



Harvard Business Review

# supply chain strategy

A Newsletter from **Harvard Business School Publishing** and **The MIT Center for Transportation and Logistics**

## Introduction

In a revealing first-of-its-kind study of top executives' perspectives on supply chain management, Karl Manrodt and his colleagues at Georgia Southern University and Auburn University found that the supply chain is increasingly recognized as a core strategic asset by top corporate leaders. But not everyone perceives it this way. Many senior executives do not yet understand what the supply chain can bring to the strategy table, and even some who do, acknowledge only a fraction of its potential to drive corporate growth and profit.

Why is this? There are several reasons. Supply chain management's development from a means of overseeing transportation and logistics to a discipline encompassing elements of manufacturing, merchandising, after-sales service, and outsourcing is still in process at many organizations. Many supply chain leaders have not been given the opportunity to demonstrate the value of supply chain management. And some supply chain leaders have failed to recognize and seize opportunities when they were present.

In this article, the authors discuss the top-level findings of the study—which was undertaken on behalf of the Council of Supply Chain Management Professionals—and explain how supply chain executives can continue to shape the opinions of top corporate leaders about the role of the supply chain in their organizations.

In many ways, the article sets the agenda for what we'll cover in *Supply Chain Strategy*. In the first few issues, we'll take a deeper look at several of the trends and topics introduced in this article, including the role of supply chains in creating the operating flexibility that gives companies a competitive edge; the critical role of supply chain metrics in communicating with senior management and in providing a “universal language” to connect with far-flung partners and vendors; and the never-ending quest to align supply chain strategy with top corporate strategy.

—Paul Michelman, Editor, *Supply Chain Strategy*



Harvard Business Review

# supply chain strategy

A Newsletter from **Harvard Business School Publishing** and **The MIT Center for Transportation and Logistics**

## Has Supply Chain Management Found Its Seat at the Table?

**A recent survey of corporate leaders finds that supply chain management is increasingly recognized as a core strategic asset—although not yet by everyone.**

**BY KARL MANRODT, BRIAN GIBSON, AND STEPHEN RUTNER**

**T**HOSE WHO LEAD their firm's supply chain practices recognize supply chain management's increasing strategic value to the corporation—they know how superior supply chain management (SCM) can cut costs, drive growth, and move the corporate strategy forward. But 10 years after the terminology of supply chains took root in the business lexicon, a critical question remains: Do senior executives see what supply chain leaders see?

The short answer: they're beginning to. Research conducted by Georgia Southern University and Auburn University for the Council of Supply Chain Management Professionals (CSCMP) indicates that more CXOs (i.e., senior executives such as the CEO, COO, CFO, and so on) are beginning to understand that the supply chain involves more than nonstrategic, labor-intensive operations and unavoidable costs. They are coming to view SCM as an essential tool for competing in ever-changing, intensely contested markets and for charting their organizations' course for the future.

Unfortunately, many CXOs have not yet made this connection. And so with this article, we offer an introduction for both supply chain leaders and members of the C-suite on how they can more effectively cement the connection between SCM and corporate strategy, and communicate

the value the supply chain adds to the organization. This is the essential first step in maximizing the supply chain's value to drive corporate growth and profit.

### Understanding CXO challenges and perspectives

Throughout 2004, we interviewed CXOs, presidents, supply chain executives, and numerous supply chain thought leaders to further our understanding of how corporate leaders view the role of supply chains in their organizations.

Our research uncovered three fundamental themes that have broad relevance to supply chain management:

1. CXOs are searching for revenue-generating opportunities. In the early part of the decade, controlling costs and maintaining revenue were primary organizational goals. Today, the emphasis is slowly returning to growth.
2. CXOs are attempting to build flexible organizations that are responsive to ever-changing environments. CXOs understand that products must be brought to market faster than ever to reduce the risk of obsolescence. They also believe that the flexibility to enter and exit markets quickly is a critical competitive weapon.

3. CXOs are recognizing the need for supply chain skills. The ability to build a responsive organization that achieves profitable growth is a major challenge. A growing number of CXOs realize that successfully addressing this challenge requires specific skills, many of which are supply chain related. However, numerous organizations do not have individuals in place with the requisite supply chain skills and the appropriate authority to control supply chain processes. Indeed, in several interviews, CXOs identified situations where a gap in supply chain expertise was limiting their ability to implement corporate strategy.

Supply chain leaders should be pleased and emboldened by these findings—each represents an opportunity to demonstrate new value and further cement the connection between supply chain strategy and corporate goals. But our research also found something else: supply chain leaders are not taking full advantage of opportunities to demonstrate value. And they are not always effective in communicating the value they do produce.

The result? A lingering disconnect between the actual value created by the supply chain and how most CXOs perceive that value.

### **The three keys to shaping opinions of SCM**

To shape CXOs' perception of supply chain management, supply chain executives must not only provide greater strategic value, but they must also market their impact and accomplishments more effectively—and do so in terms that senior managers will respond to.

Our research identified three practices essential to accomplishing these goals:

#### **1. Identify and cement the alignment of supply chain processes with corporate goals.**

Supply chain managers must base their strategies upon their organization's key objectives, compelling events, and burning issues. This may sound obvious, but many interviewees cited disconnects between supply chain practices and strategic objectives in their organizations. Supply chain leaders will have little to market to CXOs if they are not advancing strategy.

#### **2. Address CXO challenges and concerns.**

The challenges faced by CXOs today often have significant supply chain components—although CXOs may not always recognize this. Whether the issue is profitable growth, globalization, security, or Sarbanes-Oxley compliance, supply chain managers must get out front and assess how they can positively contribute to the solution.

The key to making a positive contribution is twofold. First, supply chain managers have to prepare for action. It is critical to build a foundation of effective logistics processes and assemble a core group of talented people so that opportunities can be exploited. Second, supply chain managers must identify appropriate opportunities and assume some risk. As Joe DeSarla, vice president—integrated supply chain at Honeywell,

commented, “To gain credibility, you must take on something that is critical to your business's success and that perhaps nobody else is willing to tackle. Show what results are possible and what you can do.”

#### **3. Explain the impact of SCM in CXO terms.**

Study participants emphasized the need to put supply chain accomplishments into a context that CXOs can appreciate. Supply chain managers can better communicate the value SCM brings to the organization if they speak the same language and use the same metrics as CXOs.

Some organizations translate supply chain language by explaining improvements to CXOs in terms of their effect on key financial indicators—the income statement or return on assets. Others target the impact that effective supply chain performance has on customer purchase intentions. For example, one supply chain executive shows how higher fill rates and in-stock percentages produce fewer missed sales opportunities and higher customer confidence in the organization.

#### **Showcasing the value of SCM**

Interviewees stressed the importance of taking advantage of situations that could showcase the strategic impact of supply chain management in addressing top organizational challenges. Such opportunities—what we call “trigger events”—may at first appear to be few and far between. In reality, they occur often, and they represent critical opportunities to develop interest in SCM and support for

**Supply chain leaders are not taking full advantage of opportunities to demonstrate value. And they don't always effectively communicate the value they do produce.**

supply chain initiatives. Though supply chain executives can't control when these events occur, they can control how they take advantage of them. Supply chain executives—and CXOs as well—need to know what a trigger event looks like and be prepared to take advantage of the opportunities it may provide.

Trigger events typically fall into one of the following four groups:

1. Compelling events
2. Emergence of a strategic visionary
3. Emergence of a change agent
4. Serendipity

A **compelling event** is an out-of-the-ordinary occurrence that acts as a catalyst for change in the organization. Internal events such as merger-and-acquisition activity, new technology implementation, or new market entry often require changes in supply chain processes and capabilities. External events, including labor disputes, service disruptions, and regulatory changes, demand innovative solutions and supply chain flexibility. Effective, timely responses to compelling events via supply chain initiatives resonate clearly with CXOs, who then gain a greater appreciation of the function.

Such was the case at a company that develops and markets innovative, high-quality products for storing, moving, and using digital content. Originally a manufacturer focused on industrial applications, the company shifted to a consumer electronics emphasis. With this change came offshore contract manufacturing and a concentration on retail supply chains.

Because of these vastly different operating environments, the organization's very survival now depends on its ability to effectively manage the flow of short-life-cycle products across extended supply chains. The company has had to quickly develop SCM competencies to handle the vendor-managed inventory requirements, service-level expectations, and radio frequency identification (RFID) demands of its primary customers. While this compelling event has posed a distinct challenge, the organization's extended commitment to SCM has helped it respond appropriately and keep pace with the competition. It has also cemented the critical link between the strategic use of supply chains and organizational success.

**The takeaway:** *Compelling events require quick and decisive action by supply chain leaders. It's essential for supply*

*chain executives to be aware from the earliest stages how a shift in conditions or strategy will affect the supply chain and, perhaps more importantly, how the supply chain can help get the organization to its new desired state.*

Sometimes from the top level of the organization a **strategic visionary** emerges who recognizes the potential value of greater supply chain capabilities. This person foresees a future challenge or issue (e.g., capacity constraint, growth opportunity) that supply chain managers can address if given the proper resources, authority, and support from the highest levels of the organization. Often, this person has witnessed other organizations using SCM to build competitive advantage and becomes the internal champion of similar efforts.

After experiencing weaker than historically achieved profitability, RadioShack sought to create organizational dissatisfaction to facilitate needed changes. One area identified as needing change was the supply chain. Recognizing that it was fragmented and being managed by different parts of the organization, the COO created a companywide strategic supply chain project. His goal was to bring to light inefficient practices, to show how everyone had a hand in the problem, and to provide the motivation to change.

Outcomes of the project included the development of companywide key performance indicators; the use of strategic sourcing tools; efforts to simplify, rationalize, and automate supply chain processes; and the creation of a new role, executive vice president of supply chain management, with the backing to achieve the supply chain improvement mandate.

"This was a critical point," says Mike Kowal, senior vice president of supply chain management at RadioShack. "Everyone at the senior level was involved. No one could run and hide. The goal was to show the internal problems—and fix them."

**The takeaway:** *The emergence of a top executive who understands the value of supply chain management presents a powerful opening for supply chain leaders to flex their strategic muscles. It's important for supply chain leaders to get involved in high-level discussions as soon as possible, helping to set the agenda for this rich opportunity to transform the supply chain's role in the organization.*

**Sometimes from the top level of the organization a strategic visionary emerges who recognizes the potential value of greater supply chain capabilities.**

Another trigger event is the addition of a supply chain **change agent**. Typically, this is an outsider with significant logistics, supply chain, or operations experience who is brought in at the vice president level or above to institute major changes and enhance supply chain processes. Such individuals assume the roles of supply chain champion, strategic visionary, and change agent. Their external experience allows them to bring a fresh perspective to the current situation, ask critical questions, and make the case for transforming supply chain capabilities in both financial and operational terms.

Over the last several years, ConAgra Foods has reshaped its portfolio of businesses through a series of strategic divestitures of volatile, low-margin, commodity-based businesses. Today, more than 80% of the company's sales are generated by branded and value-added food products. To realize fully the potential of its brand portfolio, the company has undertaken a number of enterprisewide initiatives, including the development of a vastly reshaped logistics network. The CEO of ConAgra Foods, recognizing the need for one individual to control and coordinate the newly structured logistics organization, created a new position: senior vice president of integrated logistics. The CEO then went outside the company to hire a supply chain professional with food industry experience.

In 2003, he employed the same technique when hiring the current integrated logistics senior vice president, Rick Blasgen. In addition to running ConAgra Foods' logistics operations, Blasgen represents the logistics perspective as a member of an interdisciplinary team at ConAgra Foods that is working to transform multiple channels and order systems into a single system that consolidates customer requests into "one order, one invoice, and one delivery." This initiative is among several that promise to create efficiencies for the company and enhance customer and consumer satisfaction.

***The takeaway:** The arrival of change agents sounds a clear message that top leadership has already taken a keen interest in the role of supply chain management. The opportunity is ripe for new supply chain leaders to make an indelible mark on their companies by rigorously executing on the CEO's vision. And a few quick wins can make a significant impact.*

Finally, **serendipity** can serve as a trigger event. Often,

the opportunity to elevate SCM within the organization arises more by happenstance than plan. The critical issue for supply chain managers is not how these lucky opportunities surface, but whether they are ready for them. If luck is best defined as "preparation meeting opportunity," then supply chain managers must make sure that they are well organized, ready, and in position to seize such opportunities and make supply chain improvements.

While serendipitous events can't be manufactured, they can be leveraged. Honeywell International hired David M. Cote as CEO in 2002. Cote led cycle-time-reduction initiatives in his previous organization and maintains an intense focus on timely deliveries to customers in his CEO role. Any operation that is in the bottom 10% of the organization for on-time delivery performance receives a personal letter from the CEO. This focus creates a legitimate rallying point around which SCM executives can promote the value of their efforts and initiatives to senior executives across the organization.

***The takeaway:** Serendipitous events can take any number of forms. Because they come in unlimited varieties, they are the most difficult to see coming and to prepare for. To take advantage of the unforeseen, supply chain leaders must condition themselves to be on constant lookout for opportunities to demonstrate new value.*

Most of the organizations studied in this research experienced more than one trigger event, with multiple events sometimes occurring simultaneously. Developing the capability to recognize trigger events quickly, seize the opportunities that they present, and take appropriate action is critical to the development of supply chain excellence and CXO recognition. ♦

---

**Karl B. Manrodt** is an associate professor at Georgia Southern University. He has written two books and more than 50 articles on logistics, strategy, customer service, and technology in the supply chain. His research can be found in leading logistics journals. **Brian Gibson** is an associate professor at Auburn University. His articles regarding logistics, transportation, and human resource management issues have appeared in more than 40 supply chain-related publications. **Stephen Rutner**, associate professor at Georgia Southern University, has focused his research efforts on metrics and customer value in the supply chain. He has worked in the area of strategic alliances and partnerships in transportation and has made over 50 presentations on these topics.