goetzpartners

STRATEGY I M&A I TRANSFORMATION

GETTING MAXIMUM VALUE OUT OF DIGITAL SUPPLY CHAINS

WHITE PAPER Five essentials for redesigning operating models

- **Lagging behind:** Many companies have yet to transform their supply chain operating model
- **Boosting performance:** Digital supply chain transformation drives operational excellence
- **From data to action:** Building the right teams for advanced analytics
- **Accelerated transformation made possible:** Five building blocks to jump the S-curve

THE FIVE ESSENTIALS

Too many businesses are leaving money on the table because they're still using yesterday's supply chain operating models. Here's how they can fix that.

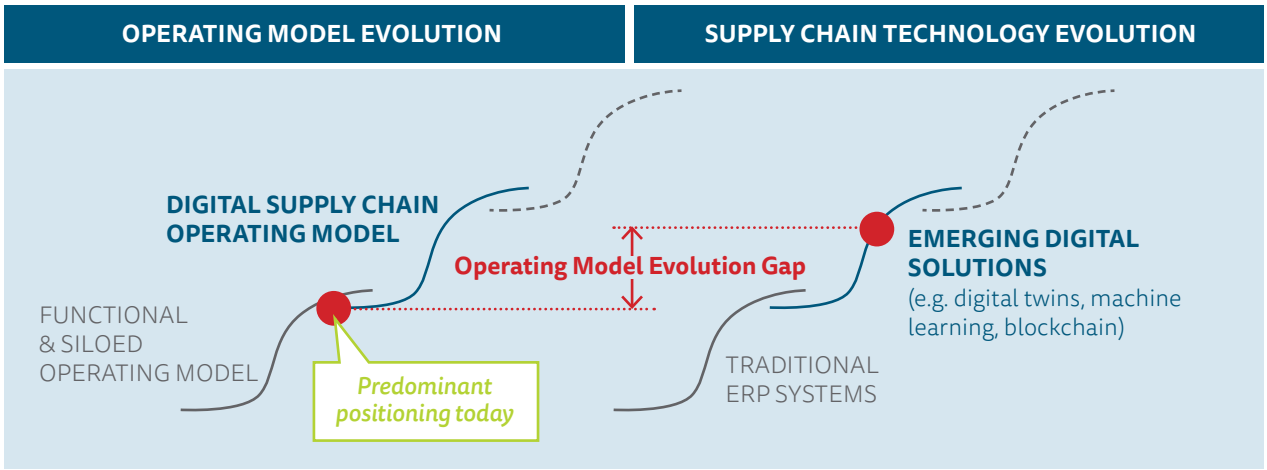
Many of today's supply chains are no longer fit for purpose. In an increasingly digital world, many companies still rely on supply chain operating models from an earlier era. They have not moved far beyond the ERP solutions introduced in the 1990s.

THAT IS A MAJOR MISTAKE.

Although dependence on obsolete operating models may not have sudden catastrophic consequences, it is effectively a death by a thousand cuts. With every financial quarter, companies that have yet to fully digitalize their supply chains lose more and more opportunities. goetzpartners has identified negatives for both the top and bottom line – among them procurement costs that are **20% higher** than they could be, inventory costs **30% above** what is optimal today, and times-to-market that can be **30% too slow** compared to what's possible in a digital age.

Essentially, digital solutions are jumping the S-curve while supply chain operating models have yet to make that jump (see figure). Putting it another way: businesses now can take advantage of a widening array of advanced analytics, new manufacturing and logistics technologies as well as more integrated and intuitive software. But they won't actually become smarter, faster and more agile if they don't transform their supply chain operating models at the same pace.

SUPPLY CHAIN OPERATING MODELS AREN'T TRANSFORMING FAST ENOUGH: THE OPERATING MODEL EVOLUTION GAP



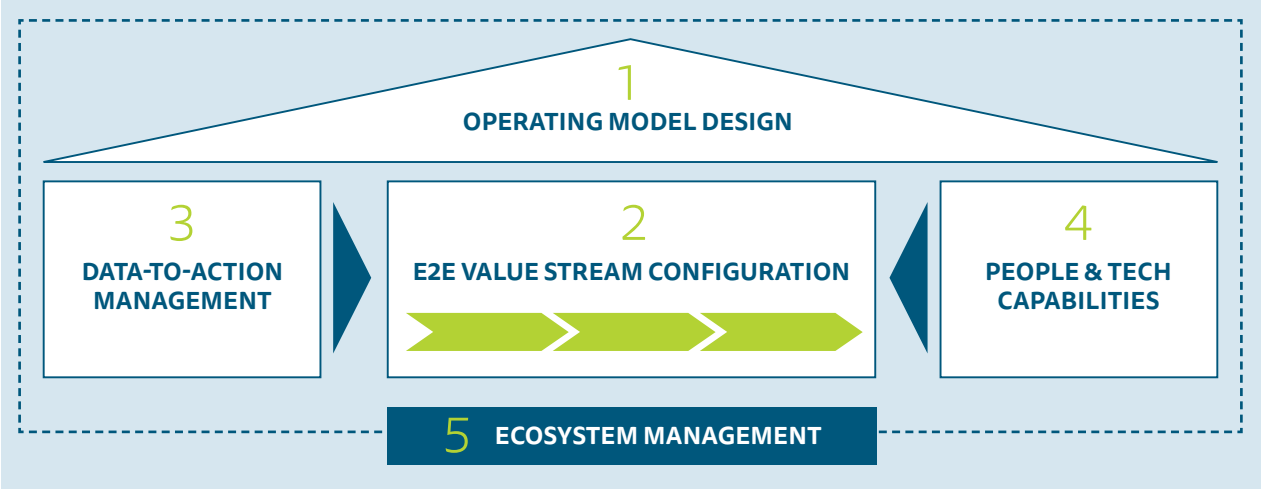
Source: goetzpartners

That transformation is a very big task, to be sure. The enormous challenge of breaking down long-held silo structures or the difficulty of reconfiguring an entire supply chain rather than focusing on individual departments alone for instance, should not be diminished.

But the transformation is absolutely possible. goetzpartners' experience with a wide range of businesses has found that five building blocks provide business leaders with a clear, easily communicated framework and with many of the principles needed to ensure that their supply chain operating models can quickly jump the S-curve.

Let's take a look at each of those building blocks in turn.

FIVE BUILDING BLOCKS ENABLE RAPID TRANSFORMATION OF SUPPLY CHAIN OPERATING MODELS



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1 REDESIGNING THE OPERATING MODEL

The transformation of a supply chain operating model begins by defining where and how the most value-adding work is done and what capabilities are needed to drive it. That value is defined by customers. For example, if a business caters to customers who are highly sensitive to price, it can give itself more leeway by adopting lean manufacturing approaches at scale to cut costs significantly. But if customers' needs differ significantly across markets, the supply chain could be designed so that differentiating features are added later, thus building in flexible decision-making processes at a later stage in the supply chain.

As supply chain complexity mounts, supply chains must operate as smoothly as possible. The right organizational structure can make a huge difference here. Supply chains can be organized by products, regions, customers, or functions. Moreover, metrics and governance need to reflect the goals of the supply chain. Decision-making should be efficient, and metrics should cascade from overall objectives such as customer satisfaction levels or consistent on-time delivery of products and services.

At the same time, the operating model design needs to detail what capabilities will be needed in order to deliver future value at higher levels. It makes a substantial difference whether companies want to put a bigger focus on driving manufacturing excellence, monetizing data or re-inventing their delivery system to gain a competitive edge. Their capability development roadmap needs to be fully in line with their strategic value proposition, and it needs to encompass both people and technology capabilities.

2 BUILDING AN END-TO-END VALUE STREAM CONFIGURATION

Once the company has defined the customer value that the supply chain will provide, the organization needs to determine how it will be set up to deliver that value. Siloed structures can slow the flow of information and the pace of decision-making. It is crucial to look instead at the entire stream of activities all together, as an end-to-end process.

For example, in a consumer goods company, teams may work fully end-to-end and independent within one specific product category, ensuring a tight and integrated process from a product's proof of concept to delivery at the point of sale. This can be much more efficient than the more common scenario of marketing setting sales targets while manufacturing and procurement set their own goals without considering the targets of the other units.

Fundamentally, end-to-end values stream teams manage the entire process from product concept to shipping. These teams operate within strategic boundaries set by management, but autonomously, and are granted sufficient decision rights to assure fast decision-making. The supply chain organization will need clear role definitions, a culture that promotes information sharing and – most importantly – shared goals in and among teams.

3 TRANSLATING DATA INTO ACTION

Although today's computing power can analyze seemingly limitless amounts of data, most companies struggle to act on the insights produced. The central challenge is the typical organization's overall approach to data, which too often narrowly focuses on initiatives within a single function, missing out on the knowledge that could be gleaned from data outside that function. The greatest value of a well-constructed analytics initiative is the power of analyzing multiple data sets. This is especially true when customer knowledge is fragmented across multiple systems – from point-of-sale data to third-party market research.

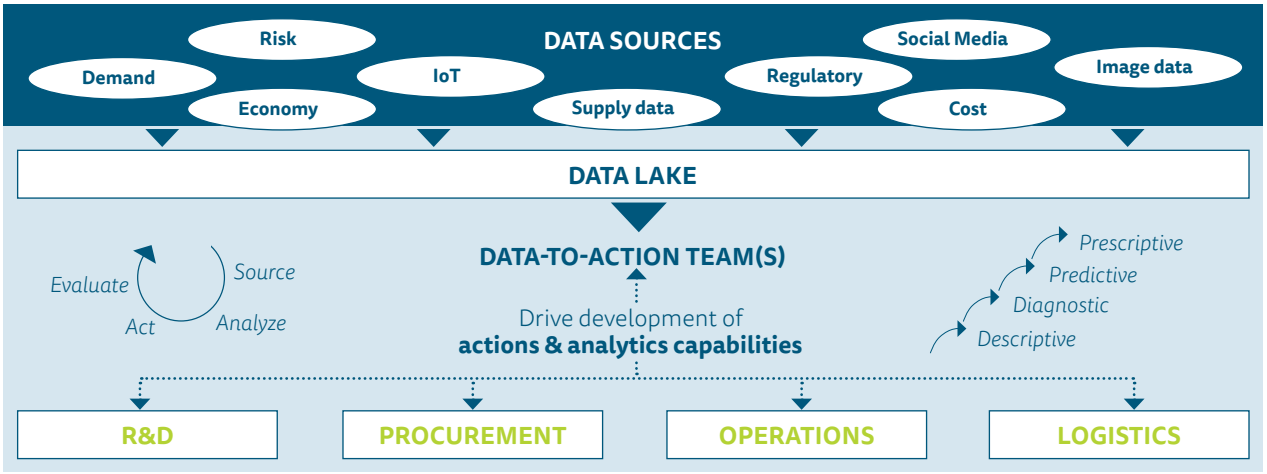
Best-in-class analytics operations use a formal data-to-management approach. Teams comprised of data scientists and business experts form the nucleus of a capability that uses advanced analytics to run data-driven decisions. The teams work closely and iteratively with R&D, procurement, and other supply chain functions to assure that new analytics opportunities are in sync with the company's most pressing business needs.

CASE STUDY

LARGE ENTERTAINMENT COMPANY – IMPROVING CUSTOMER TARGETING WITH DATA MANAGEMENT

A major entertainment company provides a good example. Data on its customers was scattered between systems and different units in the company. By using the data-to-management approach, it had the resources and commitment to pull data from its legacy systems and create a single view of its customers. It used that view to sharpen the targeting of its advertising, which significantly increased response rates. The company also increased customer satisfaction by reducing the number of irrelevant ads it produced.

A DATA-TO-MANAGEMENT APPROACH HELPS ACCELERATE ACTION



Source: goetzpartners

4 EXTENDING AND EXPANDING PEOPLE AND TECHNOLOGY SKILLS

goetzpartners has found that many supply chain organizations can lack more than 50% of the in-house people and technology skills they will need in the next two years – differentiating capabilities such as digital manufacturing and machine learning. It is critical to identify and develop the skills of employees, and hire subject matter experts, who can spearhead the transformation of the supply chain. At the same time, companies need to equip them with deeper knowledge of the industry, the business processes most relevant to the necessary capabilities, and the data analytics needed to support effective decision-making.

Concurrently, many businesses also have to get better at identifying, selecting and adopting those emerging technologies that will give them most advantage most quickly. This applies all across the supply chain; it is just as important on the manufacturing floor as it is in the planning office or in logistics hubs. The need goes further; it is also crucial to be able to pilot, launch and then rapidly scale those technologies for maximum impact. Combining a solid understanding of what solutions are available with future business needs, this under-appreciated capability is not the province of the IT department alone. It is a "muscle" that every one of the company's business leaders must develop, strengthen and continually exercise.

CASE STUDY

PROCTER & GAMBLE – PARTNERING FOR FAST PRODUCT DEVELOPMENT

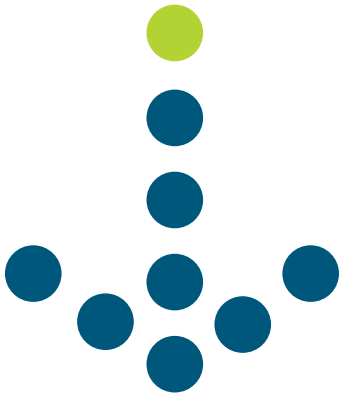
Procter & Gamble was able to bring a new lip balm to market very quickly just when the market for that product category was expanding. The consumer-goods giant leveraged its Connect and Develop co-innovation platform, working closely with a partner company to develop the product far faster than it could have done if it had tried to do so itself.*

5 IDENTIFYING AND MANAGING THE BUSINESS ECOSYSTEM

Research shows that high-performing organizations are more than two times as likely to regularly integrate external stakeholders into their business processes as their average peers.** These companies understand the value that a broad network of partners can create. Identifying, developing and managing an ecosystem gives a company access to resources, knowledge and capabilities it would not otherwise possess.

* https://www.ideaconnection.com/open-innovation-success/An-Example-of-Open-Innovation-Success-with-Procter-Ga-00641.html

** https://hbr.org/2018/05/how-to-make-sure-agile-teams-can-work-together



START MAXIMIZING THE VALUE OF DIGITAL SUPPLY CHAINS WITH A REDESIGNED OPERATING MODEL

Nobody likes to admit to lost opportunities. But that's the reality that more and more business leaders must face up to. Too many companies remain focused on single instances of retrospective data instead of continually analyzing integrated and forward-looking sets of data. Moreover, a lot of them are blind to the concept of a business ecosystem and the potential that can come with extended, continual involvement with other organizations. And too few have the systems to build technology capabilities or the skills to support them.

The good news is that all of those drawbacks can be resolved quite rapidly. The five building blocks described here are a proven path to enable supply chain operating models to jump the S-curve. Today is a good day to begin discussing how to act on them.

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