in a positive direction. As discussed earlier, issues will arise. The key is to quickly identify and resolve those issues and prevent similar ones from becoming a hindrance to the relationship. This can be accomplished by simply "taking stock of where we are" with regard to:

• Satisfaction levels of the internal users in both the buyer and supplier organizations.

• Whether issues are being addressed in a timely fashion and with corrective action.

• Enhancements that could be implemented to improve the relationship's effectiveness.

• Potential problems that may develop down the road.

Alliance Management is one more important tool that supply chain management leaders can apply to increase their company's profitability.

Step 5: Establish a Feedback-and-Fix System

A formal method of gathering user and supplier feedback and then publishing the results is critical to satisfying the users and giving the alliance team the data necessary to manage the relationship. The tools used in such a "feedback-and-fix system" will depend on many factors. In most cases, however, the technology does not have to be overly complicated or super sophisticated. Typical tracking toolsets employed include Excel, Access Database, or other commercial products on the market.

Regardless of the method, tool, or system that you engage, the key activities of a feedback-and fix system are to: (1) establish a simple procedure for feedback, (2) create a process for responding to any feedback, (3) employ a tracking toolset, (4) provide specific feedback to the person submitting the issue, and (5) publish the results of the findings to all team members and to any buyer or supplier users that are affected.

Step 6: Structure the Meetings Properly

How you structure the team and individual meetings is a major factor in the success of an Alliance Management program. Certainly, meetings should be convened when an emergency or special circumstance arises. But don't wait for such events to happen before having a meeting. Instead, meetings should be scheduled on a regular basis so that many potential problems can be averted in the first place. Frank and open discussion should be encouraged at the meetings. But the tone should always be civil and the opinions positive and constructive. On those rare occasions when emotions take over, call a "time out" and reconvene in a few days when everyone cools down.

An important part of the agenda should be to identify and discuss industry trends and market conditions with all team members. Remember, this is a collaborative process that relies on the sharing of information. Value creation—through cost savings, cost avoidance, quality improvement, process improvement, and so forth—is a central element of Alliance Management and should be a major focus of every meeting. Importantly, a communication plan should be put in place to convey the productive discussions that are taking place back to the executives and stakeholders of both organizations. Don't be afraid to celebrate success!

Finally, no contractual changes should be adopted at the meetings without allowing both parties to take the proposed modification back to the responsible party at each company. Keep in mind that the person who negotiated the contract and has ultimate responsibility for it may not necessarily be a part of the alliance team. Note that contract responsibility tends to vary from organization to organization.

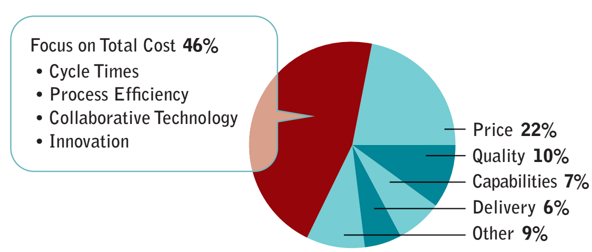
Drivers of Profitability

Alliance Management is one more important tool that supply chain management leaders can apply to increase their company's profitability. One of the greatest (though often overlooked) opportunities for identifying cost savings and efficiencies lies in looking beyond your internal sourcing activities and resources to those of your suppliers. By leveraging supplier expertise and working in a collaborative manner, companies can reduce costs and streamline operations—two prime drivers of profitability.

APQC, a major nonprofit benchmarking organization, recently completed a survey keying in on the benefits and elements of effective supplier relationships. Exhibit 2 provides a summary of their findings, which distinctly shows that managing supplier relationships goes well beyond just establishing a price—a central tenet of Alliance Management. Asked to put a percentage on the importance of various elements in the relationship, the supply chain executives who responded placed total cost (which included elements such as cycle time, process efficiency, collaboration and innovation) well above price alone.

EXHIBIT 2

Importance of Components in Supplier Relationships



Source: APQC

If we concentrate and commit an equal amount of effort to managing our supplier relationships as we do in the upfront sourcing process, we can significantly increase the credibility of the supply chain management function and become an important contributor to company profitability. Alliance Management is the key to making that happen.

How the Leaders Global Trade

As supply chains become more complex and the number of overseas suppliers expand, Global Trade Management has assumed critical importance. How are the leaders managing supplier relationships, data integration, and compliance challenges in this increasingly tough global arena? A new Chief Supply Chain Officer study from the Aberdeen Group provides some answers.

Are Tackling Management

By Bob Heaney

Bob Heaney is Senior Research Analyst, Supply Chain Management at the Aberdeen Group. He can be reached at bob.heaney@aberdeen.com.

Aberdeen Group's Chief Supply Chain Officer (CSCO) Survey, conducted in July 2012, collected data from 191 companies. That survey revealed that the increase in the number of suppliers, customers, carriers, and countries of trade is changing the importance of collaborative synchronization between all parties in the multi-tiered global supply chain. As a result, we're seeing a growing shift in focus towards collaboration and Global Trade Management (GTM) with suppliers and trading partners.

The insights in this article will focus on an important segment of that research sample—the 69 companies in discrete manufacturing industries. In particular, we examine the key process and technology differentiators displayed by the chief supply chain officers in these companies to improve visibility to supplier/partner/customer product flow across an increasingly global, multi-tier, and cross-channel distribution network.

Complexity Overtaking the Supply Chain

Our CSCO study found that the top business pressures facing the discrete segment are the impact of increasing supply chain complexity (that is, longer lead times and lead-time variability, or increasing numbers of suppliers, partners, carriers, customers, trade countries, logistics channels) and rising supply chain management costs (for example, total landed costs, fuel costs, labor costs), as shown in Exhibit 1.

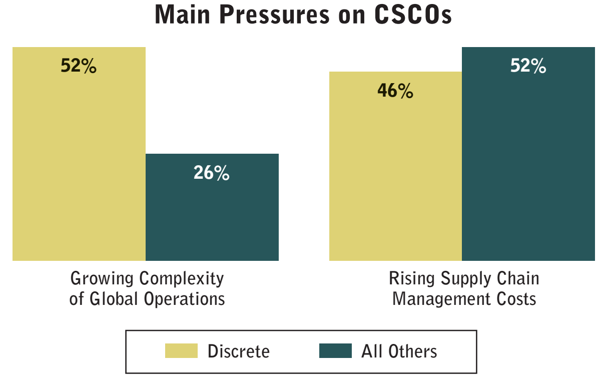
Globalization, global trade, and offshore sourcing are on the upswing as the overseas supplier base grows relative to a given company's home country. Three quarters of the companies in the discrete segment report having suppliers in China and 60 percent indicating suppliers in Europe. Fully 90 percent of discrete companies in this study have imports or exports, compared to only 38 percent for the others. Other key findings regarding the discrete companies compared to the other respondents include:

- 84 percent of discrete companies are importing (receiving from other countries) vs. 74 percent for others.
- 88 percent are shipping domestically vs. 74 percent for others.
- 83 percent are receiving domestic shipments vs. 64 percent for others.

Exhibit 2 illustrates the percent of suppliers by region among the companies in Aberdeen's survey data. (Note: Discrete companies' percentage indicated in black; all other companies in red).

EXHIBIT 1

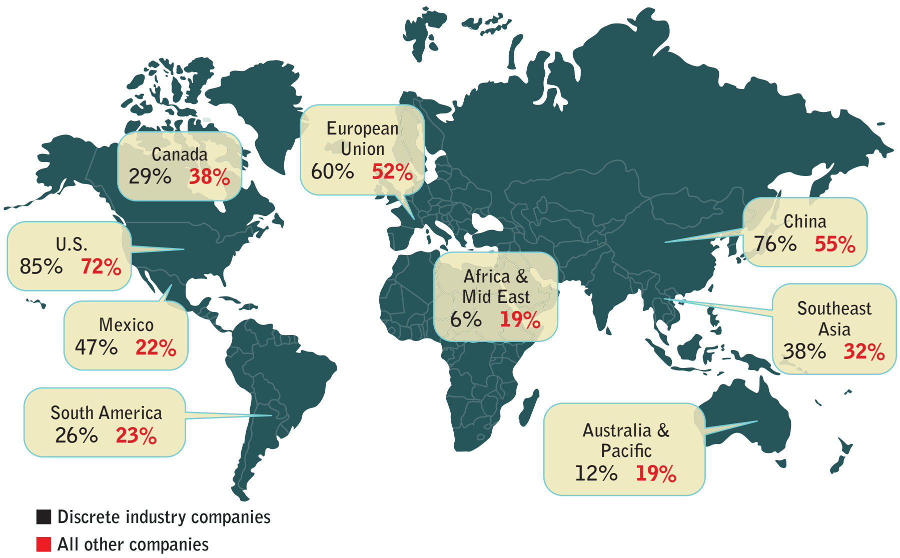
Main Pressures on CSCOs



Source: Aberdeen Group, July 2012

EXHIBIT 2

Global Scope of Sourcing Activities



Source: Aberdeen Group, July 2012

Top Supply Chain Strategic Actions

Exhibit 3 compares the top strategic actions that discrete and other industry segments are pursuing to alleviate the pressures associated with globalization and supply chain cost or complexity. Top among these strategies is internal collaboration, as companies struggle to synchronize and integrate data across various management systems and internal groups. This strategy of multi-party, multi-enterprise collaboration in GTM has held fairly constant during the last year.

All companies need internal collaboration to operate; however, the level of external collaboration and its relevance grows with the degree of overseas sourcing and global trade. And as was shown in Exhibit 1, consistent with the level of overseas sourcing, the discrete segment is more than twice as likely as the others to be pressured by the growing numbers of supplier, carrier and trading partners.

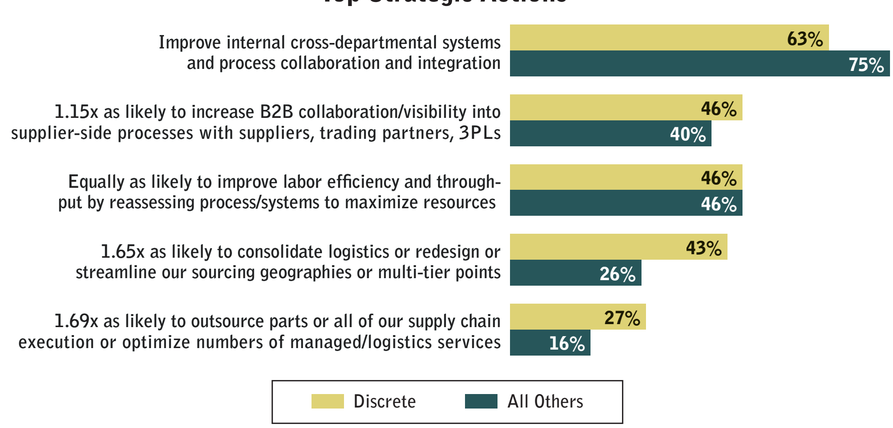
Not surprisingly, when it comes to strategic actions the companies in the discrete group desire higher levels of control and coordination with the external parties they depend on. For example, they are 1.65-times more likely than the others to "consolidate or redesign sourcing geographies across multi-tier points" and they are 1.69-times more likely to outsource, optimize and manage logistics services providers (see Exhibit 3).

Discrete and process industries alike are hoping to address the rising costs with more seamless systems and process flows—both within their own company and with their extended multi-country, multi-party supplier base.

To gain visibility and address this complex, multi-party global supply-and demand GTM challenge, we see that the discrete companies are more focused on "B2B collaboration/visibility" with suppliers, trading partners and 3PLs. Consistent with this priority, the vast majority of discrete companies (88 percent of those in our survey) indicate they have plans to invest in new supply chain visibility platforms. The intend to connect them to GTM processes and technology within the next 12 months to drive Return on Investment (ROI) success. (We will elaborate on this further in our discussion of supply chain visibility below.)

EXHIBIT 3

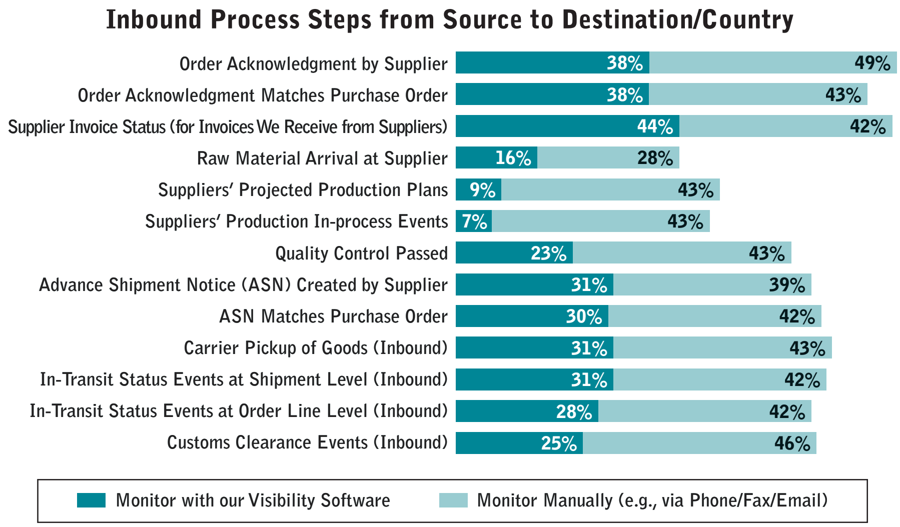
Top Strategic Actions



Source: Aberdeen Group, July 2012

Synchronization of Process Steps: Inbound to Outbound

EXHIBIT 4



Source: Aberdeen Group, July 2012

The global landscape is changing and the new priority for the office of the CSCO has shifted to supply-and-demand synchronization across each linked process step in the extended global supply chain. In a March 2012 study, we explored the level of capability the average company has when it comes to coordinating information and synchronizing operations across these process steps from source to end consumer (see *Supply Chain Visibility Excellence: Mastering Complexity and Landed Costs*, Aberdeen Group, March 2012, www.aberdeen.com).

In Exhibits 4 and 5, we plot the degree of automation from the 183 companies mentioned in that March study across the Best-in-Class (top 20 percent of aggregate performance scorers), Industry Average (the middle 50 percent of aggregate performance scorers), and Laggards (the bottom 30 percent of aggregate performance scorers). Looking at the best-in-class, for example, we identified the following performance levels:

• 96 percent of orders delivered complete and on time.

• 96 percent of orders received from suppliers complete and on time.

• Decreased by 3 percent the total landed costs per unit.

•Decreased by 3 percent supply chain costs relative to revenue.

Examining these companies across 21 key inbound-to-outbound process steps we can better understand process weaknesses and isolate potential areas of improvement for the office of the CSCO. As we discovered in prior studies, companies of all sizes and classes are hampered in their ability to track, monitor and synchronize supply chain process steps with trading partners. Generally, only about 30 percent of companies (average of blue bars in Exhibit 4) have automated data and event monitoring and/or have optimized process capabilities in place. From source to destination, the 13 inbound process steps or milestones needed to synchronize product and information flows are still being monitored manually (phone, fax and email) in up to 49 percent of all companies.

The good news is that leading companies have superior financial and service metrics and are several times as likely as their peers to automate many of these events. For instance, compared to the Industry Average and Laggard companies combined (all others), the Best-in-Class are more frequently measuring and automating events for inbound:

• **Suppliers' projected production plans**—Best-in-Class are 1.42-times more likely to track than all others (68 percent of the Best-in-Class monitoring this milestone).

• **Customs clearance events (inbound)**—They are 1.34-times more likely to track than all others (90 percent of the Best-in-Class monitoring this milestone.

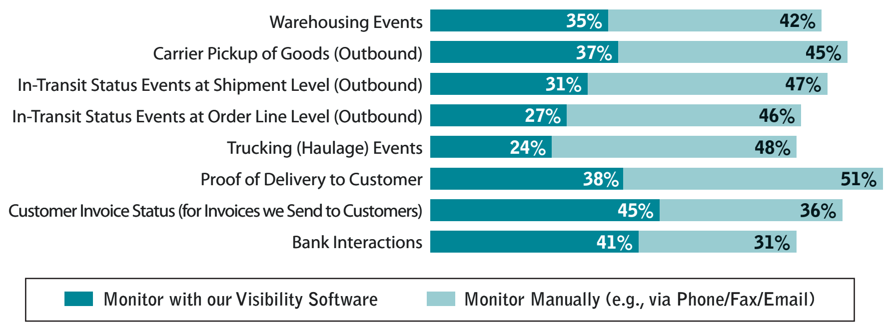
• **In-transit status events at order line level (inbound)**—Best-in-Class are 1.34-times more likely to track than all others, with 87 percent monitoring this milestone.

On the outbound side (Exhibit 5) eight additional linked process steps are plotted and the picture is almost identical. In the typical sequence of event flow (i.e., outbound from shipment/pickup to proof of delivery and settlement), the degree of visibility/collaboration and automated monitoring and control ranges from 24 percent to 45 percent (blue bars). So across warehousing, pickup, outbound transportation/delivery, and payment, anywhere from 28 percent to 49 percent of respondents claim they are still manual (phone, fax and email).

Once again the good news is that leading companies are performing better and are several times as likely as

EXHIBIT 5

Outbound Process Steps from Receiving to Customer Delivery and Payment



Source: Aberdeen Group, July 2012

their peers to automate many of these events. For outbound compared to all others, the Best-in-Class from the study are more frequently measuring and optimizing:

- **Trucking (haulage) events**—1.24-times more likely to track than all others (84 percent of the Best-in-Class monitoring this milestone).
- **In-transit status events at order line level (outbound)**—1.20-times more likely to track than all others (84 percent of the Best-in-Class monitoring this milestone).

Capabilities for Global Visibility and GTM

So far we have we have discussed the growing interest in GTM, supply chain visibility, and collaboration platforms in the extended supply chain in response to globalization and rising supply chain costs. Let's now dig deeper into the visibility aspect.

Aberdeen's 2012 Chief Supply Chain Officer Study reveals that 78 percent of executives surveyed said that improving extended supply chain visibility was a top priority. But this requires integration—bringing together best practices and integrating global trade process improvements with the technology available in the market today. It also requires a focus on performance management and automation. In the following sections we explore the capabilities that the leaders have in these key areas.

Performance Management/ Knowledge Management

When KPIs related to Global Trade Compliance (GTC) are embedded in management objectives from the chief supply chain officer down, it drives performance. In Exhibit 3 we saw the relative importance of enabling internal staff and management teams to "collaborate" behind the GTM program and initiatives. But performance management extends beyond the internal organization and becomes extremely crucial in the extended collaborative supply chain. Again, it is not surprising that the Best-in-Class are both measuring more comprehensively and extending performance management to their vendors or suppliers.

- At 80 percent, the Best-in-Class are 1.6-times as likely as all others to support vendor enablement with process and technology (a performance management focus). They are more capable of accessing and integrating with freight forwarders, carriers and brokers as well as measuring and monitoring their real-time performance.
- At 65 percent, the Best-in-Class are 1.4-times as likely as all others to support cross-functional cost, metrics and reporting provided to management on a regular basis. This capability from a knowledge management standpoint allows management to assess the performance of their internal and external teams.

Compliance Management and Automating Trade-Related Knowledge

Having near real-time access to the latest trade related content is very important. Even a 10 percent improvement can lead to superior performance. Frequent and accurate updates on security regulations, tariffs, restricted party lists and other trade-related information are needed for fast and effective trade compliance management. About half of all respondents have adopted or developed automated software tools to obtain such content.

Likewise, the degree of automation is another differentiator across all classes. "Automated" companies (those that have some or high levels of automation) are 3.44 times as likely as the "mostly manual" companies to have automated customs entry validation or audit. Similarly, they are 3.5-times as likely to automate supplier enablement, whether manufacturer or distributor (e.g. electronic interface or integration via EDI, XML, portal, and SaaS). (For more on the automation advantages, see accompanying sidebar.) Having timely access to accurate trade data and then being able to proactively execute for exception management is one of the fundamentals to successful GTC/GTM management.

GTC and GTM generally lag behind other more

The Advantages of Automation

Our research reveals significant gaps between automated companies (those with some or high levels of automation) and their "mostly manual" counterparts on key GTM activities.

Specifically, the automated companies are:

• 3.5 times as likely to automate supplier enablement—manufacturer or distributor (e.g., electronic interface or integration via EDI, XML, portal, and SaaS).

• 3.44 times as likely to automate automated customs entry validation or audit.

• 3.42 times as likely to automate cargo and asset tracking (e.g., GSM and satellite network) globally.

• 3.35 times as likely to automate proactive and automated monitoring and resolution of GTM exceptions and service disruptions.

• 3.15 times as likely to automate vendor enablement—forwarder, carrier, broker (e.g., electronic interface or integration via EDI, XML, portal, and SaaS.

generic supply chain software (such as supply chain visibility, transportation management systems or labor management systems) as to the level of "manual" functions vs. automated. Sixty-seven percent of all companies in this study report that some components of their overall GTM/GTC technology solution involve manual trade compliance practices, with many hybrid and fragmented automation efforts for certain processes reported.

While a given component of technology like ERP may be adopted at fairly equal levels across all companies, there is generally a wide variety of disparate systems, including in-house custom solutions, that in aggregate make up the overall GTM/GTC system. Indications are that this will continue to be the case. Today's multi-enterprise supply chain is evolving and well over 60 percent of companies indicate that they intend to continue to incorporate collaborative tools to help seam together legacy, ERP, BI, SC Visibility and GTM needs and become more automated.

We've identified the following main levels of global trade management technology maturity as reported by respondents (in ascending order of automation):

• "Mostly manual" and spreadsheet driven (25 percent).

• Fragmented IT approach (28 percent).

• Departmental level automation (15 percent).

• Some end-to-end and cross-functional process automation (23 percent).

• Highly automated (9 percent).

Benefits Explored: The Impact of Process Automation on Metrics

Aberdeen Group in this report defines "automated" companies as those with some cross-functional automation or a high level of automation (compared to those with "mostly manual" process automation). As the sidebar shows that there are some fairly dramatic automation advantages across these two groups. But do these automation gaps result in superior metrics? The automated companies have delivered superior gains as follows:

• Automated companies had an annual average improvement in effectiveness of 9.07 percent vs. 3.67 percent for the "mostly manual" companies. The trade compliance functions included in this metric are balanced across reduced supply chain risk and/or costs, increased staff productivity/effectiveness, or improved trade relations with government or trading partners.

• The productivity of the trade compliance staff vs. the prior year improved for automated companies by 25.88 percent compared to just 9.81 percent for those that are mostly manual.

• The number of supply chain disruptions (on import/export shipments) due to trade compliance errors vs. the prior year decreased for automated companies by 4.29 percent compared to a 1.03 percent increase for the mostly manual.

• Companies with automated processes for restricted party screening are 35 percent more likely to have maintained or decreased government fines for non-compliance vs. the prior year.

Of the 69 discrete companies, 51 are planning to either invest in or enhance their capabilities in the areas GTM and GTC to be "more connected and automated".

The real challenge in selection is aligning the right technology/solution to each operation's specific need or operating profile—and then ranking the cost/benefit analysis for all the competing options and to evaluate the relative payback each choice may yield.

While Global Trade Management and Global Trade Compliance vary radically from one supply chain to the next, there is broad consensus (up to 78 percent of CSCOs) that these areas are ripe for renewed investment in the next 12 months. However, each company has different operating profiles and requirements. And these always should be matched to the solutions that best fit their current operating needs.

Three Recommendations for Success

As companies go global and increase the numbers of trading partners, the need for collaborative integration with external parties is certainly going to intensify and raise new challenges for supply chain leaders. As the degree of global collaboration grows—and global supply chains become more complex—it is likely that visibility systems and global trade platforms will increase and, as Aberdeen predicts, gain added popularity. All of these trends give evidence to the growing complexity and multi-tiered nature of today's supply chain.

As companies go global and increase the numbers of trading partners, the need for collaborative integration with external parties intensifies.

As illustrated by our research specific to supply chain visibility (*Supply Chain Visibility: Fostering Security, Resiliency, and Efficiency*, Aberdeen Group, March 2012, www.aberdeen.com), the top performing companies are most successful in integrating their people, process, and technology. Those successful in this threefold integration are gaining a more end-to-end and close-to-real-time visibility of their supply chain operations and across the multi-tier supplier base. In that Visibility research report, Aberdeen makes the following point: "Companies of all maturity groups have varying levels of supply chain visibility. Numerous event and product flows—on inbound and outbound, SKU, container, order, lot and package level—across dimensions of both cost and service, are being monitored in the course of supply chain execution. It is important that a standardized and structured system roadmap is developed to integrate these system events and data flows as companies bring online new capabilities and new event tracking."

Although most companies and supply chain leaders recognize the importance of effective trade compliance in reducing fines and penalties as well as overall risk, few have understood the true value of GTM and GTC in reducing end-to-end costs. We offer three key recommendations for all companies on their journey to reduce costs and risks in a complex global supply chain to achieve Best-in-Class performance:

1. Improve core processes and leverage automation in Global Trade Management and Global Trade Compliance.
2. Establish or renew the corporate focus on a formal GTM program and ensure alignment with all applicable trade regulations to gain full management buy-in
3. Use GTC knowledge and analytics in company-wide sourcing, purchasing, and supply chain network design decisions to significantly restructure and enhance those activities. (For example, consider special provisions like preferential trade agreements, free trade agreements, and so on, in periodic strategic plans).

There is no one answer for a successful GTM/GTC program. It is a combination of excellence in the areas of access, enablement internally and externally, process/technology, and proactive planning and execution. Most companies are leveraging managed services and collaborative technology beyond the enterprise and are seeking to be more "connected and automated." When these elements are aligned, in proper combination, they yield superior results.

As companies adapt to the globalization of their supply chains, these recommendations and guidelines can equip supply chain executives with actionable steps they can take to bolster performance and address each challenge. Further, this information can enable synchronization of both planning and execution across the multi-party extended demand-supply network. For more information on this or other research topics, please visit www.aberdeen.com.

More Details on the CSCO Survey

Between June and July 2012, Aberdeen examined the use, the experience, and the intentions of more than 191 enterprises regarding their supply chain executives' priorities. From this overall group, 69 companies from the discrete industry segments were analyzed specifically for the purposes of this document.

Aberdeen supplemented these online survey efforts with interviews with select survey respondents, gathering additional information on supply chain executives' strategies, experiences, and results.

The executives sampled represented the following departments or functions: supply chain or logistics manager (43 percent), procurement (11 percent), operations manager (7 percent), senior manager (11 percent), sales and marketing (9 percent), and IT management or staff (14 percent). A range of industries were represented in the sample.

In the discrete organization segment, 47 percent of the companies were large (greater than $1 billion), 30 percent mid-size ($50 million to $1 billion), and 23 percent small (less that $50 million). The majority of respondents (62 percent) were from North America. The remaining respondents were from Europe (20 percent) and Asia/Pacific region (18 percent).

Bridging the PROCUREMENT-SUPPLY CHAIN Divide

At many companies, there is a divide between procurement and supply chain operations that robs the organization of vital efficiencies. Companies that have recognized that gap and worked hard to close it now see sizeable financial benefits along with qualitative wins such as supplier-integrated contracts and streamlined processes. Here are the six factors that make a difference.

By Ashutosh Dekhne, Xin Huang, and Apratim Sarkar

Procurement teams are good neighbors with their counterparts in supply chain management. But they really need to become family. If they can find ways to interact more closely, they may find they can cut total inventory levels across the value chain by at least 15 percent—and lower overall supply chain costs in the bargain.

Although many companies have been focusing on improving the effectiveness of their procurement operations, relatively few have had much success with properly integrating suppliers into their supply chain operations. There's a mismatch: companies and their suppliers optimize their operations to suit their own environments. The consequences are far-reaching—everything from significant supply shortages and excess supply inventory to frequent write-downs and excessively long shipment times.

You don't need to look far for tell-tale signs of this misalignment. We know of a food processing company that stored excess raw material inventory while its packaging supplier was also burdened with finished goods inventory. There is a consumer packaged goods producer that suffered from shortages of a common raw material after it introduced a new product that shares the material with the company's old products. And we have come across a medical device manufacturer that moved to a local production footprint to improve the responsiveness of its supply chain, but then found that it had to ship raw materials around the world.

The misalignment is not the fault of one side or the other. Each has evolved naturally toward efficiencies that make sense for its immediate objectives, but not for the whole. But a root cause of the supplier-customer mismatch is the disconnect between the customer's procurement and supply chain operations. Procurement, the primary face to suppliers, usually takes a static view of business requirements to drive cost reduction while the supply chain operation's main goal is to deliver products and services that satisfy end-customer demand, which is dynamic by nature.

What is needed now is a cross-functional approach that embeds a total supply chain perspective in procurement's operations. Given the continued worries over global economic recovery—and the particular concerns

Ashutosh Dekhne and Xin Huang are engagement managers in McKinsey & Company's Operations Practice in the Dallas and Stamford offices respectively. Apratim Sarkar is an associate principal in the Boston office. They can be reached at Ashutosh_Dekhne@McKinsey.com, Xin_Huang-STA@McKinsey.com, and Apratim_Sarkar@McKinsey.com.

of business leaders about profitable growth amid signs of slowdown worldwide—we consider it imperative for business leaders to first recognize that there is a mismatch between procurement's static perspective of supply-side interactions and the supply chain operation's very dynamic view, and then to act promptly to close it. This article offers six ways to begin to do that.

A Closer Look at the Mismatch

On the face of it, a company's supply chain and procurement functions should have a lot in common. They both act as primary interfaces between an organization and its suppliers, for example. And they are both incentivized to ensure that materials and components bought from elsewhere are available in the right quality, at the right time, and the right price.

Yet at many companies, procurement and supply chain processes don't work hand-in-hand, but sequentially. At discrete intervals—during the development of a new product line, for example, or every few years after launch—the procurement function will launch a project to identify suppliers that are capable of delivering specific material requirements at the forecast volume and the required quality. It will then engage with qualifying suppliers to negotiate favorable terms and fix those terms in a robust contract. At that point, procurement hands over much of the management of ongoing supplier relationship to the supply chain function. Procurement staff will continue to monitor the situation at arms' length, checking that suppliers are complying with contract terms, for example. But the detailed management of orders and logistics is left to their supply chain colleagues.

Working this way not only creates significant inefficiencies, but also ignores important opportunities to reduce costs and to add value for companies and for their suppliers. Inefficiencies arise because, even if overall demand meets forecast levels, the day-to-day detail of supply requirements can be highly dynamic. Seasonal demand variability, the introduction of competitive products, or promotional activity in retail channels can drive big short-term fluctuations. On top of this, any number of exceptional circumstances, from floods to product quality issues, can require rapid and significant action by suppliers.

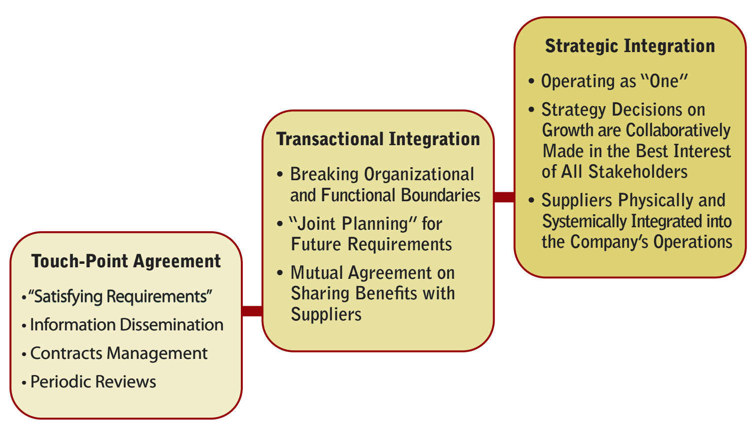
If procurement staff aren't fully aware of the dynamics of their organization's supply chain requirements—usually because the supply chain function hasn't made them clear upfront—they may not take supplier flexibility into account during the qualification process or build appropriate measures into supply contracts and pricing. One consumer goods company aimed to make itself more responsive to customer demand by shortening its planning cycle from a month to a week, for example. The company's manufacturing and distribution functions could accommodate the change, but such short leadtimes had not been foreseen when many critical supply contracts were drawn up. Some of the company's principal suppliers were simply unable to operate with leadtimes shorter than four weeks, and the result was widespread raw materials shortages.

Some companies are seeking to overcome these issues by improving the collaboration between their supply chain and procurement functions. At its simplest, this approach involves procurement professionals gaining a full picture of supply chain requirements before negotiating supplier contracts. Such an understanding helps to ensure that potential suppliers are able to offer sufficient volume flexibility and sufficiently short leadtimes, for example.

Procurement and supply chain organizations share the responsibility of integrating between themselves and extending that integration outward, strategically, to their suppliers (see Exhibit 1). The benefit of this collaboration goes beyond preventing problems down the line, however. By considering both their own organization's supply chain requirements and supplier organizations' supply chain costs and capabilities during contract negotiation or renegotiation, procurement professionals also gain access to some important new levers they can pull to reduce total cost of ownership and improve the overall value of the supply relationship.

EXHIBIT 1

Transitioning to Complete Integration—Functionally and With Suppliers



Six Ways to Close the Gap

Our experience, observations, and analyses of several companies have helped identify six specific ways beyond the basic touch-point agreements in which consideration of supply chain issues during the procurement process can identify opportunities for further cost savings, reduce supply risks, or allow the supplier relationship to contribute additional value to the business. (See Exhibit 2). We have seen that companies that strive for operational excellence not only embrace integration across the supply chain but also manage it strategically. Let's look at each of the six factors in turn.

1. Demand Planning

The objective of focusing on demand planning is to create end-customer demand transparency throughout the supply chain and synchronize demand planning activities. Central to demand planning is the need to share with suppliers the stream of unfiltered demand data from end-customers and to leverage the strengths of both parties to jointly forecast demand.

It's also crucial to synchronize and optimize the end-to-end demand planning process—for example, order and replenishment activities, seasonal promotions, and the processes for handling exceptions, such as big spikes in demand, whether they are expected or not.

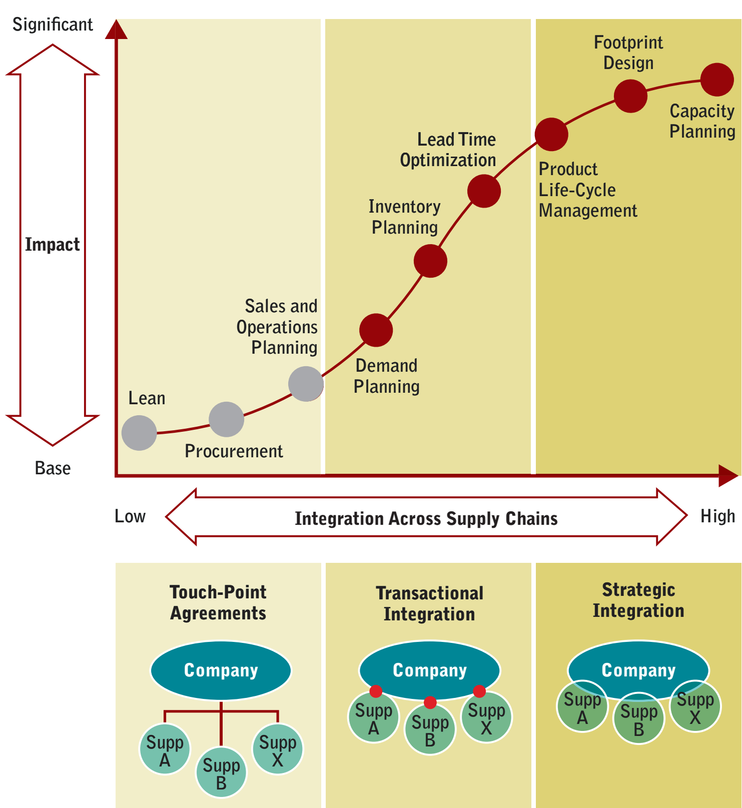
Demand planning also involves strict controls on manual adjustments to forecasts, production plans, and schedules. And it requires that people be held accountable for the accuracy of the data they key into the planning system in the first place.

2. Inventory planning

A renewed focus on collaborative inventory management can help to ensure the best balance and distribution of inventory stocking points across the supply chain—for example, helping to eliminate redundant inventory buffers between supplier and customer—and to create transparency for all supply chain partners. It will lead to alignment on inventory strategy on specific issues such as safety stock levels, inventory planning methodologies, and supply chain parameters. The use of multi-echelon inventory planning techniques can help to set safety stock requirements holistically, pinpointing the trade-offs between supplier inventory, client's raw material inventory, and client's stocks of finished goods.

EXHIBIT 2

Ways Procurement and Supply Chain Can Work Better Together



At one large retailer we know of, the joint development of a demand sharing and inventory planning strategy slashed the inventory of big-ticket items by about 60 percent—equivalent to a month's stock.

3. Leadtime Optimization

Leadtime optimization puts the spotlight on quick responses to changes in demand from end-customers. It helps companies determine their optimal supply leadtime requirements holistically, using a segmented approach—for example, by aligning leadtimes across all components to support the supply chain strategy. It calls for trade-offs between logistics costs and leadtimes, makes use of lean concepts to identify bottlenecks at any point up and down the supply chain (and to devise cost-effective ways to get around them), and determines and enforces guidelines and processes for rush orders, based on cost and benefit trade-offs.

4. Product Lifecycle Management

The objective of this path is to ensure optimal support from suppliers during product introduction and phase-out. Done right, product lifecycle management implies that the supply-chain partners can optimize end-of-product-life purchases (for example, last-time buys of components) using analytical models instead of "gut feel" decisions. It means that companies have to establish rigorous supply ramp-up and ramp-down processes with suppliers—communicating in detail about design nuances, bills of materials, and so on. There has to be close interaction with suppliers so they can increase capability flexibility to shift between new and old supply chains. And it is essential to leverage suppliers' capability to drive product innovation and shorten the cycles for product development and commercialization.

A large industrial manufacturer that adhered to these practices saw a 6 percent pick-up in EBIT because its end-to-end product strategy and co-manufacturing approaches with suppliers enabled it to get new products to market in half the time of its competitors.

5. Footprint Design

The intent is to align each supplier's footprint with the customer's supply chain strategy. Proper footprint design makes sense of the mix of offshore and nearshore facilities, taking into account the trade-offs between purchase prices and supply chain benefits—for instance, responsiveness and logistics costs. It also helps to fine-tune the vertical supply chain collaboration/integration strategy—identifying the circumstances in which it is appropriate to set up co-located facilities with suppliers to increase supply chain flexibility. (The co-location supply chain strategy of one large high-tech manufacturer helped it cut inventory by about 20 percent and boost EBIT by roughly 6 percent.) At the same time, footprint design helps the company to optimize the transportation network strategy—the use of cross-dock locations, pool-points, and the best mix of third-party logistics service providers and internal logistics capabilities.

6. Capacity Planning

This factor is important in order to align long-term capacity plans between suppliers and customers, and to mitigate the risks of supply shortages. The bedrock point is that there has to be joint planning of capacity with suppliers. That activity will help to determine optimal excess network capacity based on the trade-off between the costs of and benefits of risk mitigation approaches for handling demand spikes. Joint capacity planning will also help both sides to develop alternate sourcing strategies. The benefits can be rapid and immediate: we know of a consumer packaged goods leaders that realized a 2-3 percent uptick in EBIT after planning capacity in collaboration with its suppliers, and thus optimizing the capacity of its whole supply-chain network.

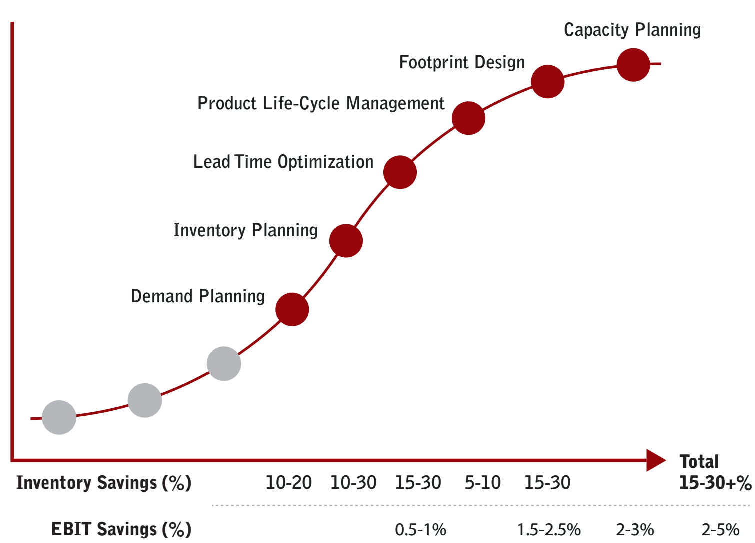
Benefits for Both Sides

In practice, supply chain levers are particularly useful for procurement functions because they typically offer genuine benefits for both buyer and supplier. Retailers can improve demand and inventory planning by giving suppliers access to point-of-sale data, for example. This can lead to smoother demand profiles than the periodic signals sent by store buyers. In turn, it allows suppliers to reduce their own finished goods inventories, or to run their production equipment more smoothly, creating important cost savings they can share with their customer.

In some cases, closer supply chain collaboration has allowed companies to build whole new kind of relationships with key suppliers. One company in the high tech sector used footprint design and leadtime optimization to do just that. The high-tech company wanted to dramatically reduce its service delivery leadtimes in order to improve the availability of its broad product range without the need to carry cripplingly high levels of finished goods inventory. The company's supply chain group worked with its procurement function to find a way of

EXHIBIT 3

Typical Impact from Deploying Integration Initiatives



integrating the supply of critical components in the new distribution regime. The cross-functional group quickly recognized that it risked simply pushing large amounts of inventory upstream to suppliers, which would not ultimately deliver the impact it wanted.

To avoid this, the team sought suppliers that were willing to locate their own parts inventories in the same distribution center as the company's, and to deliver parts to its production and configuration lines on a just-in-time basis. This tight integration allowed the suppliers to keep relatively low on-site inventories of parts, which the company could pull as required to assemble specific, highly configured finished goods in response to demand signals from its customers. (Although this arrangement seems similar to a traditional vendor-managed inventory (VMI) approach, the differentiating factor was that the setup was operated as a joint venture, requiring adequate process and management controls while ensuring a mutually agreed sharing of benefits from the arrangement.)

Procurement teams are good neighbors with their counterparts in supply chain management. But they really need to become family.

Building on the typical levers of procurement, the high-tech company's strategic capacity planning and footprint design provided a construct to enable end-to-end inventory planning and leadtime optimization across the supply chain. The results were eye-opening: systemwide inventory fell by 19 percent, the company's freight costs fell by 22 percent, and its suppliers' freight costs ended up 14 percent lower. Average leadtimes approached zero; customer service levels improved from 68 percent to 94 percent. Operating as a joint venture meant that the company could take advantage of unified IT systems, which led to reduction in the headcounts of planner/buyers from 27 to 16. The company also experienced a significant improvement in EBIT—a testament to the impact of the cohesive integration of functional organizations. This example was by no means confined to the high-tech sector; it could just as easily have occurred in any other industry.

Real Impact on EBIT

In our experience, the combined application of all six supply chain levers in procurement has the potential to reduce total inventory levels across the value chain by 15 to 30 percent, while also producing overall EBIT improvement of 2 to 5 percent, as shown in Exhibit 3. Companies that apply them well enjoy a host of operational benefits too: they gain improved agility—such as greater responsiveness to changes in demand mix—simpler logistics processes, (for instance, transfer of ownership from supplier to customer without the need to manually handle products), and smoother financial transactions with suppliers (as seen, for example, in the systemic generation and processing of invoice and related payments between the transacting parties).

Lastly, sustainable results will require a rigorous company-wide effort to ensure that capability-building and performance management not only are institutionalized within the organization's culture but that they include suppliers' organizations as well.

In our experience, many companies launch initiatives that rapidly achieve short-term value, but they fail to maintain momentum long-term because cross-functional support drops off, core players are pulled into other initiatives, and new players are not trained in time. (See sidebar on the following page, "Why Procurement and Supply Chain Don't Talk as Often as They Should.") Companies that succeed over the long term tend to focus on both "performance" and "health," with heavy emphasis on upfront training in new tools, processes, and approaches so they can build up a cadre of experienced managers who can sustain this effort far into the future.

Next Steps

We recommend three immediate actions for companies that want to permanently sync up the efforts of procurement and supply chain teams. Given that cross-functional collaboration is absolutely key in this process, the first step is to achieve alignment between procurement and supply chain leaderships on the necessity of such an initiative—followed by unwavering sponsorship from those leaders. While it may sometimes seem too prescriptive, it will be essential to obtain clear direction from those senior executives in order to achieve well-defined targets within the mandated timeframes. This will not only define a cross-functional objective but also provide a framework for alignment and engagement.

The second step is to conduct a rapid diagnostic, led jointly by procurement and supply chain, in order to size the potential of cross-functional collaboration, followed by vendor ideation sessions to underscore the benefits of that collaboration. (In our experience, the diagnostic typically takes a few months to complete.) The final step

Why Procurement and Supply Chain Don't Talk as Often as They Should

Intuitively, leaders understand cross-functional issues, but there are three key reasons why they don't succeed when attempting to address them.

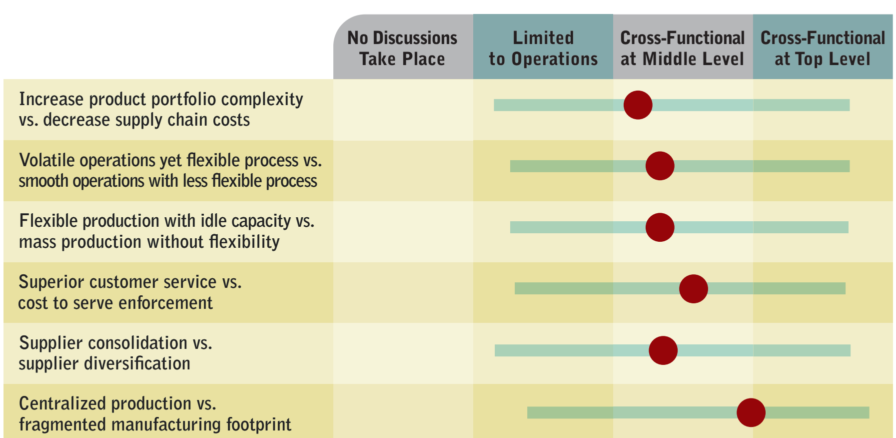
1. Inability to address cross-functional trade-offs and maximize value. Often, senior managers lack the comprehensive perspective and pragmatic approaches needed to tackle cross-functional challenges. It's rare for them to have systematic methodologies with which to understand and arbitrate among inherent trade-offs. Too often, their fact bases are incomplete (for example, supply chain planners may order smaller batch sizes because they lack a clear understanding of the contracted volume discounts) and they have too few tools to make an impact—for instance, the kinds of sophisticated tools that can analyze total cost of ownership of products, including inventory carrying and ordering costs. Moreover, there may be only limited links between the business strategy and supply chain strategy, and between the supply chain strategy and the quality of supply chain implementation.

2. Dealing with issues in the wrong forums and without proper enabling elements. A recent executive survey shows that top cross-functional trade-off discussions still take place at the wrong organizational levels. (See Exhibit 4.) There is too little recognition of the factors that really enable change, and inadequate means to implement them even if they are recognized. It's common for there to be too little transparency, inadequate performance metrics, and too few incentives to drive true end-to-end integration. Worse: when middle managers attempt to resolve issues, they typically fight for what's best for the function and not to what's best for the company.

3. Incentives are often misaligned. Even if procurement and supply chain managers do talk with each other, their incentives don't often match the objectives that they should share. Procurement may be measured on savings from applying traditional procurement levers using a total cost of ownership (TCO) approach, while supply chain managers are usually incentivized based on service levels, logistics costs, and inventory levels. A perfect example of such conflict was evident at a large retailer, where procurement defined volume-based supplier contracts that were executed early in a finite financial period whereas supply-chain operations only ordered as needed in order to minimize inventory levels. This resulted not only in increased procurement costs (higher logistics costs) but also in the loss, later on, of substantial volume discounts.

EXHIBIT 4

Cross-Functional Trade-off Discussions at Wrong Organizational Levels



Source: McKinsey Quarterly—website survey with over 400 executives/McKinsey+Company

is to plan for execution in multiple "waves," targeting different parts of the supply chain and the vendor base. Depending on the complexity of the procured goods portfolio and the supply chain, these waves can taken several months to more than a year to complete.

It no longer makes business sense for the procurement and supply chain organizations to keep acting independently of one other. In today's precarious and highly volatile global economy, companies need every edge they can get. It's clear that those that are finding ways to align their procurement and supply chain objectives—and that know how to make alignment part of their organizational fabric—are already several steps ahead of their competitors.

Sources:

"Bridging the supply chain divide: the power of procurement," McKinsey & Company Operations Extranet, February 2012

"Bridging the Supply Chain Divide," Webcast recording, McKinsey & Company, October 2011

Collaborating for a More Sustainable Supply Chain

Government and private industry can work together to create more sustainable supply chains. That's the foundational belief of a General Services Administration (GSA) initiative called the Sustainable Supply Chain Community of Practice. It's a community in which key stakeholders share insights and information on how to create greener supply chains while reducing inefficiencies and risk. Here's a report on the progress to date.

By Timothy M. Laseter and Nancy Gillis

Dr. Timothy M. Laseter is Senior Client Advisor at the Censeo Consulting Group and Professor of Practice, Darden Graduate Business School, University of Virginia. Nancy Gillis is Director of the Federal Supply Chain Emissions Program Management Office, Federal Acquisition Service, General Services Administration. The authors can be reached at TLaseter@CenseoConsulting.com and nancy.gillis@gsa.gov.

On October 5, 2009, President Obama signed an executive order entitled "Federal Leadership in Environmental, Energy, and Economic Performance." Rather than debating the contentious issue of climate change, the policy statement made greenhouse gas emissions (GHG) reductions a priority for the government and tasked the General Services Administration (GSA), the government's procurement agency, to reduce the GHGs from the federal supply chain. On the surface, the order appeared to fall in a long line of Executive Orders, issued under different administrations, that addresses sustainability primarily through an environmental lens. Clearly, environmental protection is a societal good and accordingly, the government should lead the way.

The surprising result from implementing the order, however, has been the realization that businesses have found a strong economic case for sustainability beyond merely responding to environmental mandates. Increasingly, emphasis on sustainable supply chains, ones that reduce resource-related inefficiencies and risks, are seen as a competitive necessity. It is this awareness that is driving leading businesses—from Coca Cola to Johnson Controls to Dell and Alcoa—to employ sustainable supply chain practices. Accordingly, GSA announced in March 2012 at a Council on Environmental Quality (CEQ) White House event the launch of a Sustainable Supply Chain Community of Practice. The goal of the initiative: to provide federal agencies and their small business

suppliers an avenue to learn from companies that have some of the most advanced supply chains in the world.

Sustainability represents an ongoing journey rather than a destination—even among global leaders. And at this early stage for the federal government, we can only explain the origins and the emerging sketch of the future vision. But, by drawing upon the experiences of public and private organizations the world over, we hope to demonstrate the value of the path now taken.

Sustainability Through an Environmental Lens

Environmental sustainability has been a goal of administrations from both sides of the aisle. While Bill Clinton first used the term "Greening the Government" in his 1993 Executive Order, the origins of the Council on Environmental Quality trace back to 1969 and the administration of Richard Nixon, who then went on to establish the Environmental Protection Agency in 1970—the same year as the first "Earth Day."

The focus has varied over time from pollution control to energy conservation to recycling, but every president since Nixon has issued executive orders related to environmental sustainability. Ford clarified agency responsibilities for energy and conservation. Carter challenged federal agencies to consider environmental impacts abroad. Reagan delineated government responses to environmental damage. George Bush Sr. encouraged federal agencies to recycle and consider recycling in procurement practices. Clinton's "Greening" proclamation built upon his predecessor's recycling mandate and expanded the scope to include waste reduction. George W. Bush extended a mandate by Clinton regarding protection of children from environmental risk.

Success with supply chain sustainability depends upon the voluntary engagement of the business community.

Obama's 2009 Executive Order builds upon one by his predecessor, George W. Bush, entitled "Strengthening Federal Environmental, Energy, and Transportation" and for the first time implies a "triple bottom line" approach to sustainability: environment, society, and economics. Though framed as a broader, more balanced view than just "green," the order takes an explicit stance on the need for federal agencies to reduce greenhouse gas emissions and requires them to complete yearly GHG emissions inventories, including a voluntary tallying of vendor GHG emissions (Scope 3 supply chain emissions)—a massive undertaking. This focus on GHG's prompted the launch of the precursor to the Sustainable Supply Chain Community of Practice, the GreenGov Supply Chain Partnership Program.

In November 2010, the Council on Environmental Quality and GSA jointly launched the GreenGov Supply Chain Partnership Program as an incentive for federal suppliers to complete Greenhouse Gas (GHG) emissions inventories. As part of the program activities, CEQ and GSA held listening sessions around the country to learn from federal suppliers the benefits and challenges they had in tracking GHG emissions throughout their supply chain. The feedback was surprising. Many of the largest suppliers were not just tracking and publicly reporting GHG emissions as part of corporate social responsibility (CSR) efforts; they were also starting to engage their suppliers. Along with GHGs, these same "top 100" suppliers were actively identifying and addressing additional environmental impacts within their supply chain. The listening sessions uncovered that leading-edge companies already recognized the cost savings and risk mitigation opportunities associated with a sustainable supply chain and had begun treating sustainability as a strategic priority.

This is a recent transformation, however. According to a Boston Consulting Group survey of 3,000 commercial managers throughout the world, 70 percent of companies had placed sustainability on their management agendas by 2011, but most had done so quite recently. In fact, 20 percent had done so since the Obama administration began. Moreover, looking back a full decade, less than 15 percent of companies considered sustainability a strategic priority.

For small businesses the findings were quite different. Though willing to join the charge for a more sustainable supply chain, many lacked the expertise and tools to measure greenhouse gas emissions. Drawing upon these insights, CEQ and GSA went back to the drawing board and launched the Sustainable Supply Chain Community of Practice in March of this year.

Building a Community of Practice

The concept of a community of practice can be traced back to the Institute for Research on Learning (IRL), a 1986 spin off from the Palo Alto Research Center. IRL was a nonprofit research organization of linguists, anthropologists, computer scientists and professional teachers who believed that people learn less through formal instruction and more through social interactions. Etienne Wenger, a teacher and PhD in artificial intelligence, joined IRL along with anthropologist Jean Lave and they developed the theory of "Situated Learning," which they published in a 1991 book of the same name. Their concept, in a nutshell, was that communities of practice are groups of people who share a concern or a passion for something they do and learn how to do it better as they interact regularly.

According to Wenger, there are three elements that are crucial in distinguishing a community of practice from other groups and communities:[1]

1. The domain. A community of practice is not merely a club of friends or a network of connections between people. It has an identity defined by a shared domain of interest. Membership implies a commitment to the domain, and therefore a shared competence that distinguishes members from other people.

2. The community. In pursuing their interest in their domain, members engage in joint activities and discussions, help each other, and share information. They build relationships that enable them to learn from each other. Having the same job or the same title does not make for a community of practice, and members of a community of practice do not necessarily work together on a daily basis.

3. The practice. A community of practice is not merely a community of interest—people who like certain kinds of movies, for instance. Members of a community of practice are practitioners. They develop a shared repertoire of resources: experiences, stories, tools, ways of addressing recurring problems—in short a shared practice. This takes time and sustained interaction.

The March White House meeting to launch the Sustainable Supply Chain Community of Practice sought to touch upon all three of these elements. At the meeting, representatives from industry, academia, non-profits and associations—all of whom were invited because of their organizations' commitment to and active engagement in supply chain sustainability, as well as their own expertise in the topic—sat clustered around small tables. Most had not met before and found that the quickest way to engage was on the topic they all knew about—supply chains.

The U.S. government spends approximately $535 billion each year on contracts for products and services. Not surprisingly, federal procurement speakers spent the first part of the meeting making the case that increasing the federal supply chain's sustainability offers huge value to the taxpayer. In the latter half of the meeting, participants broke into small groups to discuss the necessary characteristics of an online community of practice that would entice the participants to share best practices and otherwise engage.

While the March meeting offered an in-person form of engagement, moving forward the data.gov website will play an increasingly central role for the Sustainable Supply Chain Community of Practice. Established by the government to provide data sets for use by any person who registers to gain access to the site, data.gov already serves as the home to a number of other communities—including Manufacturing, Safety, Energy, and Health. The Sustainable Supply Chain Community of Practice differs from the other data.gov hosted communities because it seeks to share best practices from all who are active in supply chain sustainability, not just the typical government data sets. Examples of relevant practices include supplier codes of conducts, checklists, tutorials, and other supplier engagement tools, especially ones that small and medium sized businesses could use to cost effectively improve the sustainability of their operations.

The community of practice also provides focus on specific market sectors. In late 2011, GSA completed a federal spend input/output Life Cycle Analysis (LCA) study, termed the "hotspots" study, to prioritize market sectors by federal spend and broadly identify the primary environmental impacts within that market sector. Based upon this research, GSA identified the following seven market sectors that could have the greatest impact on the sustainability of the federal supply chain (not in order of importance):

1. Information Technology
2. Professional Services
3. Waste Management
4. Food Concession Services
5. Building Materials
6. Apparel
7. Furniture

At the March launch meeting several existing sustainable supply chain community of practices were identified, including ones supported by organizations such as Business for Social Responsibility (BSR), Coalition for Environmentally Responsible Economies (CERES), United Nations Global Compact, and others. While some of these existing communities address the seven market sectors of greatest interest to the federal government, no one addresses all.

Replicating these existing communities would create little value; instead, the Sustainable Supply Chain Community of Practice seeks to serve as a platform to highlight the existence of these existing communities to a broader audience, as well as the best practices that they have to share. In essence, the Sustainable Supply Chain Community of Practice on data.gov seeks to serve as an "Über community" for sustainable supply chain practices and data sets. Thanks to the backing of the federal government and its $535 billion in annual contract spending, the Sustainable Supply Chain Community of

Though willing to join the charge for a more sustainable supply chain, many small businesses lack the expertise and tools to measure greenhouse gas emissions.

Practice has the scale and reach beyond any community of practice currently in existence.

Making the Business Case

While the federal government is uniquely qualified to create an "Über community," success depends upon the voluntary engagement of the business community. Does the Sustainable Supply Chain Community of Practice meet the hurdles of an economic business case for the practitioners?

Henry Ward, former Director of Global Supply Chain Sustainability at Dow Chemical, highlighted the most obvious advantage of the Community of Practice, and his motivation for attending the inaugural session: "This event brought together lots of stakeholder that I don't normally interact with. I knew maybe 25 percent of this highly regarded group of thought leaders, so it was a great opportunity to learn."

The Sustainable Supply Chain Community of Practice has been recognized as a form of supplier engagement on the part of the government—a use of "soft power" through public/private collaboration

Guy Schweppe, Vice President of Enterprise, Mobility and Software Procurement at the $62 billion computing behemoth Dell shared his perspective after the community launch: "When you see the tiers of the government's supply base and the complexity of the logistics networks… the impact of their moving to a more sustainable supply chain is staggering." Previously, in July of 2011, Dell's CEO joined EPA Administrator Lisa Jackson to release the National Strategy for Electronics Stewardship. The strategy outlines actions the federal government is taking to ensure the proper handling of its used electronics and spur the growth of the U.S. electronics recycling industry. Dell's engagement in the community of practice furthers the company's commitment to addressing "end of life" issues. "This is a tremendous opportunity for the government to learn from the leading practices shared in the community to modify bids around sustainable solutions and take a more holistic view of lifecycle costs," Schweppe added.

Verizon's Chief Sustainability Officer and V.P. of Supply Chain Operations James Gowen shared the following: "The GSA's goal of leading by example is very encouraging and will hopefully trigger sustainable practices throughout the government's supply chain." Gowen oversees $2.5 billion in annual spending and half a billion dollars in annual inventory as he works with Verizon vendors and business partners to drive supply chain efficiency. He highlighted the value of gathering input and encouraging dialogue. "A 'Community of Practice' collaborative but strategic approach will allow the most valuable ideas and solutions to the challenging environmental problems we face today to rise to the top," Gowen said. "With data.gov, we can expand our transparency, generate actionable data and engage a wider set of minds to improve the federal supply chain on a continual basis."

Vice president of Commercial Products Supply for The Coca-Cola Company, Rick Frazier, echoed the sentiment, "This will accelerate the learning curve and reduce the cost of building sustainable supply chains. We have to always keep in mind sustainability is not 'me' winning, it's about 'us' winning because sustainable supply chains have two key benefits: environmental (green) and operating efficiencies (lean)."

The business leaders clearly see the potential for the government to lead the way with an "Über community." John Frey, Americas Sustainability Executive at Hewlett Packard, engages with customers to improve sustainability in information technology—one of the seven areas of focus for the U.S. government. Even though HP ranks among the world's largest companies with $110 billion in annual revenues, 300,000 employees worldwide, and $60 billion in direct materials purchases, Frey rightly describes the federal government as the true "800 pound gorilla" that can have a massive, positive impact through its own practices as well as how it engages its suppliers.

But, an 800 pound gorilla can also be dangerous. At the forum and in our follow-up interviews the business leaders consistently emphasized the need for collaboration. Kevin McKnight, Global Director, Environmental, Health, Safety & Sustainability at aluminum manufacturer, Alcoa Inc. (a $26 billion company with 61,000 employees) offered the following advice, "…stay the course on the collaborative approach. Industry, working side-by-side with government, can do a lot to help drive improvement and ensure progress toward a more sustainable future. I believe we will ultimately achieve so much more through collaboration than we could ever achieve through mandates."

Furthermore, the possibility of an "Über community" with a focus on the seven high priority segments resonated with the business leaders—for example, Carolyn Woznicki, Vice President, Global Procurement & Supply Chain for Johnson Controls, Inc., who has responsibility for $9 billion in annual spending among 300,000 suppliers. Woznicki notes that while she is already engaged with multiple sustainability forums, there was no clear, single source for sector-specific information. She adds that even though some practices transcend industries, sectors such as building materials and food concession services (two of the seven selected sectors) clearly faced different priorities in achieving enhanced sustainability.

John Frey of HP underscored both sector focus and collaboration, noting that the electronics industry has been a leader in coming together as an industry to drive improvements in sustainability. HP took a collaborative approach like the current community of practice model. "We rolled out our sustainability requirements to suppliers including online citizenship reporting with a focus on capability building…rather than as a punitive system to root out non-compliant suppliers," Frey explains.

Verizon's James Gowen shared a collaborative success story from his organization: "We've created a Green Team with over 8,000 employee volunteer members in 20 countries, who are leading a multitude of great activities. As an example, together with our employees we've implemented an Energy Champion program saving 3 percent to 5 percent per facility. Leveraging the passion of our people has been a huge win for us."

While best practices and information sharing are valuable, Gun Shim of Pacific Gas and Electric Company, the utility serving most of the Northern and Central Californian, offered some words of caution. As Vice President of Supply Chain, he brings a pragmatic perspective. "I looked at data.gov and to be honest, there is so much data it can be overwhelming," Shim says. "We will need to engage collectively to decide how to categorize, simplify, and make sense for the community." Johnson Control's Wozniak further elaborated on the need to do more than assemble raw data. "The community website needs to be leading edge, thought provoking: you should be able to get to data/areas of interest quickly."

Both also reinforced the need to enable human contact. Says Wozniak: "We should be able to do more than just look at the website. Community members should be able to connect to the people who are adding the content, really building connection between the people." Shim further upped the ante: "An in-person forum needs to supplement the online forum for the Community of Practice. There needs to be opportunity to come face to face!"

Dan Pleshko, Corporate Vice President of Global Supply Chain Operations for Lockheed-Martin, offered a counterview. Responsible for the overall supply chain strategy spanning this global aerospace and technology company with over $25 billion in spend and a team of over 4,000 supply chain professionals, Pleshko recognizes that you have to leverage peer-to-peer technology. "As advantageous as face-to-face networking is, it is at times not practical to gather all parties live to exchange best practices and work on solutions," he said. "By globally sharing non-proprietary supply chain sustainability data in an on-line repository, it gives the reader real-time access to true examples and testaments, in order to formulate his or her own strategy."

Pleshko also highlighted how during 2010 and 2011 he shared best practices across 17 Lockheed Martin sites that collectively accounted for over 80 percent of the corporation's total energy usage. "Each facility was evaluated based on current energy systems, plans, and performance," he said. "We identified hundreds of energy-reduction projects that, once implemented, could potentially save over $25 million in annual costs and 161,000 metric tons of carbon dioxide emissions. More than 60 percent of these identified projects are either complete or underway."

The federal government is the true "800 pound gorilla" that can have a massive, positive impact through its own practices as well as how it engages its suppliers.

Kevin McKnight of Alcoa summarized the business case at the societal level this way: "Our world needs to become more sustainable. The United States has a significant role to play in helping the world to understand how we can all work collaboratively to get there. Private enterprise has been involved in the sustainability journey for a long time. At Alcoa, we started publicly reporting on our environmental performance in 1993. We set our first long-term (2020 and 2030) sustainability goals in 2000. It only makes sense for industry to collaborate with the U.S. government to ensure that we are leveraging all we know to accelerate the pace of sustainability in supply chains."

Vision for the Future

The Sustainable Supply Chain Community of Practice has been recognized as a form of supplier engagement on the part of the government—a use of government "soft power" through public/private collaboration as opposed to the "hard power" of legislation and regulation. Just as leading companies have made a strong economic case for supply chain sustainability, so has the federal government in recognizing the cost savings associated with reducing supply chain inefficiencies and risks. By transparently highlighting existing sustainable supply chain practices in specific market sectors, it nudges federal suppliers into action and benefits from resulting cost savings.

Since the March launch, the Sustainable Supply Chain Community of Practice has been featured at several events hosted by organizations such as the Corporate Responsibility Officers Association (CROA), Institute for Supply Management (ISM), and the Association of Climate Change Officers (ACCO). Use of the community must be organic, with benefits self-evident to participants to drive their engagement. Looking forward, the initiative seeks to provide clear returns for government agencies in two primary ways:

1. Highlight Existing Government Assistance. Many federal agencies have programs that assist organizations in becoming more sustainable supply chain participants. The Environmental Protection Agency E3 program (Energy, Environment, Economy) helps small- to medium-sized manufacturers integrate practical, sustainable approaches in their operations. The E3 program is an active participant in the Sustainable Supply Chain Community of Practice. Another EPA program, SmartWay, aims to reduce transportation-related GHG emissions by creating incentives to improve fuel efficiency.

2. Reducing Taxpayer Costs. For the government, contracting based on lowest price or "first-cost" may not capture the overall lower lifecycle costs of sustainable products and management approaches. This is especially true when additional costs are borne by government agencies in the form of costs associated with future energy, consumption, waste management activities, and adverse environmental and health impacts. Sustainable management practices by government suppliers—practices that include supply chain GHG management and inventorying—can help to reduce these overall lifecycle costs to government.

The initiative will achieve these objectives by continuously reaching out to a vast network of stakeholders. For example, the community of practice was featured at the GreenGov Symposium held in September 2012 as part of a discussion on incorporating sustainable practices into the federal government's operations. Additional events will be announced over time.

Clear Vision for Sustainability

Supply chain sustainability remains a nascent field. As such, the federal government—as well as other community of practice participants—will continue to engage, share, learn, and implement based on their engagement in the Sustainable Supply Chain Community of Practice. While the community must take time to learn, it also must set high standards. Jason MacIver, Director of Services Supply Chain for Dell, exemplifies the necessary attitude: "Sustainability touches every aspect of the supply chain. For example, we would not have thought of using bamboo or mushroom packaging 10 years ago. Today, more than 40 percent of our packaging content is from recycled or renewable content, and 75 percent of it can be recycled or composted at the end of its life."

The Sustainable Supply Chain Community of Practice has passed the hurdle of bottom-line business case practicality while simultaneously setting a clear vision for moving forward in assisting government and industry alike in achieving sustainable supply chains. The 800 pound gorilla is using its power deftly—and the business world is applauding.

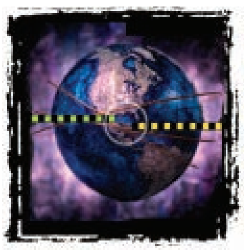
End Notes:

1 Wenger, Etienne (c 2007) 'Communities of practice. A brief introduction'. Communities of practice [http://www.ewenger.com/theory/ Accessed June 30, 2012].

What Makes an Effective CPO?

By Enrico Rizzon and Kate Hart

Enrico Rizzon (enrico.rizzon@atkearney.com) is a vice president with A.T. Kearney Procurement and Analytic Solutions, based in Melbourne, Australia. Kate Hart is a Melbourne-based associate with A.T. Kearney Procurement and Analytic Solutions.



A recent study by A.T. Kearney identifies four primary challenges on the CPO's agenda: measuring performance, increasing influence, becoming more strategic, and attracting and developing talent. CPOs' ability to address these challenges thoroughly can bring significant gains in resolving the fundamental issues facing today's procurement organizations and, in doing so, improve their effectiveness. We spoke to a number of leading local CPOs to provide context to this topic. They generally agree on the challenges and offered excellent insights into what makes an effective CPO.

Establishing the link between procurement savings and overall business performance is a significant way that the procurement function can build credibility. A recent A.T. Kearney study shows that industry leaders increasingly use a variety of metrics, such as unit cost, inventory levels, total cost of ownership, and days payable, in their efforts to reinforce this link. Additionally, they are using broader metrics that look at the effectiveness and productivity of procurement category managers. As Rio Tinto Iron Ore's CEO Sam Walsh (who rose from the procurement ranks) says, "Reviewing performance in a broader context, such as the overall value to the business, helps company executives buy into procurement success."

Influence and Opportunities

When performance is measured and communicated appropriately to stakeholders, CPOs start to discover the amount of influence they can have on their organizations. Through this, they are better able to align procurement with the business as a whole. Those with commercial skills and a deep understanding of the business are better positioned to contribute to the key strategic decisions facing their organization. A CPO that participated in the study pointed out, "When you are working at a senior level, you need the ability to understand the whole business. The effectiveness of a CPO is increased if they have worked throughout an organization and not just in procurement." For example, CPOs with cross-functional expertise in areas such as supply chain management, marketing and sales, or operations have a more comprehensive view of procurement's decisions and performance on the business.

Organizations are becoming flatter, more matrixed, and more complex, so the "art" of influencing has grown in importance. According to Walsh, "Businesses used to only be integrated at the CEO level; however, they now need to be integrated at all levels and across all functions." A procurement chief with commercial skills and a deep understanding of the business is well positioned to contribute to and influence the key strategic decisions facing an organization. But, if a CPO cannot sell the capabilities and benefits of procurement, then even the most commercially astute CPO will not realize their full potential. One of the study participants said, "It is crucial to build trust and for CPOs to sell and market procurement to their organization, not just simply run the function."

More than 90 percent of respondents to A.T. Kearney's 2011 Assessment of Excellence in Procurement (AEP) study reported that the procurement function had increased its role in developing and executing their company's business strategy over the past three years. Without influencing skills, CPOs are relegated to the position of "purchasing manager" in a functional silo.

A study participant commented, "Procurement will earn opportunities, allowing it to further increase the amount of corporate spend it influences." Expanded spend management may encompass engineering, information technology, manufacturing, marketing, non-manufacturing operations, transportation, and logistics, on top of product and service development. Procurement leaders can coach other business functions to develop market intelligence, conduct cost analysis, and even go to market. By expanding the influence of procurement within an organization, CPOs become vital for achieving an overall business strategy—delivering value, not just cost savings—rather than being purely functionally focused.

The influence of procurement leaders is expanding not only within organizations, but also across sectors. Procurement is known as a high value-adding function in the manufacturing industry, where 50 to 70 percent of the cost base is under direct procurement control. There is a clear correlation between spend management and bottom-line impact. However, today, procurement is becoming increasingly important in industries where third-party spend, relative to revenue and profit, isn't as substantive. Executive teams across industries are becoming aware that procurement does not only deliver traditional value, but can also contribute to risk and compliance management. Effective CPOs are "chasing value rather than cost and revenue as unrelated factors," Walsh notes.

Procurement is becoming increasingly strategic. "What is important is to operate as a strategic procurement function, not just a transactional purchasing function," says a CPO study participant. Sourcing has delivered significant value and assisted in elevating procurement to a strategic level in organizations. However, the opportunity now is significantly reduced, with few categories untouched by sourcing. Walsh says that CPOs need to be "strategic thinkers, making sure purchasing is aligned in the business and a jump ahead of where we are going."

A CPO commented, "As you rise higher in an organization, it becomes less important to be a subject matter expert and more important to achieve business results through others."

While companies presently obtain almost three times as much value from sourcing work as they do from supplier relationship management (SRM), the gap between the two is likely to narrow significantly by the middle of this decade as companies increasingly pursue value through SRM rather than sourcing. Walsh highlights the importance of SRM through underwriting supplier development in key purchasing areas for the business. SRM efforts can be resource intensive; therefore, CPOs need to allocate resources strategically and limit the effort to high-value initiatives.

A Focus on Value

As supplier strategy becomes increasingly complex, CPOs should expand their focus to extract value out of the relationship. The A.T. Kearney Purchasing Chessboard, a matrix that shows 64 methods for delivering supplier value and reducing costs, demonstrates the vast array of levers that can be used to harness value. (For more information go to *www.purchasingchessboard.com*.) An effective procurement leader is skilled at using these strategies to more effectively manage supply markets and suppliers, as well as involvement in the rigor of contract management, development and administration, and leading global purchasing and consolidation initiatives. Thus, CPOs who are big thinkers and detailed managers are going to be most effective.

Talent development, from entry-level to senior roles, has been widely accepted as a key indicator of successful CPO executives. According to a recent report, "highly effective procurement leaders spend a lot of time looking for and developing their eventual replacements." Procurement needs people who "go out and make their mandate" or, according to Walsh, those who are "active participants in the hunt for value with a big picture view." This combination of traits is essential to invigorating procurement throughout an organization.

As Walsh points out: "I am living proof that there is life beyond being a purchasing officer. People should aspire to broaden their horizons and not be afraid to look up and be open to other opportunities." Only by broadening their experience base will procurement professionals become more effective at navigating and managing today's organizations.

Developing specialist skills and retaining high performers is critical to embedding intellectual capital within procurement organizations. Both new resources and current personnel should undergo consistent skill-building activities as the function increases its strategic capabilities. CPOs need to ensure that there is the right combination of capability and culture to drive value through procurement.

The CPO role has changed over the past decade as the focus has shifted from "purchasing" to "strategic procurement"—from a transactional to a core function. CPOs are uniquely positioned to make a substantial contribution to the executive committee, as they are armed with commercial acumen and a deep understanding of where the money goes. However, for the CPO to be effective, certain elements are vital. CPOs must ensure that the value of procurement is broadcast and understood. They need to influence the key players within the business to align the procurement function with the overall business strategy. Finally, as the role becomes more strategic, long-term, and integrated with the business strategy, talent management becomes a key component of the procurement team's success, growth, and sustainability.

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Quo vadis, Europe?

European logistics industry looks beyond the crisis

Despite economic and financial uncertainties, the first half of 2012 has been moderately successful for many leading European carriers, ports, and 3PLs.

By Dagmar Trepins, European Correspondent

The list of economic woes throughout Europe continues to grow: There's a slowdown in production; increasing unemployment rates; and a fear of rising financial debts and the long-term impact that will have on the overall economy.

In the meantime, consumer spending has plummeted or shifted to non-premium products causing additional price pressure on manufacturers and service providers. Fuel costs have stabilized to a certain degree, but they're still painfully high.

And while economic conditions in the Eurozone are demanding, European logistics providers, carriers, and ports continue to report that they're still striving for improvement in infrastructure, efficiency, service, and sustainability. In short, business must go on despite all of these mounting concerns.

Statistical data from July, collected through the Organization for Economic Co-operation and Development's recent "International Transport Forum," highlight concerns over possible declines in the EU-27. The figures show that total seagoing foreign trade (in tons) remains 5 percent below pre-crisis levels in the EU-27, while air cargo volumes are 4 percent below this level.

In France and the United Kingdom, trade by sea and air are still below the pre-crisis peaks, while Germany's economy has been resisting the general trend towards stagnation. Total German seagoing trade grew 12 percent from July 2008 to March

2012, while air cargo volume increased 19 percent during the same time. Germany's economy has benefited from its traditionally strong manufacturing export trade.

There is no doubt that the Eurozone crisis is affecting business confidence and thus the growth prospects of the logistics industry. This report will highlight how logistics providers, carriers, and ports in Europe are facing the challenges.

Third-party providers back on track

Despite economic and financial uncertainties, the first half-year of 2012 has been moderately successful for most of the leading European logistics providers.

DB Schenker: Executives at DB Mobility Logistics AG say they're confident about 2012. Revenues increased by 3.3 percent, or €616 million, to €19.5 billion during the first half of 2012. Adjusted results from operations (adjusted EBIT) surged by 16.6 percent, or €188 million, to €1.3 billion.

DB's business unit DB Schenker Logistics reported a gain of 0.5 percent in the number of shipments in European land transport in the first half of 2012 compared to the same period of 2011. In contrast, airfreight volumes fell by 7.9 percent, while volumes of ocean freight developed far more favorably, showing a substantial gain of 10.6 percent.

In contract logistics, revenue was up 19.4 percent, underlining the company's good performance. At the beginning of this year, the Coca-Cola Company awarded DB Schenker Logistics two contracts for their warehousing and transportation operations in Poland. Previously, Coca-Cola had operated its own satellite Distribution Centers for finished goods, which have now been integrated into existing DB Schenker warehouses.

Kuehne + Nagel (KN): The Swiss giant has announced that it's "back on track" after a weak start to the business year. In its half-year results 2012, the company reported that turnover increased by 2.8 percent to CHF 10.062 billion ($10.25 billion). Gross profits improved by 2.6 percent to CHF 3.032 billion ($3.1 billion) while operational results (EBITDA) declined by 9.6 percent to CHF 454 million ($464 million).

"In the first half of 2012, muted consumption in all parts of the world and increased market volatility influenced the global logistics business," said Reinhard Lange, CEO of Kuehne + Nagel International AG. "Softened demand affected in particular the trade from Asia to Europe and North America and slowed down volume development in sea freight and airfreight. Nevertheless, we achieved above market volume growth in both segments. Our industry-specific logistics solutions positively contributed to this development."

KN's sea freight volume grew eight percent, but operational results declined 10.9 percent, mainly caused by carrier rate increases that have cut margins. In air freight, KN continued to focus on industry-specific solutions such as perishables logistics, resulting in a tonnage increase of about one percent compared to the previous year's period, while operational results declined 10.9 percent.

SNCF Geodis: The global logistics provider Geodis, a wholly-owned subsidiary of SNCF, posted an operating income of €14.3 million, up 5.9 percent year-on-year, and a 1.1 percent increase in revenue. However at constant exchange rates and scope of consolidation, revenue dropped 1.5 percent in the first half of 2012. Continued cost-cutting plans and sales growth by acquisitions and new contracts positively influenced the results.

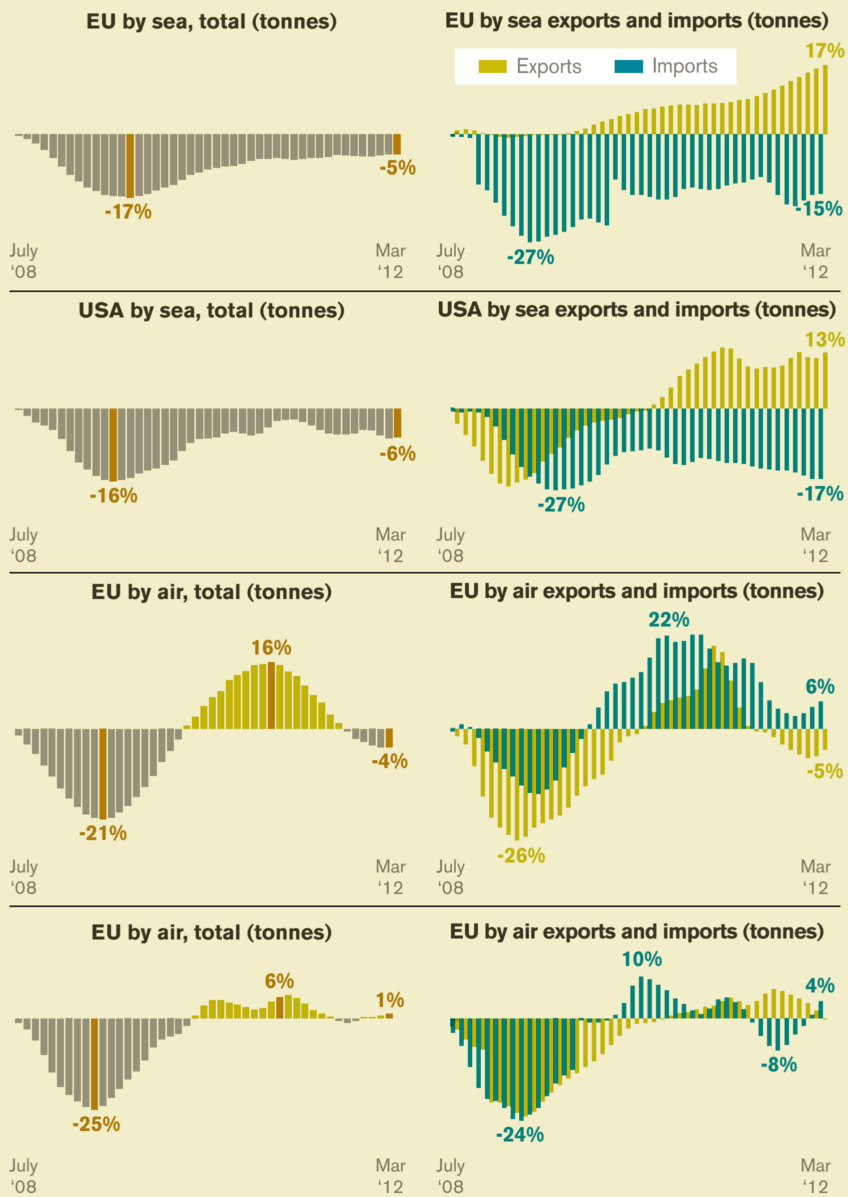
Geodis started well during the first six months of 2012 with a new logistics and distribution contract with Mattel in Southern Europe, the opening of a new logistics platform near Moscow, and the acquisition of MF Cargo in Hungary. Company officials say that they've seen "strong company momentum in Eastern Europe and Asia which has limited the impact of the crisis on the results in their first half-year report."

Deutsche Post DHL: The German powerhouse reported revenues of €13.7bn for the second quarter of 2012, 7.3 percent above the previous year's level. The positive development, supported by favorable exchange rate effects, was largely due to the strong performance of the DHL divisions, which performed particularly well in Asia, and a double-digit growth in volume and revenues of the company's parcel business.

In the first half of 2012, Port of Hamburg reported a total throughput of 65.8 million tons, up 2.7 percent.

External trade, % change from pre-crisis peak, June 2008

(Tonnes, monthly trend, seasonally adjusted)



Source: International Transport Forum, July 2012

Despite further strides in its drive to improve profitability, a one-time VAT back-payment negatively effected earnings in the mail division in the second quarter. Group EBIT fell three percent to €543 million during the same period (2011:€562 million).

On the other hand, DHL Express recorded positive one-time effects that resulted from the dissolution of reserves that had been set up in 2008 as part of the restructuring of the group's business in the U.S. as well as from the disposal of company units that were not part of the core business.

European ports keeping up the pace

Ports have historically been the first indicators of economic trends. The pictures of empty ports in Europe a few years ago are still fresh in mind, as the ports have just recovered from the recession. However, the results from the first half of 2012 from some Europe's leading ports were not as bad as expected, and investments in port structure and capacity are going on.

Port of Hamburg: In the first half of 2012, Port of Hamburg reported a total throughput of 65.8 million tons, up 2.7 percent. At 45 million tons or 4.4 million TEU, the container throughput achieved an increase of 1.9 percent, while exports accounted for around 97 percent of the Port of Hamburg's total first-half growth.

During the first six months, Hamburg's trade with America increased by 24.4 percent to 572,000 TEU, mainly driven by new and expanded liner services from Canada via the U.S. East and West coasts and to South America. U.S. trade showed particularly strong growth (+81.1 percent), with the total throughput of cargo via Hamburg amounting to 197.000 TEU.

With this news, the U.S. jumped from ninth to fourth place among Port of Hamburg's top trading partners in container traffic. Along with the new liner service connections, the recovering U.S. economy made an impact on German exports and positively influenced Hamburg's container trade with North America.

And despite the uncertain economic development in world trade, Claudia Roller, CEO of Port of Hamburg Marketing, is expecting an overall yearly growth rate between one and two percent for the port's container throughout in 2012.

Port of Antwerp: The Port of Antwerp handled 93.82m metric tons of freight during the first six months of 2012, representing a decline of 2.1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DB Schenker Logistics reported a gain of 0.5 percent in the number of shipments in European land transport in the first half of 2012 compared to the same period of 2011.

percent compared with the same period in 2011 mainly due to the Belgian Refining Corporation (BRC) suspending its activities.

The container volume expanded slightly during the past half year, demonstrating that the port of Antwerp has been able to maintain its position in the difficult economic situation during the past few months. In terms of tonnage, container volume grew 0.8 percent in the first quarter of this year, while the volume of standard containers was down 0.4 percent to 4.36 million TEU.

JadeWeserPort: When the port authority of JadeWeserPort announced in 2005 that Germany's only tide-independent deep-water port would open by the end of 2009 or the beginning 2010, there was a lot of optimism in the port community. But construction problems, particularly at the quayside, have led to unexpected opening delays. Officials now confirmed that the port will open on September 21, 2012 at partial capacity and at full capacity one year later.

The new container port is located at Wilhelmshaven's Jade bay on Germany's North Sea coast. With a water depth of 18 meters, the port can serve the largest container ships including the Triple-E class (18,000 TEU) with draughts down to 16.50 m fully loaded independent of the tide. The port is equipped with modern quay facilities for transshipment of bulk cargo, containers, reefers, food, general cargo, and project shipments.

Port of Rotterdam: Europe's leading container hub, Rotterdam has also become a major hub for U.S. exports of wood pellets. In 2011, around

Q&A: Kim Pedersen, Chief Marketing Officer of Geodis Wilson

Geodis Wilson, the freight forwarding arm of the Geodis Group, is strongly linked with the U.S. and European market. Chief Marketing Officer Kim Pedersen outlines the economic development in Europe and its impact on the company's strategy.

Logistics Management: ***Has the financial crisis in Europe already had an impact on your business?***

Kim Pedersen: As the logistics business is firmly interwoven with the global manufacturing sector, obviously we can see an impact. However the degree of impact varies from market to market and is not consistent across Europe as a whole. So, even though the European consumer market is closely linked to supply chains that originate in Asia, there are still signs of growth, for instance in increased air freight traffic coming out of Asia.

On the other hand we see that the effect of the financial downturn in Europe has affected the retail industry, for example, more seriously. Retail is certainly facing more difficulties than the pharmaceutical industry. Overall, for us, the outlook is still stable and positive.

LM: ***How is Geodis Wilson coping with the current economic situation and what are your expectations and concerns regarding the future of the Eurozone?***

Pedersen: For a number of years Geodis Wilson has adopted a business development strategy that focuses on industrial sectors and product innovation rather than on geographical regions alone. During phases of regional economic slow-down this policy has certainly helped to keep the business growing, as is reflected in our group's half-year results.

Nevertheless, we are a group with a strong footprint in Europe, so we cannot ignore the fact that many companies in the Eurozone will act more and more conservatively as the economic outlook becomes less and less predictable. The key is to follow industry development and to be proactive in the sectors where growth is more apparent. In Europe, for example, a lot of our clients are still experiencing a stable market, but at the same time they're identifying growth potential for their industries in Brazil, India, and China. It's important to be as agile as our customers need to be, to adapt accordingly and to deliver supply chain models 'ahead of the game.'

LM: ***Geodis Wilson is expanding its services in the U.S. market. Are there any new developments?***

Pedersen: We recently invested in the contract logistics sector in the U.S., with a focus on lead time improvements, for instance through key technologies such as radio frequency mechanisms and pick-and pack systems. And, in line with our strategy of providing industry-specific solutions, we set up new products for shop-opening logistics for the fashion and lifestyle segment, particularly in big cities. We recently expanded this to Mexico City as well.

—Dagmar Trepins, European Correspondent


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800,000 metric tons of biomass were transported to Rotterdam, with most of it—600,000 tons—coming from North America.

According to Bioenergy Insight, export of wood pellets from North America to Europe reached a record level of two million tons in 2011—three times the 2008 figure. In Europe, the Netherlands, Belgium, and the UK are the biggest importers. The energy sector in the Netherlands burns about 10 percent biomass in coal-fired power plants, while a new policy for the use of biomass in power plants still needs to be established in the Netherlands.

Carriers on course

Cost cutting and restructuring plans are part of the strategy for almost all leading European carriers. However, investments in acquisitions and sustainability are also on their agenda, as the following examples clearly illustrate.

Maersk: AP Moller-Maersk's five-year plan of focusing on four core strategic businesses is starting to pay off, according to the company's CEO Nils S. Andersen. Because the strategy was launched in August of last year, the Group invested more than $12 billion in its four core businesses.

"The strategy and the attention to the four core strategic businesses has brought encouraging results," says Anderson. "Basically, Maersk Oil and APM Terminals are ahead of schedule and Maersk Drilling is progressing according to schedule. Of course, the development in container freight rates and profitability for Maersk Line has disappointed us, but we have taken a step back, initiated a restructuring plan, and are working to get freight rates back to sustainable levels."

In 2008, Maersk Line streamlined its organization and increased its focus on the market. In 2009, costs were cut by two billion dollars, increasing competitiveness and leading to record results in 2010.

Hamburg Süd: Despite cost cuts, Germany's carrier Hamburg Süd is going ahead with its commitment to environmental protection. The shipping group recently announced that it's aiming to reduce the carbon dioxide equivalent (CO2e) emissions of its owned and chartered container vessels by 26 percent per unit of transport capacity by 2020.

Besides carbon dioxide, the unit of measurement CO2e takes account of other climate gases (e.g., methane) produced in the combustion process in line with their effect on the climate. To reach this ambitious target, Hamburg Süd is taking a variety of measures, such as investing in the energy efficiency of owned ships, increasing average vessel size, and chartering energy-efficient ships, accompanied by an improved and comprehensive environmental information system.

Air freight loosing altitude

The International Air Transport Association's global air traffic results for June also show ongoing slowing of growth. Continued economic woes and waning consumer confidence in Europe led air freight in this region to decline 1.1 percent compared to June 2011, even as capacity grew 1.8 percent. This development also affected the leading European carriers and their first half-year results.

Lufthansa Cargo: Germany's biggest cargo carrier transported 864,490 metric tons of freight and mail in the first six months of 2012, representing a 9.2 percent decline in volume compared to the same time last year. The load factor slipped marginally during the same period, falling 0.7 percentage points to 68.4 percent. "There can be no talk as yet of a real crisis," says Executive Board Chairman & CEO Karl Ulrich Garnadt. "Extreme volatility has been a hallmark of our industry for some time now, and we know how we have to deal with it."

Air France-KLM and Swiss: Europe's Air France-KLM says restructuring charges were partly responsible for a first-half net loss of €1.26 billion, up from a loss of €564 million in the first six months of last year. Revenue increased 5.2 percent to €12.15 billion and the operating loss widened by €115 million to €663 million. The group also saw a 5.5 percent decrease in cargo volume in July. Capacity dropped 2.5 percent, while its load factor fell 2.5 percent from July 2011 to 61.6 percent.

Swiss International Air Lines (Group) also reported a big decline. Its operating profit fell 53 percent to CHF 61 million for the first six months of 2012. The decline is attributable to a still difficult economic and business environment, the continuing pressure on yields in Europe, the strength of the Swiss franc, and high fuel prices, the carrier explained.

The first half results for the air freight business of Swiss WorldCargo showed only slight changes from the prior year period. The cargo load factor by volume remained unchanged at 79.3 percent, while total cargo sales were up 3.4 percent in terms of revenue ton kilometers. "The crisis in our industry is hitting us, too, and we see no sign of an upturn here anytime soon," says Swiss CEO Harry Hohmeister.

—*Dagmar Trepins is* SCMR's w*European Correspondent*

How Shippers View Their 3PLs' Performance

APQC survey reveals that shippers are generally satisfied with the performance of their 3PLs and 4PLs. But there is still plenty of room for improvement.

By Becky Partida, Knowledge Specialist-Supply Chain Management, APQC

With more and more organizations outsourcing some or all of their logistics processes, third-party logistics providers (3PLs) and fourth-party logistics providers (4PLs) have become an integral part of the supply chain. These providers are offering an increasingly wide range of services that are often customized to the needs of shippers. What remains unclear, though, is the extent to which individual organizations use the 3PL/4PL services—and how satisfied they are with the performance that they are getting.

To gain insight into these issues, APQC conducted a survey of supply chain professionals. Fifty-two shippers responded and provided a variety of information, including the types of services they outsource to 3PLs/4PLs and metrics related to logistics performance. The results of our survey indicate that shippers are outsourcing logistics processes to multiple providers and are satisfied overall with the level of performance obtained from these providers. However, the data from the survey reveals a surprising disconnect between the satisfaction of shippers and the actual logistics performance these organizations achieve. This disconnect may indicate that shippers are not closely monitoring the actual performance of their 3PLs and 4PLs. Providers clearly have room to improve service delivery; at the same time, shippers should develop closer relationships with their providers to facilitate performance improvement.

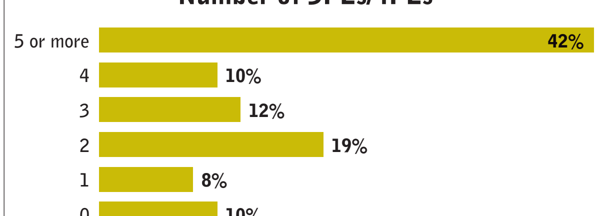
Level of Use and Satisfaction

The data from APQC's survey reveals that many shippers are contracting with several 3PLs/4PLs at once (see Exhibit 1). Eighty-three percent indicate that they contract with at least two providers with fully 42 percent reporting that they contract with five or more providers. The large number of 3PLs/4PLs used may point to the development of niche markets among service providers. It could also be an indication that shippers are contracting with multiple providers to obtain the lowest cost for each outsourced task.

Shippers responding to APQC's survey also indicated on a three-point scale the extent to which they outsource specific logistics processes to 3PLs or 4PLs. In this discussion, we focus

EXHIBIT 1

Number of 3PLs/4PLs

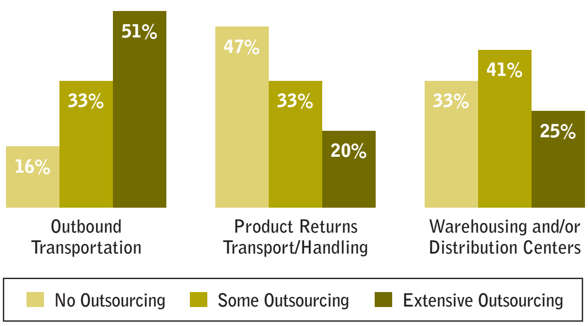


on the three basic logistics processes of outbound transportation, product returns transport and handling, and warehousing and/or distribution center operation.

Slightly more than half of the respondents extensively outsource outbound transportation (see Exhibit 2). Product returns is less extensively outsourced at 20 percent; in fact, nearly half of the shippers (47 percent) report no outsourcing of this activity. With regard to warehousing/D.C. operations, 25 percent of survey respondents extensively outsource and 41 percent indicate some outsourcing.

EXHIBIT 2

Percent of Shippers Outsourcing by Logistics Process



Our survey also asked organizations that outsource logistics processes to indicate on a three-point scale their degree of satisfaction with 3PL/4PL performance. It is worth noting that none of the responding shippers indicate that they are not satisfied with the performance of 3PLs/4PLs when it comes to outbound transportation, product returns, or warehousing (see Exhibit 3).

However, the level of satisfaction with the providers' performance is mixed. Outbound transportation is the only logistics process for which the majority of respondents (57 percent) say they are "very satisfied" with performance. Product returns and warehousing earn a very satisfied rating from only 32 percent and 43 percent, respectively. The remaining percentages for these processes (68 percent and 57 percent) fall in the "somewhat satisfied' category. These results suggest that there is room for 3PLs and 4PLs to improve performance for these key processes—and thus increase customer satisfaction.

Use and Performance on Logistics Metrics

The APQC survey collected data on logistics performance to determine whether organizations that outsource to 3PLs and 4PLs perform better than those that do not. For this analysis, we focused on logistics metrics related to outbound transportation, product returns transport and handling, and warehousing. These metrics included inventory carrying costs, perfect order performance, and returned product processing time.

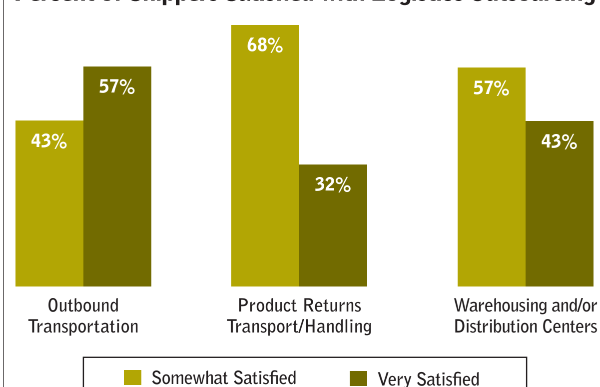
• **Inventory Carrying Costs**. One important metric related to warehousing is inventory carrying cost as a percentage of actual inventory value. At the median, organizations that conduct some outsourcing of this process have a higher inventory carrying cost (14 percent) than organizations outsourcing extensively (4 percent) and even those that do not outsource this process (8 percent). Surprisingly, organizations that are very satisfied with their outsourced warehousing services report a higher inventory carrying cost (8 percent) than organizations that are only somewhat satisfied (6 percent). These results indicate that companies with a high satisfaction level may not regularly review the warehousing performance delivered by their providers. At the very least, they show that there is room for the 3PLs and 4PLs to improve.

• **Perfect Order Performance.** This logistics metric relates to both warehousing and outbound transportation. At the median, organizations conducting some outsourcing of outbound transportation have a perfect order performance of 85 percent, while the extensive outsourcers have reached 92 percent. Yet organizations that do not outsource outbound transportation have the highest perfect order performance of all—98 percent. As for warehousing, organizations that extensively outsource this activity perform better on this metric at the median (95 percent) than companies doing some outsourcing (90 percent) or no outsourcing at all (80 percent). With regard to deliveries arriving on time and complete, organizations can expect relatively better performance when outsourcing warehousing than when outsourcing outbound transportation.

• **Returned Product Processing Time.** APQC looked at this metric to evaluate the benefits of outsourcing the transport and handling of product returns. At the median, organizations that conduct some outsourcing of this process have a returns processing time of 15 days,

EXHIBIT 3

Percent of Shippers Satisfied with Logistics Outsourcing



compared to only 12 days for those outsourcing extensively. However, organizations that do not outsource this process have a significantly shorter returned product processing time (two days). This may be due to a lack of communication between the shipper and the provider regarding shipper expectations and needs. Without communication, the provider is unable to customize a product returns process that addresses needs unique to the shipper's industry and product lines.

Organizations that do not outsource product returns still perform better on this metric despite the degree of satisfaction that shippers have with providers. Organizations extremely satisfied with the performance of 3PLs/4PLs for this process have a median of 11 days for returns processing; the somewhat satisfied have a median of 23 days. As with inventory carrying cost, the survey results indicate that 3PLs and 4PLs have some room to improve their performance and highlight the need for shippers to closely monitor that performance in order to obtain the best value.

Importance of Tracking Performance

To recap some of the key points of APQC's recent survey, organizations are contracting with 3PLs/4PLs for a variety of processes, and they are contracting with several providers rather than just one or two companies. This may indicate that providers are specializing in certain services or that shippers are simply seeking out the lowest cost among providers for each outsourced process.

For the most part, organizations are happy with their 3PLs and 4PLs, although there is room for improvement. Organizations that are very satisfied with the level of service provided do not necessarily see that translated into superior logistics performance. Shippers that currently contract with 3PLs/4PLs should take a look at the results delivered by these companies to determine (1) if a different provider could deliver greater value or (2) whether the outsourced activity should be moved back in-house.

Organizations looking to outsource to a 3PL or 4PL should weigh the potential for lesser logistics performance against any potential cost savings obtained by outsourcing. It is important to note that outsourcing does not mean an organization can stop paying attention to logistics performance. Close monitoring can provide shippers with the opportunity to work with a provider to improve performance in a way that can benefit both parties.

About APQC: A member-based nonprofit founded in 1977, APQC is the leading resource for performance analytics, best practices, process improvement, and knowledge management. For more information, visit www.apqc.org or call 713-681-4020.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