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BY RICHARD KAUFFELD, ADAM MICHAELS,

AND CURT MUELLER

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Companies that align their operations to their strategy unleash superior performance.

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Illustration by Keith Negley

When a company's supply chain capabilities are directly aligned with its enterprise strategy, the results tend to be superior performance and a strong market position. Among the organizations that have demonstrated this is the Girl Scouts of the USA, which annually funds about two-thirds of its operating costs by enlisting its members, mostly girls age 9 to 14, to sell its well-known cookies. In 2011, the organization simplified its product line from 28 varieties to 11, with special emphasis on the six most popular items (Thin Mints, Samoas, Tagalongs, Trefoils, Do-Si-Dos, and Lemon Chalet Crèmes). Variety beyond a handful of perennial favorites did not matter to customers who were primarily looking to support their community Girl Scout organization. Simplicity enabled the Girl Scouts to improve the effectiveness of a supply chain strategy that depends on a distributed, young volunteer "workforce" that comes together for only a few months annually. Suddenly, the tasks involved in this once-a-year capability—allocating product among troops and individual Girl Scouts, tracking sales to replenish the troop's inventory, and getting the right varieties of cookies to each participant—were all much easier. Not only did the change allow the Girl Scouts to be more effective, focusing their efforts on sales techniques rather than balancing inventory, but it also taught the young sales force "about supply chain issues and the need for efficiencies," as Denise Pesich, Girl Scouts vice president for communications, said in an article on the *Atlantic* website.

The Girl Scouts concentrated on simplifying their supply chain to better support their mission, but leaders at companies such as Procter & Gamble (P&G), Coca-Cola, Amazon, or Walmart face a different form of the same problem: the sheer complexity of supply chain management for multi-category, multi-market enterprises. Their need to align supply chain solutions to more effectively support their company's strategies is even more critical. And yet, a true strategic fit between enterprise and supply chain strategy is all too rare in the business world. Few companies have been able to marry their strategic goals with their operational capabilities. Their supply chain leaders struggle with a myriad of often conflicting demands from marketing, sales, engineering, manufacturing, and procurement. With little agreement across the organization—and no way to make or manage trade-offs—issues like cost, customization, speed, and price are rarely addressed in an effective cross-functional way.

Conversely, when a company is strategically coherent, its supply chain can be a linchpin of superior performance. For example, clothing retailer Nordstrom uses extremely sophisticated inventory and product life-cycle management capabilities to move products through its channels in half the time of Macy's or Saks Fifth Avenue, cycling through each season's new fashions more efficiently and effectively than its competitors. This is a major factor in Nordstrom's consistent ability to outpace its rivals in profit margins and EBIT as a percentage of sales.

Would Nordstrom's supply chain model work for your company? Probably not. Every successful company should have an operational design and management style tailored to its own purpose and strategy. At Booz & Company, we often divide strategies into categories based on archetypal approaches to the market, which we call puretones. These are some of the most commonly found puretones in global enterprises.

- **Innovators** are known for introducing new and creative products and services to the market; they need to balance their forward-looking creativity with practicality and user acceptance. Apple, 3M, P&G, and Honeywell are noteworthy examples.
- **Premium players** offer high-end products or services and superior customer service. Their differentiated position allows them to demand a higher price. Success as a premium player is not as easy as it might seem; it requires discerning and managing the costs of increased quality and attentiveness. Nordstrom, Herman Miller, and BMW are successful premium players.
- **Customizers** make use of customer intelligence to offer tailored products or services to particular segments of their market. They can flexibly adapt to changing demand. The challenge they face is balancing this flexibility with profitability. Well-known customizers include Dell, Burger King ("Have it your way"), and direct-sale cosmetics firms like Avon and Natura.
- **Green companies** are an increasingly common form of reputation player—building on the principle that sustainability is good business. They stake out a customer base by addressing the supply chain needs of low-carbon-emissions and toxin-free products; they are ready to invest in differentiated technologies. They must learn to manage a green supply chain at competitively low costs. Some differentiated green companies are GE, Seventh Generation, and automakers such as Toyota and GM (those building businesses around hybrid or electric cars).
- **Aggregators** combine offerings from a variety of sources, providing people the convenience of a one-stop solution. They may manufacture some products and outsource or subcontract for others. Their concerns are related to differentiation: They must ensure that the value of their own contribution is recognized. Some examples of aggregators are Amazon, eBay, and W.W. Grainger.

Richard Kauffeld
richard.kauffeld@booz.com
is a partner with Booz & Company based in New York. He develops supply chain and channel strategies and supporting capabilities to enable growth and efficiency for consumer products companies and retailers.

Curt Mueller
curt.mueller@booz.com
is a partner with Booz & Company based in Chicago. He specializes in value creation through supply chain strategy and building operations capabilities for consumer, retail, and industrial companies.

Adam Michaels
adam.michaels@booz.com
is a principal with Booz & Company based in New York. He specializes in product launch strategies and supply chain solutions for consumer product manufacturers and media companies.

For an interactive online tool that can help you diagnose the value of your supply chain in light of your company's strategy, see www.booz.com/SCCprofiler.

Exhibit 1: **Supply Chain Models as Fit for Purpose**

The essential task in developing a capabilities-oriented supply chain is to match the supply chain's basic characteristics (represented by the 12 models at the left) against your company's strategy (represented by the puretone archetypes at the right).

		PURETONE VALUE PROPOSITIONS					
SUPPLY CHAIN MODEL AND CHARACTERISTICS	SAMPLE METRICS	Innovator	Premium Player	Customizer	Green Company	Aggregator	Value Player
Go-to-Market Responsiveness to customer demand	"Profit to serve" and other metrics used in pricing; revenue growth by target segment	●				●	
Product Life Cycle and Launch Time Ability to introduce new offerings quickly and easily, and willingness to cannibalize older versions	Average product development time; average product life cycle; percentage of custom content (vs. shared) in the product	●	●	●			
Complexity Management Modular mix of products, tailored processes and material flows, minimal redundancy and confusion	Percentage of revenue from items introduced within past three years; average revenue and cost per item		●	●			●
Process Technology Investment in the latest information and manufacturing equipment and software	Rework costs or time as a percentage of total output; yield percentage; year-over-year labor cost reduction		●		●		
Make-vs.-Buy Decisions Reviews of production capabilities to assess whether in-house or external manufacturing is optimal	Return on investment cost; time between sourcing reviews	●				●	
Manufacturing Footprint Arrangement of facilities to complement important markets, maximize serviceability, and reduce costs	Manufacturing cost per unit; overall equipment effectiveness and utilization; logistics cost per unit; quality scores by location				●		●
Distribution Network Maximum efficiency, speed, and flexibility in delivery and inventory movement	Order and delivery cycle times; proportion of service that is "on-time in full"; cost-to-serve (as a percentage of revenue)			●		●	●
Inventory Planning Sales and operations planning to facilitate inventory and material replenishment	Internal and external order fill rate; forecast accuracy; error rate			●			
Strategic Sourcing Working relationships with optimal suppliers to stabilize production	Supplier performance (including on-time performance); right quantities and conditions; price and cost reductions over prior year				●	●	●
Continuous Improvement Efforts to increase operational excellence, including lean and Six Sigma methods	Production error rate; average unit cost; yield; rework as a percentage of total production; increase in overall equipment effectiveness					●	●
Network Policies External distribution and logistics practices, focused on improving efficiency and boosting service levels	Order and delivery cycle times; customer satisfaction scores				●	●	
Process Effectiveness and Execution Overall supply chain processes	Overall equipment effectiveness and quality; availability; changes in quality rating		●	●		●	

Source: Booz & Company

• **Value players** develop low-cost supply chains and pass savings on to customers. They may also leverage savings to make additional investments elsewhere. They soon discover that to avoid being commoditized, they cannot let low cost affect quality or service. Ikea, Walmart, Southwest Airlines, Tata Motors (maker of the Nano), and McDonald's are all value players.

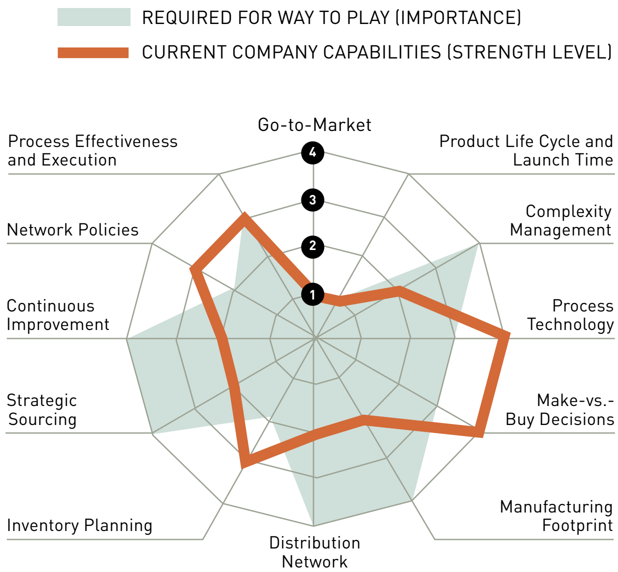
In real life, of course, every successful company is unique. The most successful strategies tend to be combinations of puretones, representing highly distinctive ways to play in the market. Amazon's value proposition, for example, involves being an aggregator, a value player, and an innovator. It sells products from extremely varied sources at very low prices, using its own form of online marketing and innovative logistics. Elements of all three puretones are essential to its strategy, and are reflected in its value chain.

For each of the puretone archetypes, a different mix of supply chain characteristics is required. Thus, in designing your supply chain, it's helpful to know which puretones represent significant elements of your company's way to play. Typically, a company can focus investment on only three to five ways to improve its supply chain at one time. Exhibit 1 shows 12 of these opportunities for leverage, and the puretone value propositions best matched to them. Companies don't have to excel at everything; they can determine the kind of organization they want to be and then develop a supply chain agenda that matches this aspiration.

If your company is a value player, you will benefit from supply chains that emphasize complexity management; make sure every new product conforms to existing manufacturing processes and, thus, can be offered at a relatively low price. Manufacturing footprints should also be a priority. Place factories in developing nations, and adopt less-expensive logistics approaches, such as railroads and container shipping. Under the rubric of strategic sourcing, cultivate long-lasting supplier relationships, with high levels of cooperation, so all stages of the supply chain can be constantly improved. Indeed, continuous improvement should be an overall area of emphasis: Implement lean manufacturing techniques in all your facilities. Unfortunately, many value players have organized their supply chains in other ways (*see Exhibit 2*).

Exhibit 2: **A Value Player Out of Sync with Its Supply Chain**

This self-analysis of the supply chain of a real company, which preferred to remain anonymous, shows how the skills needed to compete as a value player (shown by the gray shading) did not match its existing strengths (the orange line). Without correcting this mismatch, the company could not realize benefits from supply chain improvements. The numbers represent the strength level or importance of each skill, as judged by company executives (4 is the strongest).



Source: Booz & Company

Alignment between your strategy and your supply chain has one final benefit. Because each form of leverage is associated with different metrics, it gives you an effective way to measure the ongoing health of your supply chain. Keeping track of the right metrics is crucial, helping to differentiate you from competitors on a daily basis. As an enterprise with an eye on its value proposition, you can reap substantial rewards from having this sort of very capable supply chain. +

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