



Performance Management in Supply Chain and Operations – Steering value chain activities towards exceptional performance

Digitalization of supply chains is dramatically changing today's performance management

Customer focus, product complexity paired with shortened product lifecycles, increasing digitalization, and closer cooperation between partners increase performance management demands on supply chains.

The main drivers behind these developments are customer requirements and new technology, which have already reshaped traditional supply chains.

Customization of products and services, faster deliveries, real-time transparency, global scale, cost competition in fulfillment, and increased sustainability efforts are the result.

The digital transformation of supply chains and big data in supply chain management (SCM) are disrupting established organizations. Sensors and connected devices are being deployed increasingly, e.g., for track-

ing deliveries and monitoring assets. New technologies encourage process automation and precision in execution, while the exponential growth of data permits first-hand insights with the help of analytics to achieve better management of conflicting supply chain objectives and trade-offs.

As a result, access to analytical insights is no longer limited to executives and supply chain leaders.

Today, materials planners, customer order managers, and also professionals outside supply chain departments can easily prioritize their daily operations by using cross-functional supply chain information.

However, there are two sides to trade-offs. On the one hand, with the help of new technologies, companies can coordinate and manage their entire network better and more efficiently. Analyzing value chain

activities to identify performance deviations and irregularities has become easier and is based on more information than in the past.

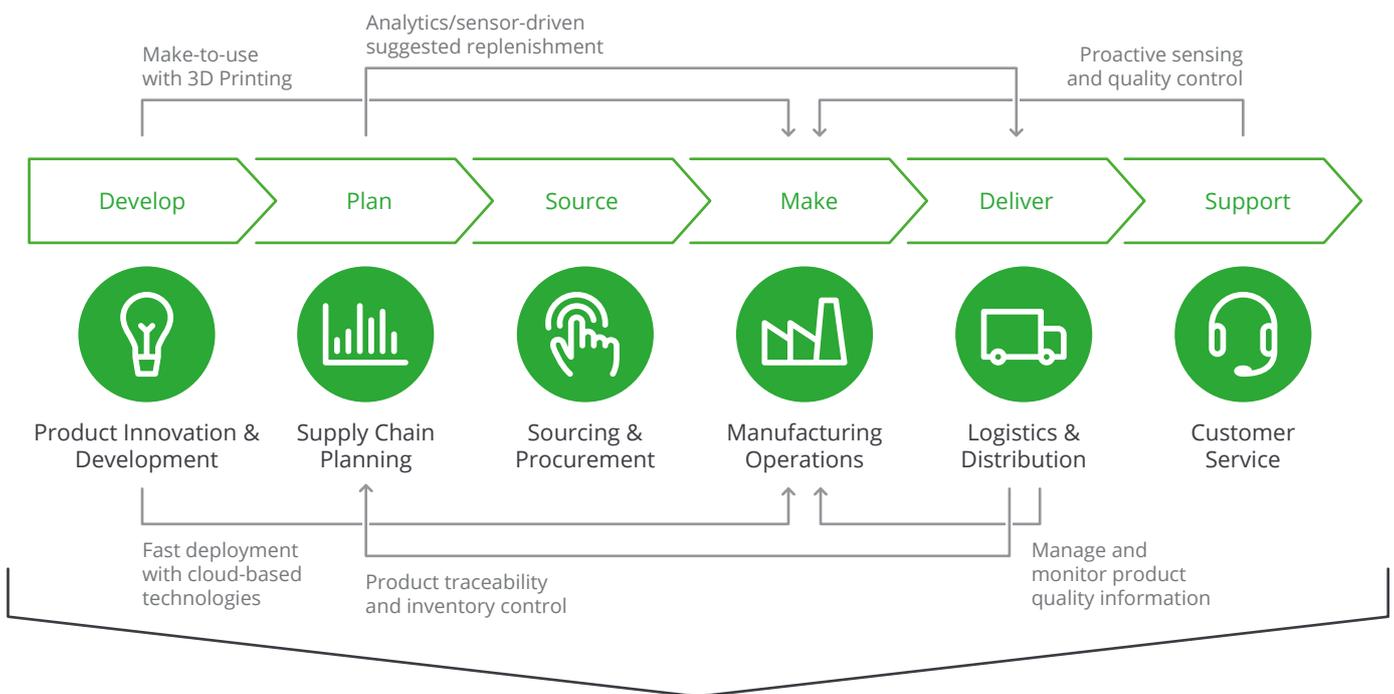
On the other hand, real-life use cases and the increasing application of Industry 4.0 technologies are transforming supply chains across multiple industries towards digital supply networks. The technology is already there and has hit the ground. It affects all areas of the value chain, the

established supply chain and operations processes, and the metrics a company utilizes.

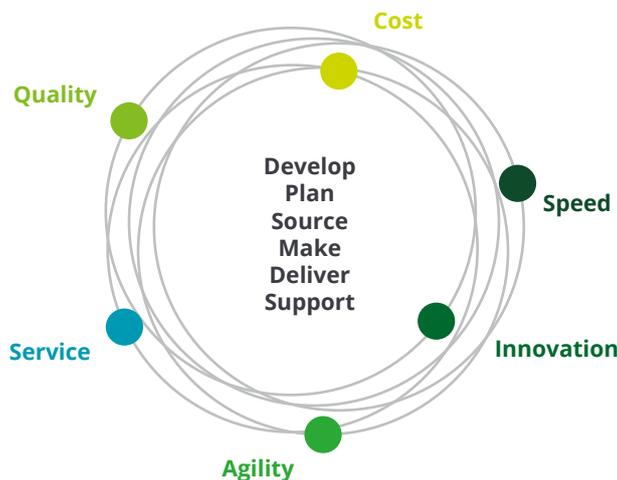
In summary, proven approaches to supply chain performance management need to be rethought to cope with increasing customer requirements, technological advancements, and ongoing challenges in supply chain complexity as well as pressure to increase revenues and profit margins.

Disruption of supply chains by digitalization and new technologies

Traditional Supply Chain



Digital Supply Networks



The key elements of supply chain management

Supply chains comprise the flow of products, information, and money. How they are managed greatly affects an organization’s competitiveness and profitability. Proper alignment with the business strategy is essential to ensure strong overall performance.

Supply chain performance management is a unified approach to improving the effectiveness and efficiency of all supply chain processes.

Key elements to be considered are:

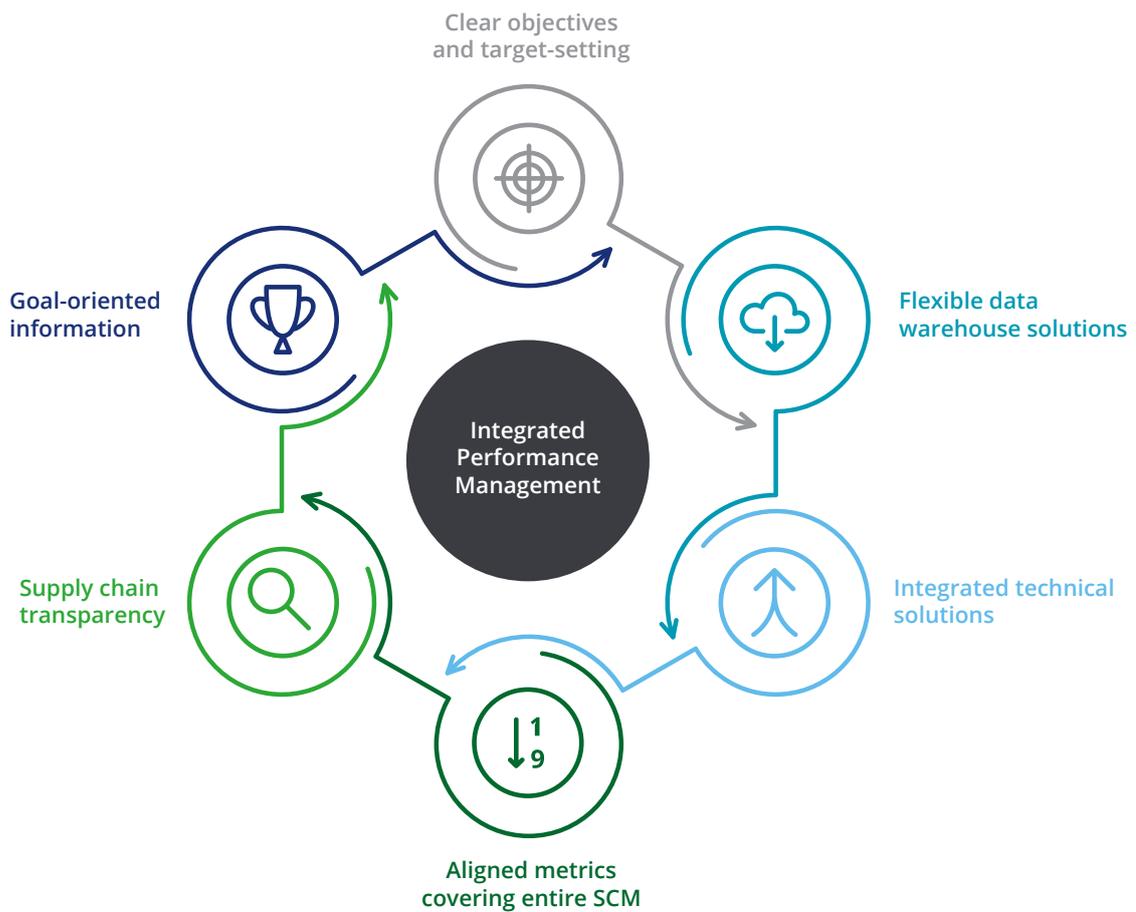
- Supply Chain Strategy
- Organization
- Planning
- Management, and
- Control Activities

The combination of these elements fills the gap between the business’s decision-makers and IT systems for performance measurement with data structures and reporting tools.

In a nutshell, they are the bridge between strategic directives and successful execution by using available information to steer supply chains from an end-to-end perspective.

The foundation is aligned metrics that drive intended behavior at the management and operational levels. Ultimately, this will create value for both shareholders and customers.

Optimizing the end-to-end value chain with the help of an integrated solution



Source: Deloitte

Optimizing the end-to-end value chain through an integrated solution

Well-managed supply chain processes are an important differentiator in the highly competitive environment of commoditized markets. Supply chain transparency is a key and companies are increasingly developing one-stop-shops for supply chain information and reporting.

Integrated performance management in Supply Chain and Operations focuses on:

- A common understanding of supply chain objectives and disciplined target-setting
- Goal-oriented information on target achievements to all relevant stakeholders and the addressing of key messages to executives, managers, and professionals
- Supply chain transparency by considering and aligning supply chain processes and technology with the organizational structure
- Aligned and agreed-upon supply chain metrics covering all perspectives in supply chain management and also process performance indicators to enable root cause analyses in the event of deviations
- Integrated technical solutions for the gathering of information and the distribution of reports covering the full cycle from planning to reporting to intervention
- A flexible enterprise data warehouse and the adaptability of metrics, reports, and layouts

Current state of supply chain performance management

The purpose of a successful performance management approach is to give a complete and well-balanced view of all relevant supply chain information and underlying activities.

Key performance indicators (KPIs) are intended to structure the desired information in different dimensions such as customer service, costs, and assets. Ideally, KPIs are aligned across the reporting hierarchy levels and are available as required. Further supporting metrics allow deep dives into root causes to identify irregularities. However, for most companies the reality is different.

Many companies have implemented supply chain performance measurement systems solely focusing on a limited number of considerations. Most systems are isolated, static, and with metrics that are backward-looking and often not holistic. Root cause analyses are limited by data aggregation, with the loss of full details, or are simply not possible due to the lack of information. An end-to-end perspective has often not been considered and an integrated performance measurement concept has not been implemented.

Supply chain leaders and the business often face complex reporting landscapes with numerous options to measure and calculate performance. Different KPI definitions as well as specifics in the corporate structure and business processes make it hard to compare overall supply chain outcomes.

Among the reasons may be country-specific regulations or a unique business / supply chain steering logic. This complicates informed decision-making and in some cases results in significant cost to fulfill reporting requirements.

Balanced reporting ensures that trade-offs are transparent and properly managed. KPIs should cascade from strategy to tactics, and to the operational level. Successful organizations enable employees to understand the performance levers they influence and how they affect overall performance.

Standardized processes and metrics are prerequisites for realizing such advanced integration. These include:

- Planning details throughout the entire Sales and Operations Planning process
- Customer service levels
- Accuracy of current inventories
- Transparency of supply chain costs

The supply chain reporting should provide a balanced view on customers, demand and supply as well as on financials.

Leading performance management solutions utilize joint metrics to ensure the integration of all functions, for example, finished goods inventory is shared between Production and Sales. KPIs might be communicated to key supply chain partners

using an overall perspective to optimize the end-to-end value chain and to manage trade-offs. Advanced solutions with dashboards exist that visualize a comprehensive suite of supply chain information at a single glance.

Maturity levels of performance management in supply chain and operations

| Emerging | Developing | Defined | Advanced | Leading |
|---|---|---|--|--|
| <ul style="list-style-type: none"> • Informal operational performance metrics • Local functional metrics and functional accountability • Executive incentives aligned with functional objectives | <ul style="list-style-type: none"> • Standardized performance metrics within business units • Local functional metrics with shared accountability | <ul style="list-style-type: none"> • Trend analysis of performance measures • Regional functional metrics with shared accountability • Executive incentives based on regional cross-functional performance • Tools available to track key KPI's | <ul style="list-style-type: none"> • Standardized metrics with formal target-setting process • Regional process and functional metrics with shared accountability • Cross-business metrics aligned to support enterprise objectives | <ul style="list-style-type: none"> • Optimized trade-offs in performance measures from conflicting objectives • Global process metrics with shared accountability • Executive incentives aligned on global cross-functional performance • Targets evaluated formally on a regular basis, and form the basis for continuous improvement |
| Developing Supply Chains | | | Leading Supply Chains | |

Source: Deloitte

Leading supply chain performance management solutions build the bridge from strategic directives to successful execution.

What makes the difference?

Many companies have already implemented a robust supply chain performance management and are steadily improving their capabilities.

New technologies that drive supply chain digitalization are being used increasingly and allow for ad-hoc analyses and predictive analytics as well as improving report visualization.

However, the maturity of these supply chain performance management solutions varies. Leading companies differentiate in four areas.

The four differentiators in supply chain performance management

#1

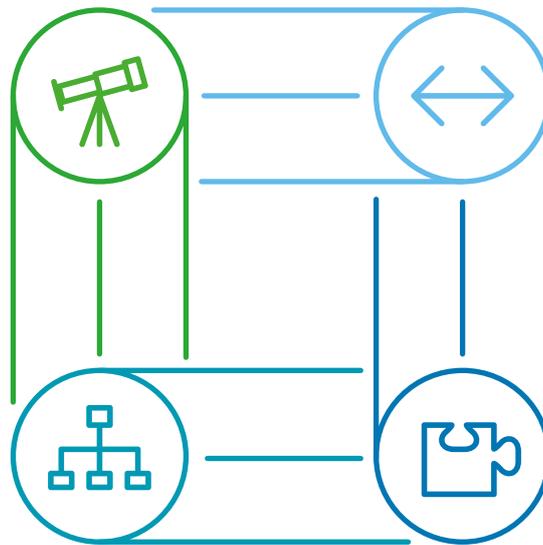
Supply chain strategy

- Steering focus and related supply chain processes
- Characteristic measurements and metrics

#3

Organizational alignment

- Individual employees reacting are proactive to supply chain challenges
- Continuous improvement is encouraged



#2

End-to-end processes

- Integrated business planning and customer centricity
- Transparency on inventory and SCM costs

#4

Integrated technology

- Single source of “clean” supply chain and financial data
- Supply chain KPIs are calculated and distributed automatically

Source: Deloitte

Differentiator #1 – Supply chain strategy sets the direction and defines the steering focus

The foundation for performance management is a company's supply chain strategy with its unique value proposition to customers, the derived steering focus, and related supply chain processes. Regardless of whether supply chains are response-oriented or configured for efficiency, the strategy defines what and where to measure. Companies that have mastered the challenge of measuring the right areas in their supply chain and that have the right metrics in place can say why those measurements and steering are important for the execution of strategy.

Differentiator #2 – End-to-end processes paired with transparency of inventories and supply chain cost

Integrated business planning drives the alignment of Sales, Operations, and Finance towards the highest possible state. Planning information is coherent and always up-to-date. Supply chain end-to-end processes have been identified, globally harmonized, and sustainably implemented. ERP systems act as the backbone of SCM processes and their outcome, and the performance of the process in execution is accurately measured.

Customer centricity is the key to delivering exceptional performance. KPIs such as perfect order rate, delivery reliability, or delivery capability might be proper metrics

for measuring customer service. Naturally, different service levels and business-specifics are considered when overall supply chain performance is evaluated.

Accurate inventory levels, including details on specific batches / serial items, are pivotal for taking meaningful decisions about supply and demand as well as managing working capital. Seamlessly integrated inventory data allow the swift identification of stock level variances and enable detailed root cause analyses in material flow movements.

Supply chain cost might be aggregated and should be available at a cost component level. The focus is often on production, warehousing, freight, and inventories, as

Employees must understand the levers they influence and how it affects overall performance.

these are typically the largest cost components. Leading companies utilize a total landed cost perspective and challenge their actual SCM cost. For example, logistics rebates agreed by Sales are verified by Operations and are objected to if rebate conditions and prerequisites are not met.

Differentiator #3 – Organizational alignment and clear accountability for metrics

Leading companies structure their organization according to the principle of customer centricity. The objectives of supply chain organization are clearly defined. By using an established set of SCM KPIs, individual employees are proactively reacting to supply chain challenges and risks.

The complete set of supply chain KPIs, including additional metrics such as process indicators, needs to reflect all relevant performance attributes and should be available to the whole organization. Cascading metrics permit a deep dive into single process measurements and enable more detailed analyses to identify irregularities. Reasonable targets and established thresholds cover all dimensions of supply chain performance. Continuous improvement is encouraged by a performance evaluation process and recurring (cross-functional) feedbacks.

The ownership of performance management systems is typically with the CFO, who forms partnerships with business functions such as Sales and Operations to achieve transparency of the company's performance.

Differentiator #4 – Integrated technology and adaptive reporting

Technology is a key enabler of world class supply chain reporting and performance management. Successful companies operate an enterprise data warehouse that serves as single source of "clean" data for analyses. Source systems ensure consistent data provision in close to real-time with sufficient details to fulfill reporting needs and allow for ad-hoc analyses. External data is collected as required and seamlessly integrated with in-house supply chain information.

Reporting can be described as a centralized data highway with a uniform reporting language which is integrated, cross-functional, and adaptive. A supply chain dashboard application creates a single point of entry and provides an overview of the relevant supply chain metrics over multiple dimensions such as brands, products, locations, customers, and segments.

A solid reporting governance process ensures continuous and automated monitoring. Supply chain KPIs and related process performance indicators are measured and distributed proactively to relevant stakeholders. Predictive algorithms are used for advanced business intelligence and to determine timely corrective actions along the end-to-end supply chain.

Is it time to improve your company's performance management in supply chain and operations?

Customer expectations and new technologies are transforming supply chain management faster than ever.

Signs of concern are suboptimal overall supply chain performance, inefficient resource allocation, individual targets that are not aligned with strategic objectives, operational managers without clear accountability, or reporting analyses efforts that fail to highlight potential issues in a timely manner.

If one of these symptoms is present, it is time to rethink your company's performance management capabilities and the approach to measuring and managing supply chains.

The Deloitte difference

Deloitte supports companies to drive large-scale transformation initiatives in their supply chains, helps to institutionalize performance management, and enables the organization to steer their value chain activities towards exceptional performance.

With state-of-the-art supply chain performance management – from strategy to processes to technology – Deloitte has gained extensive experience covering a full range of services in performance management as a discipline and in managing value chains from an end-to-end perspective.

Deloitte can help your organization to improve transparency and your ability to manage supply chains and turn insights into action to increase overall performance.

Deloitte's core services for Performance Management in Supply Chain and Operations

| Supply chain strategy | End-to-end processes |
|--|---|
| <ul style="list-style-type: none">Supply chain strategy cascadingValue driver identification and performance attributesSupply chain performance metrics and target setting | <ul style="list-style-type: none">Performance management diagnosis and benchmarkingSupply chain performance improvementSteering, reporting and analytics capabilities, processes and policies |
| Organizational alignment | Integrated technology |
| <ul style="list-style-type: none">Performance culture and dialogueDecision rights alignmentPerformance incentives alignment | <ul style="list-style-type: none">Enterprise data warehouse and reporting system implementationInformation and data modelingDashboard and management report design |

Source: Deloitte

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