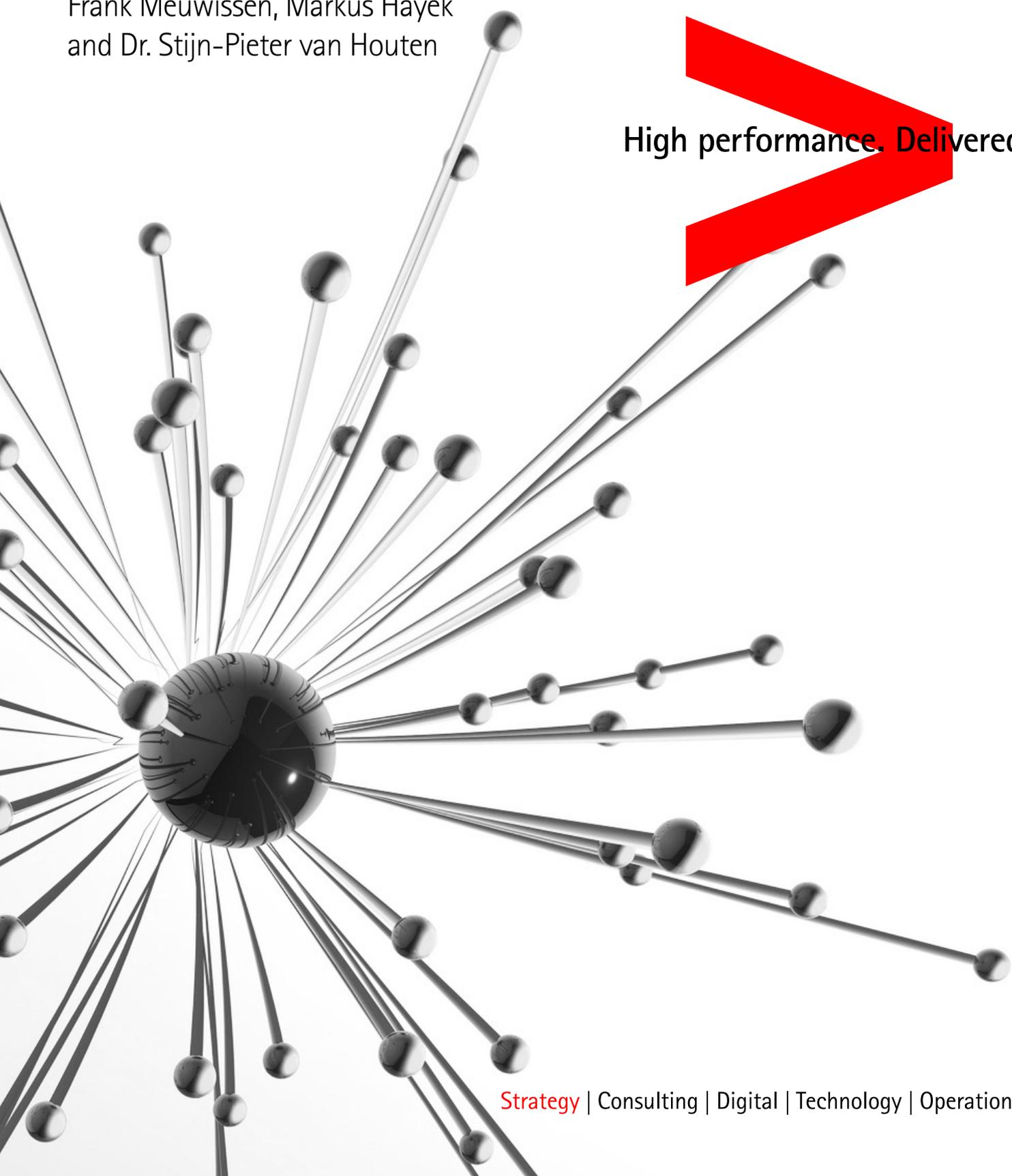


Can your supply chain avoid extinction?

Frank Meuwissen, Markus Hayek
and Dr. Stijn-Pieter van Houten

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Slicing and dicing the supply chain to service ever more diverse and demanding customers has become the core challenge for Chief Supply Chain Officers. But simply expanding the number of supply chain configurations and maintaining separate organizations to manage them—the approach followed by most organizations—is driving too much complexity and wasting potential synergies.

In today's globalized and hyper-competitive markets, standard segmentation alone does not deliver the insight and innovation needed to remain responsive and cost competitive. Supply chain segmentation needs to be truly granular, highly dynamic and rigorously executed. That, in turn, requires the extensive application of digital technologies.

Future-ready supply chain operating models will have very different governance structures: simplified, yet still able to handle market complexity. Furthermore, when it comes to execution, retaining control doesn't necessarily require ownership: some supply chains will be almost completely outsourced. Supporting the execution of physical, information and financial flows will require the continuous development of an ecosystem of partners and providers.

Truly differentiated supply chains are a "must have." Without them, organizations won't be able to protect market share, or ensure successful execution at new levels of cost competitiveness, agility and service. Indeed, continuing with business as usual could put your supply chain—and eventually your company—on the path to extinction.



Inflexible and slow

Traditional supply chain operating models are no longer fit for purpose—and most organizations know it. Eighty-nine percent of supply chain executives report that customers see their current operating models as too complex, and for half of them, “decision-making speed” and “flexibility to respond” are key sources of that complexity.

Customers, meanwhile, continue to raise the bar. With regulators ramping up their demands as well, managing complexity and protecting market share while remaining cost competitive is becoming increasingly challenging.

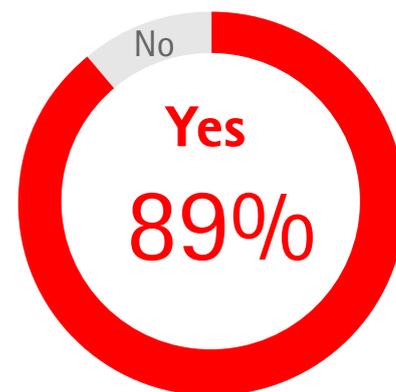
First movers are taking measures now. One consumer packaged goods player, for instance, has made a conscious decision to simplify its overall supply chain structure, while focusing more attention on innovation and idea generation. Among the company's key initiatives: eliminating regional lead roles; establishing key interaction points between sales and supply chain for better connectivity; and creating a supply chain innovation team whose leader is part of the overall leadership team. By ensuring a mix of skill sets and experience among supply chain leaders, the company is encouraging a drive for change.¹

Dynamic segmentation is the name of the game

Segmentation—the categorization of products by customer requirements, market or geography and applying such characteristics as short lead times or low cost to each category—is relevant to the redesign of supply chain operating models for 98 percent of organizations.² What's more, in order to boost customer satisfaction, 97 percent are planning to move toward more granular segments.³

But Accenture Strategy experience confirms that many supply chain executives are still grappling with truly granular end-to-end segmentation. One company in the healthcare sector, for instance, has segmented more clearly by divisions but still lacks a segmentation approach that relates to customer requirements and market characteristics. Similarly, a consumer goods player, having defined a number of supply chain configurations, now struggles to re-shape its capabilities' setup to serve these configurations appropriately.⁴

Is my current supply chain organization perceived as too complex?



Due to our:

slow decision-making speed and lack of flexibility



complex organization and ways of interacting



Source: Accenture Strategy supply chain research

Given current dynamics and complexities, segmentation models also need to be dynamic to be relevant and drive value—and that's only possible if organizations apply the right set of technologies to support them (see Figure 1).

Analytics solutions in the supply chain allow organizations to monitor how well the execution model meets Service Level Agreements (SLAs). They also enable the management and optimization of inventories; and they help identify improvements in cost-to-serve execution. Rule-based algorithms in advanced cost-to-serve models help optimize trade spend and pricing, thus allowing the supply chain to become a true value creator. The building blocks on the supply chain side help to monitor the execution of the segments, while close collaboration with commerce allows the recalibration of the commercial side of the model when needed.

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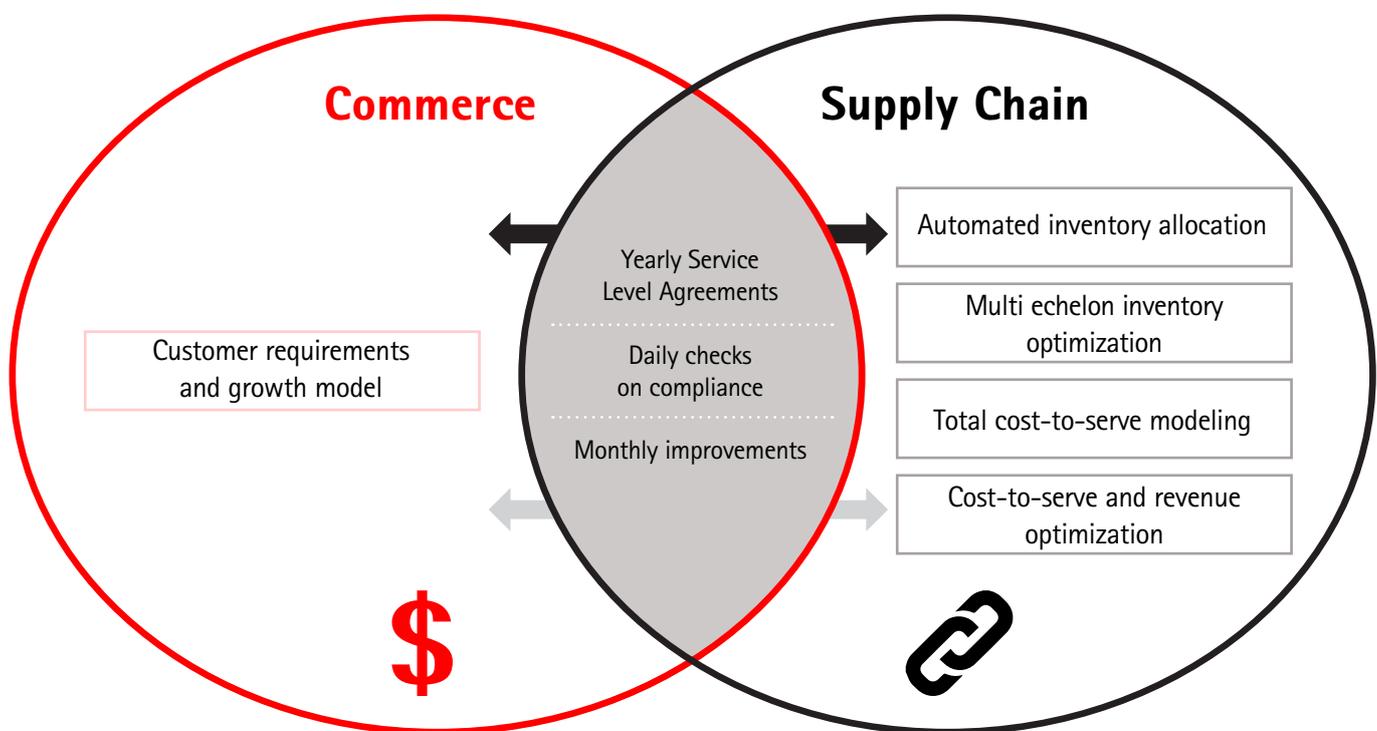


Figure 1: Segmentation models need the right set of supportive technologies.

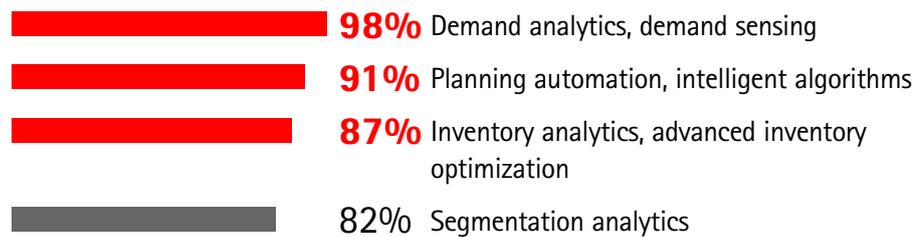
Source: Accenture Strategy

Control doesn't require ownership

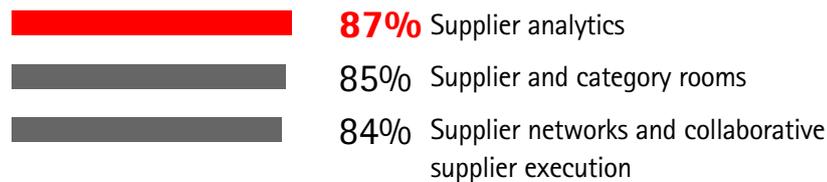
Running a segmented supply chain requires a number of digital capabilities, which need to be executed in a differentiated way in order to serve segmentation thinking. These capabilities are not only required in planning, but also in sourcing, production, delivery and service (see Figure 2).

What digital capabilities are most relevant to operate a differentiated supply chain?

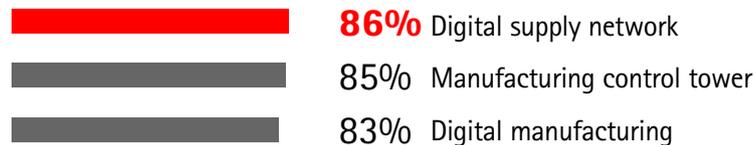
Planning



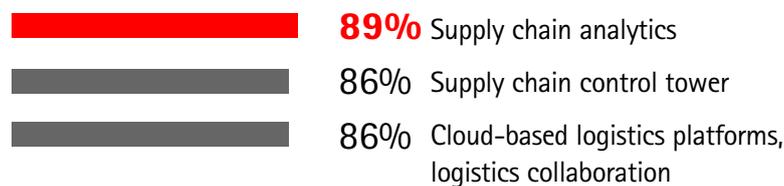
Sourcing



Production



Delivery



Service

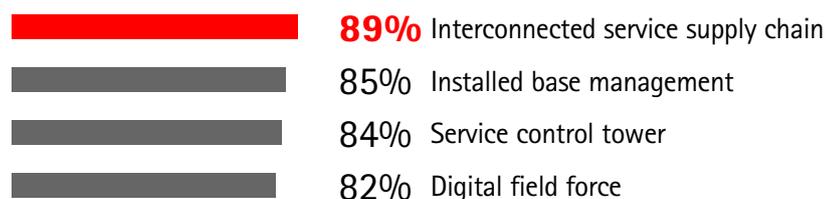
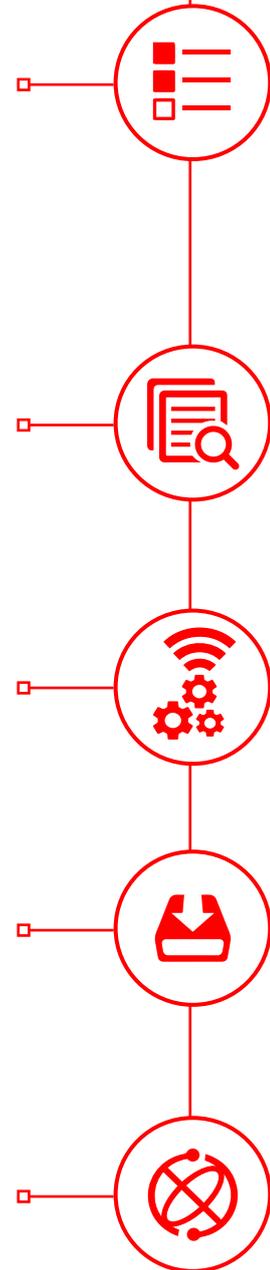


Figure 2: Analytics and planning automation are critical for advanced supply chain strategies.

Source: Accenture Strategy supply chain research



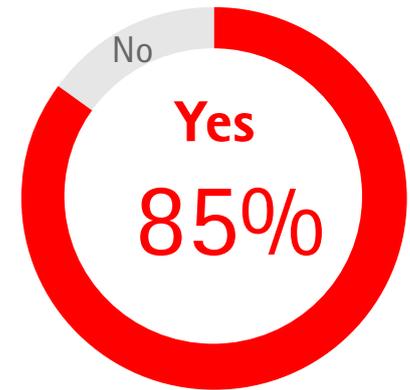
The big question is how to organize? How can you transform your supply chain into one that runs dynamic segments, using complex new capabilities? We believe that the supply chain operating model of the future will move away from traditional structures of plan/source/make/deliver and global/regional/local toward a model that consists of two interconnected worlds (see Figure 3).

The Value Chain Intelligence team consists of highly skilled resources that focus on innovative thinking, network and footprint evolution, overall optimization and management of all players in the ecosystem, while ensuring full control of strategic target setting and operational execution. The Execution Ecosystem, which consists of a mix of in-house and outsourced solutions, is the machine that runs physical, information and financial flows.

Since they recognize that controlling the supply chain does not necessitate full ownership, key industries are already moving toward such an Execution Ecosystem.

Consider, for example, one company in the continuous manufacturing industry, which operates in more than 100 markets worldwide. The company used to organize its supply chain locally, running specific supply chains for each of its business units worldwide. Now, a global team is responsible for strategy definition, strategic projects, partner management and new capability identification, while a global delivery organization manages the end-to-end operation, for both inbound and outbound. The delivery organization leveraged a service catalogue and clear objective framework to define what should be kept in-house and what could be outsourced. The model confirmed that outsourcing was feasible for activities requiring highly skilled delivery people, as well as for commoditized activities. The upshot: uplifts in both transparency and performance.⁵

Has your organization considered outsourcing the supply chain?



Top 5 areas most considered for outsourcing

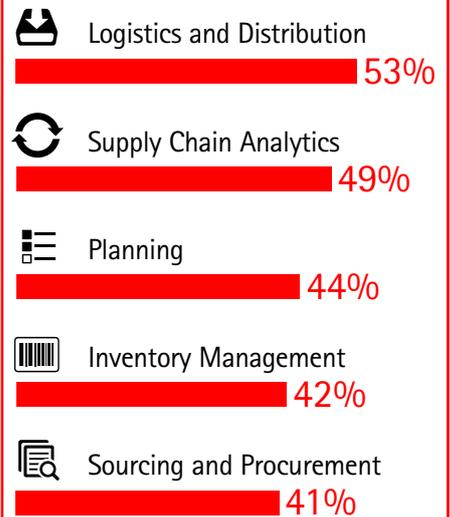


Figure 5: Control of the supply chain does not necessitate ownership.

Source: Accenture Strategy supply chain research

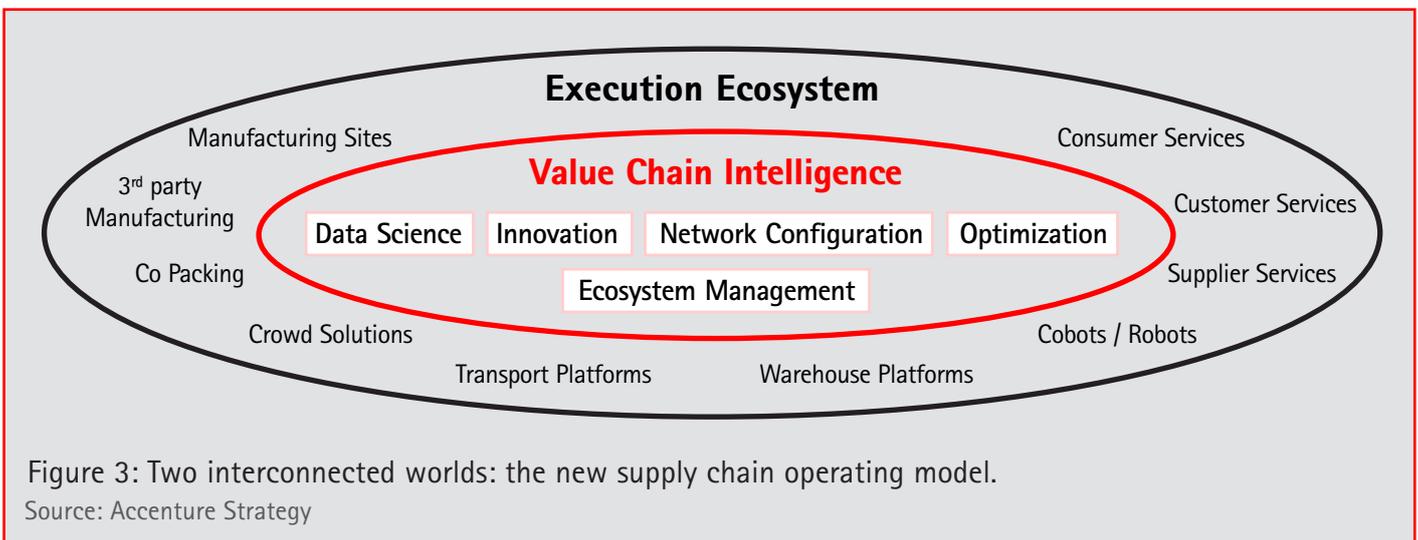


Figure 3: Two interconnected worlds: the new supply chain operating model.

Source: Accenture Strategy

Moving toward a truly differentiated supply chain

Your organization can start to move toward a truly differentiated supply chain by focusing on three key areas:

1. Supply chain configurations that drive value.

In order to understand the service requirements of your customer base, commerce and supply chain should be tightly integrated. Your customers will be best served by defining a limited set of supply chain configurations, while controlling cost. Customer and market dynamics will define how often you update the model. The litmus test is that you are indeed identifying and deploying technologies to support a specific configuration, and not, per definition, a one-size-fits-all.

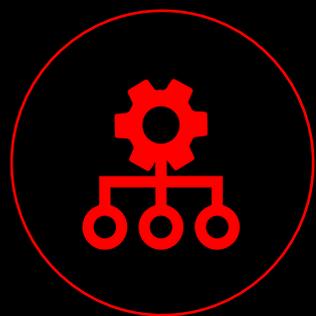
2. The right digital technologies for each configuration.

New and better technologies allow you to optimize your capabilities setup per supply chain configuration. For example, a lean supply chain setup should use highly automated transactional flows, automation in warehouses where financially viable, as well as flex capacity solutions for warehousing and transport. These digital technologies allow for handling seasonality and volatility impacts efficiently. The litmus test is that you only apply those capabilities by segment which will enable delivering the right supply chain response, and nothing more.

3. The right structure and governance.

Future supply chain functions will be highly segmented on the inside but simple on the outside. Regional layers will be removed when they have stopped adding value. Capability development is a continuous activity. The litmus test here is that you have embedded innovation thinking into the heart of your organization.

Increasingly complex markets demand truly differentiated supply chains, and digital technologies are key to keeping them cost competitive and responsive. The impact on supply chain operating models will be profound. By addressing these three areas, you will build a supply chain that enables you to protect market share by supporting all types of new business models. Far from going extinct, your supply chain will be operating at new levels of cost competitiveness and service—the hallmarks of a winning enterprise in the markets of tomorrow.



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Contact the authors

Frank Meuwissen

frank.j.meuwissen@accenture.com

The Netherlands

Markus Hayek

markus.hayek@accenture.com

Germany

Stijn-Pieter van Houten

s.van.houten@accenture.com

The Netherlands

Other contributors

Scott King

scott.king@accenture.com

USA

Mary Rollman

mary.j.rollman@accenture.com

USA

Notes

¹ Accenture Strategy client experience

² Accenture Strategy supply chain research

³ Accenture Strategy supply chain research

⁴ Accenture Strategy client experience

⁵ Accenture Strategy client experience

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