Supply Chain & Operations
Leverage the backbone of your business as a source of competitive advantage
Introduction

The supply chain is a very important part of the total value chain of a company and a significant source of competitive advantage. Business leaders have come to understand that their supply chain is the backbone of their business and an enabler for their business strategy. Organisations are moving away from focusing their supply chain efforts on functional excellence to leveraging their supply chain as a strategic capability.

The supply chain service offering of Deloitte consists of four core capabilities that form the functional backbone of the supply chain, and a set of integrated perspectives to manage the supply chain and make strategic decisions. The Deloitte Supply Chain & Operations offerings aim at leveraging your supply chain as a source of competitive advantage.

The core capabilities encompass supply chain planning, sourcing & procurement, operations and logistics & distribution. These are the main building blocks of an effective supply chain, covering functional knowledge to run business processes, instruments to make tactical decisions, and frameworks to make strategic trade-offs. Through the strategic perspectives, an integrated approach is used to help you allocate resources and make structural long term decisions across the core capabilities to ultimately realise business unit objectives. Deloitte has expertise in defining an overall supply chain strategy, setting up a suitable supply chain operating model and network, building in resilience in your supply chain and securing its tax effectiveness.

“Not only have business leaders come to understand that their supply chain is the backbone of their business, it is also considered as an enabler for their business strategy.”

Within the structural boundaries set by the strategic decisions, the value added by the supply chain core capabilities can be maximised by taking several management perspectives into account. Each of the management perspectives brings a unique yet complimentary way to look at the supply chain, comprising distinct manners of measuring and reporting, of taking actions and offsetting objectives. These service offerings are focused on achieving operational excellence, optimising cost-to-serve, minimising working capital, managing proactively through analytics and effectively mitigating supply chain risks.

Deloitte assists clients across all industries, private and public, to develop and implement strategies and operational improvement projects, within their own organisation as well as within their extended supply chain network. Your organisation will benefit from Deloitte’s industry knowledge, focus on result and integrated approach, which covers the people, process and system dimensions.

**Strategic Perspectives**

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**Management Perspectives**

| Operational Excellence | Cost-to-serve | Working Capital | Performance & Analytics | Risk |
Optimising your supply chain is about creating the added value for your customers that delivers the highest sustainable return on your operations. Deloitte offers services related to the core supply chain capabilities, plan-source-make-deliver:

**Supply Chain Planning**

Supply chain planning aims at predicting future requirements to balance supply and demand. From a strategic perspective, companies have to take into account the available capacity in their network, the required flexibility to react to demand signals or supply chain risks and the alignment between organisational departments, in order to be able to plan their supply chain effectively.

The extended supply chain (including suppliers, co-manufacturers/co-packagers) needs to be fully integrated to allow leveraging of all available assets and deliver maximum value against optimal costs. Companies should thus build integrated supply chain planning processes ranging from the long-term strategic planning, sales & operations planning, to the day-to-day operational planning.

From a management perspective, effective execution of your planning cycle faces the ongoing challenge of achieving the right demand-supply balance with an optimal inventory level, by applying intelligent analytics features and by taking the appropriate risk management decisions.

Deloitte offers end-to-end Supply Chain Planning capabilities to help you address these strategic and operational challenges. This results in a synchronised supply chain, both internally and externally, with your customers and supply chain partners. Improved supply chain planning generates benefits such as reduced inventory levels, lower cost of goods sold, shorter planning cycle times, improved customer service and better forecasting ability & market responsiveness.

The Deloitte Supply chain planning offering includes the following services:

- Supply chain planning capability assessment and opportunity identification
- Integrated supply chain planning strategy, vision and conceptual design
- Supply chain planning process, technology and organisation design covering the following areas:
  - Sales and operations planning
  - Demand planning (including collaboration with customers)
  - Product lifecycle planning
  - Supply planning (including replenishment and production planning)
  - Inventory planning
  - Supply chain planning performance management

![Figure: Integrated supply chain planning](image-url)
Sourcing & Procurement

Sourcing refers to the value added process of selecting suppliers and the respective cooperation scheme. It must be supported by advanced analytics and market intelligence, supplier performance information and a concrete and well-developed strategy. On the other hand, procurement refers to the transactional aspect of the relationship and should be streamlined as much as possible in order to achieve efficiency.

From a strategic perspective, you need to decide on your sourcing and procurement strategy. Looking into a sustainable sourcing and procurement strategy implies a thorough evaluation of strategic core decisions. Defining possible sources of supply, deciding upon category or commodity strategies and evaluating outsourcing opportunities are a starting point when redesigning the sourcing and procurement function.

Furthermore you need the appropriate design of your procurement organisation. Optimal organisation design leads to prompt, reliable and cost-effective fulfilment of internal clients’ needs. Clear roles and responsibilities, solid governance and reporting lines need to be set up.

Management of the sourcing and procurement function aims for transactional efficiency and achieving the lowest possible cost, while minimising supply risk. This can be achieved with the help of strategic sourcing, supplier management and procurement optimisation.

Strategic sourcing strategies can be as wide as rationalising supplier base, leveraging spending across departments, business units and geographical regions, reconfiguring supply specifications, and / or developing strategic partnerships / alliances with selected suppliers. Active supplier management is an integral part of strategic sourcing. On the transactional level, procurement optimisation focuses on transactional efficiency and on squeezing process-related costs and inefficiencies throughout the purchasing cycle.

Finally, before implementing any sourcing & procurement initiatives, it is very important to analyse current and projected spending patterns, via a direct and indirect spend analysis. This can give you the information and decision-support required to develop supply strategies that are aligned with the objectives of your organisation and help you to identify and prioritise sourcing & procurement improvement initiatives.

Deloitte’s Sourcing & Procurement offering includes the following services:

- Sourcing and procurement strategy definition
- Procurement organisation design
- Spend analysis
- Strategic sourcing
- Supplier management
- Procure-to-pay optimisation

Figure: Enterprise procurement
Operations

Operations entail all activities that are core to generating value for your customer. These can be any combination of manufacturing end products and providing services, which together address the overall customer needs.

From a strategic perspective, the operational strategy should enable the direction set by the business and commercial strategy. Your manufacturing and/or service model determines how your company can deliver on its strategic differentiators by making a structural trade-off between market coverage, product/service coverage, quality, flexibility, innovation and cost. Two consequent strategic decisions are choosing the optimal footprint that best delivers the overall requirements, and finding the right balance between make vs. buy in order to deploy and source the right capabilities at the right cost. The rapidly shifting global realities both in end consumer markets and markets for input factors such as labour and energy, and an accelerating rate of innovation in end products and production technologies, make these strategic decisions an increasingly daunting yet pressing task.

Within a chosen footprint, operations management aims at setting up all required functions in an effective way and maximising the efficiency of those. The first challenge is to optimise the capacity, configuration and layout of plants and service centres, while integrating these upstream with suppliers and downstream with customers. Next to organising the core manufacturing and service processes, all support processes such as MRO, engineering, quality and facility management need to be set up appropriately. On an ongoing basis the main challenge is to bring these operations to full potential and achieve the targets in terms of output, cost, and asset efficiency, by managing processes, people and systems on the shop floor or service centre accordingly.

Deloitte provides methods, tools, and experience to help you address these challenges from the strategic to operational level. We apply a methodology that is focused on business performance and delivering bottom-line results. Deloitte’s Operations offering includes the following services:

- Operations strategy, both in manufacturing and service environments
- Footprint optimisation, site selection and transfer
- Merger integration, divestitures, and CAPEX management
- Strategic capability sourcing
- Plant and service centre configuration and layout
- Support service (model) optimisation
- Lean management & operational excellence
- (Enterprise) cost reduction
- IT management & implementation for shop floors & service centres

Logistics & Distribution

Logistics and Distribution (L&D) is about determining the best strategy and practices for moving the right products to the right place at the right time by optimising order processing, inbound operations, warehousing, outbound operations and reverse logistics.

From a strategic perspective, you should have a distribution network that is aligned with the overall supply chain strategy, allowing to meet the customer service requirements at the lowest cost. Further you should actively think about which L&D processes are core to your business and should be kept in-house and which processes should be outsourced.

From a management perspective, the logistics & distribution costs can be decreased by obtaining operational excellence. The transparency brought by Cost-To-Fulfill analyses can help you in segmenting your clients and aligning service levels with the customer’s profitability, ultimately improving the bottom line. Other aspects to take into account are the management of your reverse logistics flow, gaining importance due to legal requirements and increased customer awareness, and the performance of your finance and performance management.
Deloitte assists clients by developing current and future state scenarios, by determining the voice of the customer, by modelling distribution network and product flows, by defining the corresponding business case, financial and operational requirements, and by putting forward an implementation roadmap. Improving performance in supply chain logistics and distribution requires a combination of innovative thinking, and realistic and precise execution. Benefits typically result in 10 to 20% cost reduction, thanks to reduced distribution & transportation costs, gained focus on product movement patterns versus cost containment and enhanced end-to-end supply chain visibility from logistics and transportation costs to goods in transit.

Deloitte’s Logistics and Distribution offering includes following services:
- Supply chain logistics and distribution strategy development
- Distribution, operations and transportation management improvement
- Warehouse capabilities optimisation
- Evaluation and implementation of warehouse and transportation management systems

“Improving performance in supply chain logistics and distribution requires a combination of innovative thinking and realistic, precise execution.”
Supply Chain from a strategic perspective

When looking at a company’s supply chain from a strategic perspective, several major long term decisions should be evaluated, taking into account the environment in which the firm operates, the company resources and the people forming the company. Strategic decisions can affect the entire end-to-end cycle of plan-source-make-deliver.

The overall **supply chain strategy** should be aligned with the corporate strategy and synchronise all the components of the supply chain. It is vital to have a top-down strategy that is supported by all roles touching the supply chain, it is important to develop the tools, technologies, people and processes that move a supply chain strategy from paper to reality. One factor that will affect the transition from the declared strategy to the effective strategy is the allocation of resources. Your supply chain strategy should thus include the process of resource allocation among the various projects or business units, in order to be able to achieve your goals for the future.

Deloitte can help you to define a global supply chain strategy that not only aligns with your overall business strategy, but also provides a playbook and roadmap for execution. The approach for such an exercise focuses on analysing your supply chain along three major dimensions: its business value from both financial and customer standpoints, the components and capabilities of its management, and the leadership alignment and infrastructure to support organisational change.

Other strategic supply chain decisions may deal with the architecture that enables strategy execution; concretely the **supply chain operating model**. Companies should think about their ideal structure for success in an increasingly global environment, taking into account the organisational structure, its people, and the supporting processes and technologies. All these components will together form the architecture that allows for the right capabilities and focus in your organisation. Next to finding the right architecture, it is vital to define clear roles and responsibilities, solid governance, and reporting lines before implementing your supply chain operating model.

Deloitte offers expertise in defining a suitable supply chain operating model and in implementing and embedding this model into the overall organisation, in order to create end-to-end perspectives across divisions. Analyses as basis for defining your supply chain operating model are founded on time-tested tools like the Deloitte Integrated Supply Chain (DISC) framework, a toolkit that provides the foundation for designing leading capabilities into your supply chain and that accelerates the time to benefit.

Strategic decisions may also be concerned with the **supply chain network and manufacturing footprint**. Companies first of all have to determine the optimal manufacturing footprint that, next to facilitating the overall supply chain strategy, meets the customer service requirements and is the most cost effective solution. Furthermore, they have to build flexibility and adaptability into their distribution networks to be able to react to changes in demand.

An optimal manufacturing footprint and distribution network can alter over time as changes take place. Network optimisation exercises should be launched when signals for network improvement occur, for example after M&A or expansion to new markets. Such a network optimisation exercise helps organisations create a robust solution that balances all the strategic objectives, while considering all constraints and inputs to drive profitable revenue growth, increased operating margin and increased asset turns. This balancing exercise can prove to be daunting as network challenges occur at every stage along the supply chain.

Deloitte helps clients in rationalising their existing manufacturing footprint and in defining and implementing the optimal supply chain distribution network in order to enhance operational performance and capture cost savings.
With every strategic decision, new supply chain risks may arise. In order to mitigate certain risks, companies introduce specific strategies to build **supply chain resilience**. These strategies help companies to proactively address the critical vulnerabilities that expose the organisation to risks that exceed its tolerance. They allow a company the time to recover from disruptions within its risk thresholds. In order to effectively and efficiently reduce their vulnerabilities, companies must select a portfolio of resilience strategies. The latter are based on primary resilience levels, which determine the duration of the impact from disruptions, and on resilience categories, which reflect a company’s flexibility and adaptability.

The Deloitte supply chain resilience offering provides a framework to identify and analyse all forms of supply chain risk. It describes the key pillars of a resilient supply chain – visibility, flexibility, collaboration and control – and offers a five-step approach that can help companies make their supply chains more resilient.
A final important strategic consideration is the **tax effectiveness of the supply chain**.

Supply chain transformation initiatives are a proven way of reducing operational costs and increasing profits, but many of these projects fall short of their potential to leverage additional shareholder value. Often they only invest in deep operational improvements, but ignore broader issues, such as structural tax planning. Or they focus on pre-tax gains instead of after-tax returns. Other companies concentrate on reducing the tax burden on their current operating model. But because these tactical approaches do not automatically follow a rise in profits, they are not effective in offsetting the marginal tax impact of new income.

Achieving world-class supply chain performance requires an integrated approach, where companies not only benefit from their operational improvements, but also retain more of their additional earnings. This can be facilitated by taking tax into account in strategic decision-making.

Deloitte’s Tax Aligned Supply Chain services focus on helping multinational companies integrate their operational and tax planning in a scalable and sustainable way to help business leaders make more effective decisions on an after-tax basis.

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**Figure: Tax effectiveness benefits**

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<thead>
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<tbody>
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<td>Value Add allocation</td>
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<tr>
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<td>Third Party Suppliers</td>
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<tr>
<td>Manufacturing Sites</td>
<td>Manufacturing Sites</td>
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<tr>
<td>Regional BG/BU Management costs</td>
<td>Regional BG/BU Management Costs</td>
</tr>
<tr>
<td>National Sales Office</td>
<td>National Sales Office Stripped Risk</td>
</tr>
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**Profit and Tax Implications**

**Before**
- Profit ROW
- Profit Central
- Tax ROW

**After**
- Profit ROW
- Profit Central
- Additional profit

Concentrating significant people functions, assets, risk management and value add with the central entrepreneur

Exponential and Synergistic profit increases
Supply Chain from a management perspective

Recent trends have increased the risk exposure of global supply chains. A variety of internal and external forces are driving this rise in supply chain risk. Some are macro trends such as globalisation and global connectivity, while others stem from the never-ending push to improve efficiency and reduce operating costs.

Figure: Supply chain risks

A company that manages supply chain risk more effectively than its competitors can boost its market image and create significant shareholder value through superior product innovation, cost management, asset efficiency, and regulatory compliance. Deloitte helps clients understand their supply chain risks and outline the different ways to manage these risks. We do this with the help of proven methodologies and tools, like the TAME framework; a tool that enables selection of the appropriate risk management option (Transfer – Accept – Mitigate – Exit) depending on the risk intensity and associated vulnerability level.

Next to increasing risks, supply chain complexity can also be a source for analytic advantage. Supply chain analytics can provide additional insights across the organisational value chain that can foster proactive management. Supply chain visibility and analytical models are typically grounded in hindsight. Making decisions based only on what happened in the past no longer provides competitive advantage. Furthermore, data volume grows exponentially and global business is becoming more complex, which makes it difficult to uncover hidden insights. There is a need for analytical computing capacity and analytical tools to meet this challenge.

With the analytics service offering Deloitte can help you transform data into real-time, predictive insights which enables more informed and responsive decision-making. Deloitte’s profound industry experience and advanced analytics capability maximises the value of data by turning everyday information into useful and actionable insights.
Companies cannot only gain competitive advantage by effectively managing supply chain risks and by applying analytics. Another way for businesses to excel is to have sufficient cash available to get the most out of presented occasions. Working capital can deliver significant cash to the business in a relatively short period of time without a large restructuring program. It reflects the excess of current assets over liabilities, comprising of accounts receivable and inventory minus accounts payable. When improving working capital in the organisation, people must look beyond the boundaries of their own operational processes and understand drivers of cost and complexity in the entire working capital chain: from sales order processing to receivables. By examining this cycle as a whole, inefficient areas can be identified, processes optimised and cycle times reduced. Working capital opportunities are tackled by a variety of improvements on three pillars: increasing days payables outstanding and reducing days inventory outstanding and days sales outstanding.
Deloitte has developed a structured and collaborative approach which leads to a successful implementation of sustainable working capital reduction in the organisation. The Deloitte WCR dashboard provides instant insight in the most important working capital KPI’s down to a detailed level and is easily adjustable and expandable to your company’s specific needs.

Besides securing sufficient liquidity, a company must also be able to cope with external and internal pressure on margins. One way to realise an improvement of your profit margin is through **cost-to-serve optimisation** initiatives.

Cost-to-serve is a collective term for methodologies that reveal the true cost of processes and activities in manufacturing (Cost-to-Make), logistics (Cost-to-Fulfil), and selling (Cost-to-Sell). The reduction or effective allocation of these costs will have a positive impact on the P&L.

When evaluating customer profitability all these cost components need to be taken into account. Focus should thus lie on the bottom line profitability, not on total revenue or gross margin. Cost-to-serve expands customer P&L reporting with a more comprehensive and accurate assignment of costs based upon customer behaviour, and supports multiple dimensions of drill down into underlying cost drivers. It therefore facilitates profitability and portfolio complexity decisions at the granular level of products and customers.

Deloitte helps companies to increase their cost-to-serve transparency by using pragmatic activity based costing principles in a supply chain context.

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**Figure: Working capital improvement opportunities**

- **DPO (Days Payables Outstanding)**
  - A high DPO means that the company has long payment terms, in this way we can say that the higher the number, the better for the working capital requirements.
  - A financial measure of a company’s performance that gives investors an idea of how long it takes a company to turn its inventory (including goods that are work in progress, if applicable) into sales.
  - The lower the number, the better.

- **DIO (Days Inventory Outstanding)**
  - A financial measure of a company’s performance that gives investors an idea of how long it takes a company to turn its inventory (including goods that are work in progress, if applicable) into sales.
  - The lower the number, the better.

- **DSO (Days Sales Outstanding)**
  - A measure of the average number of days that a company takes to collect revenue after a sale has been made.
  - A low DSO number means that it takes a company fewer days to collect its accounts receivable.
  - A high DSO number shows that a company is selling its product to customers on credit and taking longer to collect money.
Another way to improve operating margins and increase asset efficiency is to strive for operational excellence. Lean Six Sigma (LSS) is a structured and proven performance improvement methodology, which focuses on eliminating waste by improving cost efficiency, quality, reliability and compliance safety. It combines focus on the customer with a structured, data-driven approach, leading to measurable improvements. LSS is more than a methodology; it is a way of thinking where all employees play an important role in a culture of entrepreneurship and accountability. This allows for a flow of continuous improvement, which enables organisations to continuously achieve successes in lowering costs and enhancing customer’s experience by improving efficiency, quality and lead time. Deloitte can help you achieve operational excellence by supporting your employees in the Lean Six Sigma approach and implementation, and by creating the necessary preconditions to translate this operational excellence into enhanced business performance. We have a large number of Black Belts and Green Belts that can help your organisation to transform processes in a variety of industries.
Why Deloitte?
Consider the value added

Just as you want to invest well in your Supply Chain activities, it is also critical that you invest well in the team that will help you in your efforts to achieve tangible value and operational results. That team should be Deloitte, because we have spent many years developing the experience, knowledge, skills and people who can help you in your efforts to achieve more value in your Supply Chain initiatives.

• We are a global multidisciplinary organisation allowing us to combine Consulting, Audit, Tax and Legal expertise into ONE team ensuring a full service Supply Chain & Operations offering and enabling a wide perspective on industry benchmarks and innovation.
• We are recognised for our collaborative work style. We do not deploy mass produced “one size fits all” methods. Instead we tailor our methodologies and tools precisely to the needs of our clients so that they serve as real accelerators to analysis and implementation.
• We differentiate ourselves by our ability to execute on the advice we provide. We typically help our clients to implement until true benefits are realised and are sustainably embedded in the organisation.
• We have a strategic partnership with the VIB (the Belgian Purchasing and Logistics Association) with access to an extensive network of Belgian and European procurement and logistics executives.
Contacts

You want to be the best. Maybe you need some help getting there. Help with strategy, with operations, with technology, with change. To learn more on how we can help you with our Supply Chain & Operations expertise, please contact:

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