Supply Chain Management

Viewpoint

Is your supply chain ready to enable profitable growth and high performance?

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By John B. Matchette and Hans von Lewinski

As companies everywhere continue to shift their focus to growth, leading organizations are reorienting their supply chains to help them capitalize on revenue-generating opportunities. Accenture explores how market leaders are building supply chains that are information-rich, highly flexible and built around customer needs. In this way, they create the type of distinctive capabilities that are critical to achieving high performance in today's dynamic and expanding economy.

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Growth clearly is back on the executive agenda. Yet executives increasingly find that growing profitably is extremely challenging due to the complexity and volatility of today's business environment. Further complicating matters is the fact that, after several years of an intense focus on cost reduction, most companies' supply chains are operationally efficient but are not tuned to support growth.

As companies pursue profitable growth, which Accenture research has determined is a key measure of high performance, they will have to move past operational efficiency—largely "table stakes" in today's environment—to construct a growth-enabling supply chain that is information-rich and technologically robust; highly flexible; tightly integrated; and organized and measured to address the needs and preferences of highly dynamic customers. In short, a company's supply chain will spell the difference between success or failure in its chosen markets.

The value of a growth-oriented supply chain

Few executives would dispute the fact that growing profitably is more difficult today than even just a few years ago because of an increasingly dynamic, complex and—in some cases—volatile business environment. Customers are much more demanding and fickle than ever: They want low cost, high availability, a broad selection, and they want it now. Uncertainty in the financial markets and in the economy overall challenge the ability to plan effectively for the future. In many industries, businesses are facing new competition from companies in emerging markets like China, India, Brazil or Eastern Europe. Constant change in the political and regulatory environments in various countries—including customs regulations, laws such as Sarbanes-Oxley and environmental regulations in Europe, as well as directives aimed at increasing security of physical and information assets—make it difficult for companies to efficiently and effectively run their global sourcing, manufacturing and selling operations. Furthermore, rapid technological innovation and introduction of disruptive technologies create not only new opportunities, but also new challenges for managing operations.

As companies pursue profitable growth in such an environment—whether it is by acquisition, expansion of their existing market or entering new markets—they will find that their supply chains will largely determine success or failure in their endeavor. Quite simply, the supply chain is the essential underpinning of any growth initiative.

The supply chain can be a source of quick and substantial acquisition savings. It can enable superior customer service, and it can effectively support sales growth in new products and markets. Or, conversely, it can increase acquisition costs due to added complexity, contribute to losing customers from service failure, or contribute to lost sales with new product and new market supply failures. Both extremes are possible in any growth scenario—the supply chain can have significant impact on service, revenue and profitability.

In most supply chains, basic operational efficiency is in place—especially as the recent recession put cost centers through tremendous scrutiny. But operational efficiency alone is not sufficient to support a platform of growth, and many companies continue to struggle to determine what they need to do to build a supply chain that can support a profitable-growth agenda.

Reorienting the supply chain for growth

In Accenture's ongoing research and work with clients, we have learned that high-performance businesses create and exploit distinctive, hard-to-replicate capabilities that deliver the promised customer experience while driving the most efficient use of assets. One such capability is the supply chain, which is a key to execution excellence and market creation.

To build a supply chain that is truly differentiating and growth-enabling, a company must take several key steps.

First and foremost, it must develop a much better understanding of customers and markets. This entails clearly identifying the specific customer needs and expectations the company chooses to meet—recognizing the diversity among individual customers and customer segments and the variability in the cost to serve different customer demographics and needs. While many companies invest in CRM and tout a customer-focused approach, few companies truly adapt to an individual customer's or customer segment's needs because their supply chains are driven by and built around asset utilization and supplier efficiency.

Once a company fully understands its customer and market needs and expectations, it can design the supply chain around them—reorienting the supply chain to make customers the priority. For some companies, that will entail determining which specific supply chain levers must be adjusted—and by how much—while other companies may find that they have to build multiple supply chains to serve individual customers or customer segments. In some cases, a company may have to completely transform its existing supply chain to support aggressive growth plans.

But having the right supply chain is just the beginning. To fully support growth, a company must operate its supply chain at peak efficiency within the customer parameters chosen. Once a company has settled on a plan for

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growth—whether it entails rapid new product introductions, aggressive acquisitions, new-market penetration or some other avenue—it must optimize all aspects of the supply chain that support the achievement of that plan. This means closely tuning supply to demand so that customers are neither overserviced nor underserviced, and that cost efficiency is not achieved at the expense of meeting customer expectations.

Finally, a company must ensure that it builds sufficient flexibility into its supply chain. A rigid supply chain is incapable of fully meeting customer expectations—which is vital to growing the business. Therefore, companies must adopt new supply chain practices, technologies and organization structures that enable them to quickly capitalize on new revenue opportunities (e.g., develop new products for an emerging market or easily add and integrate newly acquired businesses); more effectively meet existing customer needs (by, for example, dynamically reallocating inventory to accommodate surges in demand); and seamlessly shift sourcing or production to another facility in the event of a disruption. In short, companies must be able to continuously refresh and renew their distinctive capabilities to maintain their competitive essence. According to Accenture research, high-performance businesses are particularly adept at accomplishing this.

Despite the perception that these steps may sound overly intuitive or even appear to be "old news," few companies have taken these steps to the extent that they are truly using their supply chains to drive growth and high performance.

Using the supply chain to change the rules

The companies that have taken these steps and are using their supply chains as springboards for growth are rewriting the rules of competition—and, in the process, have taken major strides toward high performance. These companies—including fashion retailer Zara, home furnishings retailer IKEA and apparel manufacturer Liz Claiborne—demonstrate superior ability to cost-effectively meet or exceed customer expectations and boost margins at a time when most companies are still struggling to determine how to reinvigorate demand. In many ways, they use their supply chains to dramatically skew the market in their favor.

Zara

At Zara, an international clothing manufacturer and retailer, the supply chain is critical to competitive advantage: offering new clothing styles faster than competitors at moderate prices. Zara owns the majority of its 755 stores in 55 countries. Its managers send customer feedback to in-house designers via handheld devices, keeping the designers instantly abreast of fast-changing trends, which helps Zara cull less-desirable merchandise more quickly. This built-in visibility and flexibility enable the retailer to manage inventories more effectively, tighten links between supply and demand, and reduce obsolescence costs.

Zara also acquires fabrics in only four colors and postpones dyeing and printing until close to manufacture, thus reducing waste and minimizing the need to clear unsold inventories. With these supply chain innovations, Zara can deliver new styles in three to six weeks, compared with up to five months for competitors. Zara has had sustained sales growth of more than 10 percent a year for the past 10 years, and a net profit margin of 10 percent, compared with an industry average of 3 percent.[1]

IKEA

IKEA's success in furniture retailing results, in part, from its integrated vision of supply chain and product design. IKEA is the world's largest furniture retailer with revenues of more than $15 billion and 192 company-owned stores in 23 countries. Cross-functional project teams design products with both aesthetics and logistics in mind. IKEA's furniture is designed and manufactured to fit in flat, standardized packages that ship economically, require less space, and are easy for customers to take home and assemble. The company's strategy and operations revolve around the integration of product design and supply chain.

Within this operating model, IKEA's supply chain is clearly optimized for store delivery and customer carry-home. To support this model, IKEA actually directs customers to shop in the store instead of ordering online—noting that customers' willingness to pick up and assemble items is critical to IKEA's ability to give customers the lowest-cost items with an element of fashion and style. In its own way, IKEA is remaining very customer-centric while focusing on cost control.

Liz Claiborne

The recently formed relationship between Liz Claiborne and Luen Thai Holdings Ltd. is yet another example of how leaders are optimizing their supply chain within the parameters of more effectively meeting market and customer needs.[2]

In response to the expiring of international textile manufacturing quotas on December 31, 2004, apparel manufacturers are working to consolidate operations in the few countries that can produce the best quality at the lowest cost. Their goal is to reduce the current expense associated with producing in multiple countries around the world; migrate jobs to low-cost, high-efficiency markets such as China; and ultimately lower garment prices.

Liz Claiborne is teaming with Luen Thai at the latter's two-million square foot "supply chain city" built in Dongguan, China. Liz Claiborne expects to cut sourcing from 35 countries to just a few, including Luen Thai, and reduce its 250 suppliers to about half that in five years, streamlining its supply chain. The Liz/Luen relationship is based primarily on the notion that labor cost savings is just the tip of the iceberg—real gains would be in time savings brought on by reorganizing all manufacturing and logistics activities.

Instead of having 100 people on a design team spread across the world, Liz Claiborne is cutting the team to 60—all in China, close to the factory floor. This cuts back-and-forth time for reviews and inspections and slashes weeks off of getting new fashion to market. By being able to make quicker decisions (e.g., changing a strap on a purse by walking across the street and seeing a new prototype in one hour), Liz Claiborne hopes to cut concept-to-shipment time to 60 days.

The Liz/Luen arrangement also cuts cost of shipping and inventory handling. Now, goods arrive from all different suppliers around the world to one of three distribution centers in the United States, where bags are unpacked, repacked and sent to stores at a cost of $.80 to $1.20 per garment. In the new arrangement, everything is assembled at the supply chain city and sent directly to stores, cutting shipping and handling cost per garment to as little as $.20. The new supply chain reduces shipping and handling cost while underpinning Liz Claiborne's growth with an ability to react much more quickly to market trends and variability.

Mastering supply chain capabilities to enable profitable growth

The aforementioned leaders have mastered a number of supply chain capabilities that help them to develop and sustain a growth-enabling supply chain. The first of these capabilities is **timeliness and visibility of data.** By visibility, we mean the capacity to gain data on all facets of one's customers and operations, and from that data generate powerful insights. For example, visibility into one's customer bases enables a company to clearly understand the needs it must serve and the universe of individuals or enterprises that have such needs. Such visibility also provides the insight into the structure and type of supply chain or chains necessary to serve specific customers or segments—and, consequently, boost revenue and market share. Visibility into operations includes knowing where goods are in the supply chain at any given time, the total landed costs of goods, and the nature and state of all supplier and customer relationships. Such knowledge enables the company to most effectively meet customer expectations (e.g., having adequate inventory in stock and delivering product where and when promised); meet specific regulations of the countries in which it and its suppliers do business (including customs and legal directives); ensure the safety and security of its assets and deliveries; and identify potential cost-reduction opportunities.

The second key capability is **tight integration with customers and suppliers.** Most companies have done a good job of integrating operations within their four walls. Leaders have taken that integration to their trading partners—beyond simple collaboration, leaders achieve process and information integration across the supply chain. This enables them to link sales with raw-material suppliers in real time, even if those suppliers are in the remotest part of China or the mountains of South America. Zara and Liz Claiborne are two clear examples of a well-integrated supply chain from customer back to suppliers of materials and services. So is British Airways. The London-based carrier launched a flat bed in "Club World"—the airline's business-class product—in less than half the time typically involved by engaging suppliers far earlier in the design process. In doing so, the carrier created a product that met both functional and design needs, as well as customer requirements, in just six months instead of the typical 18 months. The new bed helped boost British Airways' revenues through increased market share of business travelers.

In the consumer goods industry, collaboration between manufacturers and customers (dealers, distributors and retailers) has led to significant benefits as well. These range from decreases in inventory by as much as 40 percent; sales boosts of up to 45 percent; an 11 percent to 12 percent rise in in-stock availability; and a large decline in lead time and rush orders.

The third key capability is deploying **innovative supply chain technologies that serve as the foundation for achieving partner integration and supply chain visibility.** In fact, companies such as Zara have focused their investments and deployed technology through a clearly thought-out strategy that benefits both their partners and themselves. Historically, most companies have focused the application of technology on making supply chain processes more efficient. As companies position for growth, leaders are asking how supply chain technologies such as radio frequency identification (RFID), smart cards, product life cycle management software, dynamic pricing systems, biometrics or predictive monitoring can help achieve growth. Because of the volume of information available and required to run a global company's supply chain, the astute application of technology is a must for a company to obtain the visibility of data and decision support necessary to connect with customers, manage complexity and flex the supply chain as needed to meet operational and strategic objectives.

The fourth key capability is fostering **a culture and organization that supports a growth-oriented supply chain.** Leaders recognize that the best supply chain processes and technologies in the world mean nothing without the organization structure and skills in place to support its growth initiative. In fact, as they ponder how best to grow their businesses, CEOs increasingly are recognizing that the best business strategy is doomed to fail unless the company has: 1) a relevant, supportive organization structure; and 2) a highly skilled, adaptive and productive workforce that understands the corporate strategy and how their actions and behavior contribute to the organization's achievement of its strategic goals.

From a supply chain perspective, we've found that leaders have been able to dissolve the walls that historically have separated demand functions—i.e., marketing and sales—from supply. This has proven especially critical in planning, as marketing and sales truly understand the customer base and can give the supply chain organization a deeper understanding of what is actually driving demand. Leaders also excel in developing a culture that facilitates growth and innovation; creating a supply chain organization that anticipates and drives change, rather than reacts to it; and championing the supply chain at the highest levels of the company to ensure that supply chain capabilities are considered in the development of corporate strategy.

The fifth key capability involves **metrics that reward integration.** Leaders keep their eye on the ultimate goal: profitable growth. As a result, they employ metrics that not only help them gauge the performance of supply chain activities critical to growth, but also discourage the optimization of individual functions or activities in favor of the performance of the whole.

We've found that leading companies generally use four critical metrics to gauge how well they are performing in relation to their growth goals. These metrics are: 1) the total cost of the supply chain (including manufacturing, inventory carrying and materials costs); 2) customer service (most importantly, fill rate and cycle time); 3) the value of the company's inventory (which extends beyond days of finished goods inventory available to include the value of raw materials on hand, work-in-progress and finished goods currently being delivered to customers); and 4) days to cash (which gauges the time period between purchasing materials for an order and when the customer actually pays for the finished product).

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By capitalizing on the expertise of qualified partners, high-performance businesses can more quickly and cost-effectively build capabilities that enable them to identify and forcefully enter attractive markets, build and manage powerful portfolios, exploit positioning advantages in the value chain, and achieve optimal scale.

In all cases, these metrics provide crucial information that senior executives need to assess the overall performance and financial health of the company—as opposed to presenting a narrow view of how specific supply chain functions or processes are performing. The enterprise nature of these four metrics enables executives to truly understand, for example, how quickly and accurately customer needs are met—compared to simply knowing the overall costs of the company's shipping operation.

These last three capabilities represent elements of what Accenture research has found is a high-performance anatomy that all high-performance businesses exhibit. In studying the performance of hundreds of organizations, Accenture has discovered that the use of IT as a strategic asset, a highly productive organization and culture, and the deployment of inclusive but appropriately focused metrics are key to an anatomy that enables companies to out-execute the competition.

Ramping up quickly: The value of outsourcing

Developing and mastering these five key supply chain capabilities is not easy, especially as many companies continue to expand their operations to more remote locations around the world and work with partners of varying levels of process and technology sophistication. As a result, an increasing number of companies are entering into various types of outsourcing arrangements—some of which involve traditional uses of third-party logistics (3PL) providers to execute specific activities, and some more innovative deals in which a third party assumes responsibility for a supply chain process or even the entire supply chain itself.

Our research illustrates the growing popularity and importance of supply chain outsourcing. In an annual survey conducted by Accenture and Northeastern University of the largest manufacturers in the United States, 80 percent of logistics executives said they use some type of third-party services to handle supply chain activities—up from just under 40 percent in 1991, when the survey was first conducted.[3] Reflecting continuing global expansion, approximately 60 percent to 65 percent of respondents said they need third-party help in Asia, Western Europe and Eastern Europe.

Participants in this survey, as well as in other Accenture research, noted that outsourcing arrangements can deliver numerous benefits. At a high level, outsourcing enables companies to gain access to important new capabilities—whether they are in sourcing, R&D, manufacturing, fulfillment or distribution—and to do so without upfront capital investments. This is particularly critical when conducting business in uncertain markets. With outsourcing, a company can quickly ramp up for business to capitalize on opportunities in an emerging market, and reap the benefits of first-mover status. Conversely, if the market fails to live up to expectations, exiting is much simpler and far less expensive. Indeed, Accenture research reveals that outsourcing is a strong contributor to a company's ability to maximize growth opportunities and economic structural advantage, which can accelerate its journey to high performance. By capitalizing on the expertise of qualified partners, high-performance businesses can more quickly and cost-effectively build capabilities that enable them to identify and forcefully enter attractive markets, build and manage powerful portfolios, exploit positioning advantages in the value chain, and achieve optimal scale.

More specifically, outsourcing delivers significant operational and financial improvements. In a separate survey of 318 global companies currently active in outsourcing, Accenture found that 61 percent of companies experienced cost savings; 57 percent found increased ability to focus on the core business; and 50 percent improved process speed, quality and accuracy from outsourcing.[4]

One company that has benefited dramatically from supply chain outsourcing is Thames Water, the largest water utility in the United Kingdom. To keep its water and waste-water management systems up and running, Thames Water must have more than 5,000 different items—pipes, valves, pumps, tanks and so forth—readily available. However, because it is a private company doing business in a highly regulated industry, the company must be vigilant about controlling costs. Thames Water came up with a unique way to save money and revolutionize the business: outsource all of its supply chain operations, from procurement through logistics and distribution. In doing so, Thames Water achieved $150 million in overall operating costs; significant improvements in customer service and productivity of supply chain personnel; a dramatic rise in materials availability (now greater than 99 percent); and the opportunity to redeploy scarce resources to competitively critical areas.

Another company that has used outsourcing to rapidly create supply chain capabilities necessary to launch an important new product is Microsoft. The Microsoft Xbox was an entirely new direction and venture for this traditional software company. Putting the infrastructure into place to successfully launch the Xbox offering and keep store shelves stocked presented Microsoft with a colossal task on numerous process and technology fronts. The rollout of the Xbox involved complex supply chain coordination challenges spanning more than 20 functional departments within Microsoft alone. Externally, Microsoft had to build and manage relationships with an extensive network of game software development companies, other suppliers, distributors and large retailers. Microsoft also had to build customer service and repair processes specifically to support the new product line.

The company's outsourcing provider supported Microsoft with the operational preparation and launch of the Xbox from business case analysis to requirements gathering, process design, functional specification development, system development and testing, production, product rollout, and reverse logistics rollout. As a result, Microsoft was able to quickly ramp up for a successful product launch. Within the first three weeks after launch, it shipped 1.5 million game consoles.

The path to high performance

The fact that growth is back on executives' agendas is not big news to most companies, nor is the concept that companies can optimize their supply chain to be more than just a cost center. Rather, the key insight is that high-performance businesses have figured out how to use their supply chains to fuel growth. They realize that this core capability has played a major role in successfully separating themselves from their nearest competitors.

What's more, we've found that the gap between high-performance businesses and the rest of the pack continues to grow wider each year as the former use their supply chains to help them enter new markets, better serve existing customers, and bring innovative new products to market more quickly and cost-effectively.

To avoid being left behind, companies that are not market leaders must build their supply chain—or multiple supply chains, if necessary—around the needs of their customers. They must also tune their supply closely to demand to generate optimal levels of service and efficiency, and ensure that their operations are flexible enough to accommodate the inevitable shifts and vagaries of their industries. By doing so, these companies can join market leaders on the path to high performance.

Notes

1 Lee, Hau, "The Three A's of Supply Chain Excellence," *Electronic Supply and Manufacturing* (October 1, 2004).

2 This example is drawn from the article "Making Labels for Less: Supply-Chain City Transforms Far-Flung Apparel Industry," by Gabriel Kahn, *The Wall Street Journal* (August 13, 2004).

3 Bentz, Brooks, and Lieb, Robert, "The Use of Third-Party Logistics Services by Large North American Manufacturers: The 2004 Survey," Accenture and Northeastern University survey report (September 1, 2004).

4 "Driving High Performance through Outsourcing: Achieving Process Excellence," Accenture research report (2005).

About the authors

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About Accenture Supply Chain Management

The Accenture Supply Chain Management service line works with clients across a broad range of industries to plan and implement innovative operating models that support overall business strategies and enhance revenue, reduce cost, and improve asset productivity and customer service. We combine deep skills and leading-edge approaches in procurement, supply chain planning, manufacturing and design, and fulfillment to help clients improve their operational performance. The service line also collaborates with its clients to implement new solutions including supply chain and procurement outsourcing, radio frequency identification technologies, service parts management, and supply chain education to drive high performance through supply chain mastery. Its home page is www.accenture.com/supplychain.

About Accenture

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