

The risk of incrementalism
A case for taking on the
next stage of supply chain
transformation



Executive summary

The strategy that has made supply chain organizations effective over the last decade is not likely to be what makes them effective in the next. Businesses have spent significant efforts marching up the supply chain maturity curve, diligently applying lean practices to their supply chain and searching for incremental opportunities to cut cost and reduce waste. Many of these activities have led to unprecedented reductions in operating expenses, working capital, and workforce.

Yet a real danger exists for companies that fall back on what has become comfortable and continue setting targets based on previous successes. How long can this "leaning out" continue now that much of the low-hanging fruit has been plucked? Lowest delivered cost and inventory levels may not even be the applicable strategy for many businesses, depending on your organization's value proposition and customer preferences. Incremental cost reductions will yield diminishing returns and new environmental challenges will arise, so the same strategies may not be sustainable in the next 10 to 20 years. To remain competitive, many supply chain executives understand they need to explore the next stage of transformative change. The hard part for many is knowing where to start.

Having witnessed many companies' efforts to pursue such change-efforts producing various degrees of achievements – we offer this analysis of factors that are likely to impact supply chains in the coming years, steps to take your supply chain transformation to the next level, and specific factors that deserve consideration.

Getting supply chain transformation wrong in the next few years could be a costly drain on capital, resources, and company culture. Getting it right could rally your organization, help you leapfrog competitors, and catapult careers.

A snapshot of 21st Century supply chain transformation, so far...



Procurement organizations have scrutinized and consolidated spend, collaborating with strategic suppliers to drive down cost.

Manufacturing has squeezed out inefficiency and increased throughput through Lean techniques, asset reliability, debottlenecking, and other methods.



Planning has become more sophisticated – fine-tuning the Sales & Operations Planning process supported by advanced forecasting algorithms and statistical safety stocks to reduce unnecessary inventory.

Logistics has consolidated spend company-wide, developing Core Carrier programs and routinely evaluating their distribution networks to reduce costs.



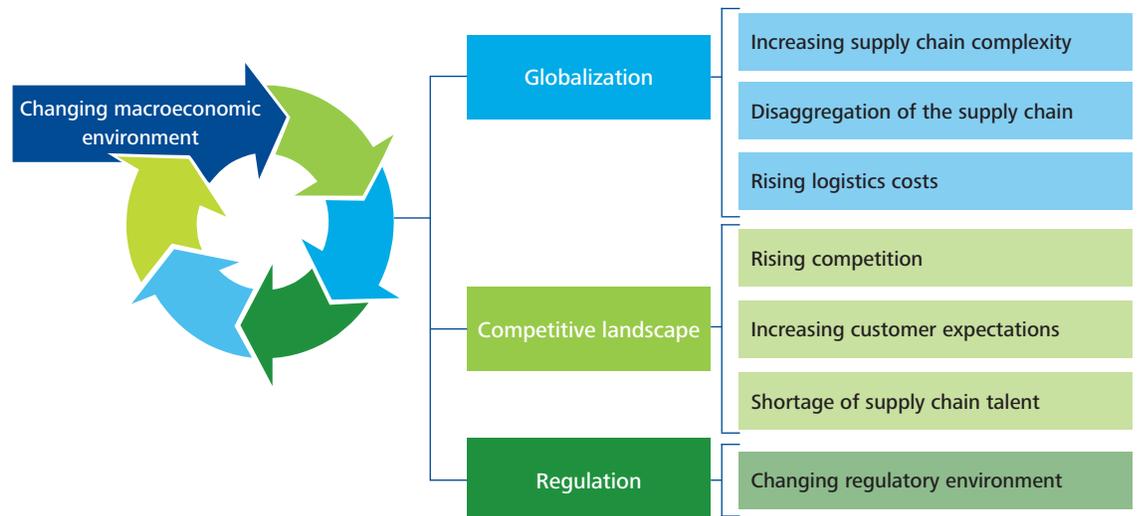
Outsourcing services to third-party logistics (3PL) companies to execute warehouse, terminal, and transportation activities.

Seven supply chain strategy killers to prepare for now

The decade ahead will face economic, competitive, and regulatory pressures that threaten to eat away margin improvements achieved through incremental cost reduction efforts. Companies that are too risk averse to make bold plays like end-to-end supply chain transformations may find themselves sitting on the sidelines watching their competition slowly stealing

away market share, employees, and investors. Seven macroeconomic pressures that have emerged in recent years are likely to be prominent supply chain and market drivers for the coming decade (Figure 1) resulting from changes in globalization trends, the competitive landscape and the regulatory environments in which multinational organizations must operate.

Figure 1. Seven Supply Chain Strategy Killers



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Increasing supply chain complexity

As the business environment becomes increasingly global and interconnected, supply chains are becoming longer, more complex, numerous, and opaque. The result is that many companies find it increasingly difficult to identify, quantify, and mitigate supply chain risks and streamline production. Three primary sources of this increased complexity are emerging markets, intricate manufacturing processes, and Mergers & Acquisitions (M&A) activity.

Emerging nations that have been locations of low-cost labor over the last two decades – such as BRIC countries (Brazil, Russia, India and China) – have seen a surge in economic development and manufacturing capabilities vis-à-vis their increasing role in the global supply chain. This has led to increases in both wages and standards of living for these once-emerging economies, causing a shift from a nation of producers to consumers. Multinational organizations have entered a new cycle, shifting manufacturing operations to other less developed nations such as Vietnam and Malaysia. This shift to new sources comes with obvious benefits but also with increased complexities and increased vulnerability to disruption. Simultaneously, many companies are expanding the degree to which their operations are offshore, creating substantially more complex manufacturing processes. This has necessitated managing multiple product lines with parts coming from different suppliers. For acquisitive companies, matters are complicated more as they face the challenge of effectively merging information systems, cultures, and operations to unlock intended deal synergies.

Disaggregation of the supply chain

Along with the increase in wealth that many emerging nations have witnessed as they become more significant players in the global supply chain, they have also developed significantly more advanced manufacturing and innovation capabilities. As they move toward making higher-margin, more complex products, multinational organizations now have many more choices in where they source both their basic and more advanced components of their products. Many companies are increasingly relying on multiple sources for their products. This disaggregation of supply chains is the result of the multitude of available options. The desire to achieve the highest quality at the lowest cost must also be balanced with the risk of the supply chain becoming too complicated and disparate to manage effectively.

As the business environment becomes increasingly global and interconnected, supply chains are becoming longer, more complex, numerous, and opaque.

Increasing customer expectations

In recent years, logistics and transportation costs among many modes of U.S. transportation, including trucking, rail, shipping, and airfreight, have risen 6.6 percent year over year, a trend that has driven down margins for logistics companies.¹ Meanwhile, logistics planning has become progressively more complicated as companies extend product sales into new regions and markets. As a result, transportation prices will continue to rise, thereby forcing companies to be more creative in finding ways to offset the added costs.

¹ 23rd annual state of logistics report

Rising competition and customer expectations

The disaggregation of supply chains has led to increased global competition which has put pressure on companies to find new ways to decrease costs while improving performance. Many companies have adopted new technologies to increase analytical capabilities, enable optimization modeling, and better integrate with value chain partners. While these approaches have helped to remain competitive, some of the cost benefits are immediately offset by increasingly sophisticated customer demands that put further pressure on both pricing and value-added services. This cycle of increased organizational sophistication driving greater customer expectations means companies should consider ways to stay ahead of their customers and competition.

In addition to their effects on costs, regulatory rulings can also impact transportation lead times, customer service, working capital, and contractual agreements.

Shortage of supply chain talent

With the first Baby Boomers reaching retirement ages in 2011, a shift in age and labor demographics began, and a talent gap (also commonly referred to as the "brain drain") began. This impacts supply chains because as complexity increases, the required skills become more polarized: high-value-added jobs demand more specialized skills and create the risk of underutilization, while tactical jobs can potentially be offshored or outsourced to lower-cost alternatives. An example of a high-value-added job might be one involving sophisticated software platforms to perform data analytics and decision modeling. If that software is used incorrectly, it can lead to poor trade-off decisions, such as which product to manufacture when resources are constrained or which customer to serve when products are constrained. Such decisions can lead to margin leakage.

With this increased polarization, companies should redefine career paths and training programs to support specialization rather than rotating "generalists" in and out of positions every few years, as has often been the practice. A clear, actionable talent strategy can effectively segment the workforce, focus education, training, rewards on high-skilled positions, and address the gaps in the workforce created by evolving demographic and labor trends.

Changing regulatory environment

In order to enable sustained economic growth, digital technology and free trade proliferation have been critical in opening doors to markets, product innovations and new customers. However many countries and multinational trade organizations have stalled in putting regional trade agreements in effect. Frustrated with the slow pace of multilateral agreements, many nations are turning to smaller, more nuanced bilateral agreements to boost trade. While this has helped maintain some pace of economic growth, many multinational organizations have had to learn to navigate and optimize their use of such varying agreements across the network of countries in which they operate.

Simultaneously, regulatory pressure is growing on a number of trade, logistics, and distribution issues. Resource sustainability and the "greening" of transportation and distribution processes are good examples, increasingly influenced by the U.S. Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration. A recent joint ruling by the EPA and Department of Transportation mandated a new standard of 54.5 mpg by 2025 for cars and light trucks.² Going forward, this one rule alone, intended to reduce greenhouse gasses, may result in higher fuel surcharges, and companies may need to shift to greener modes of transportation, such as rail. In addition to their effects on costs, regulatory rulings can also impact transportation lead times, customer service, working capital, and contractual agreements. In light of this, companies should effectively address supply chain risks and volatility through their contractual agreements, infrastructure, and partnerships.

² Environmental Protection Agency

Surviving the next decade – five transformational steps to take now

The next decade will be shaped by dynamic economic, regulatory, and competitive pressures that may be only slightly offset by marginal cost reduction efforts. Overcoming these pressures may necessitate larger, integrated, and innovative approaches to performance improvement. To effectively address this changing macroeconomic environment, companies should consider switching from traditional, incremental cost reduction efforts to bold, end-to-end supply chain transformations. Five steps can help companies refine their supply chain strategy and roadmap to sustainable competitive advantage.

Step 1: Single vision – tailored strategies

Organizations rarely achieve 100 percent agreement on the need for transformative change or even a definition of "transformative." This is especially true in Supply Chain organizations where there has been a strong focus on performance improvement in recent years and many people believe they already have a handle on what, if anything, still needs to be fixed.

The challenge, then, is to move past the notion of fixing and begin talking more broadly about an aspirational vision of what's possible, followed by a plan to achieve that vision. Through this approach, anything that needs fixing can become evident. For example, redesigning a high quality supply chain can reveal inherent tradeoffs between manufacturing costs, inventory carrying costs, transportation costs, and customer service levels. Understanding the nature of the products you sell and the value proposition to your customers is critical to making these trade-off decisions. But so is having a supply chain vision that becomes the "true north," guiding supply chain goals, policies, investments, and process designs.

A common mistake in vision development is defaulting to a one-size-fits-all approach. Supply chains have been historically viewed as cost centers with the goal of reducing inventory and cost by a certain percent each year. Reducing wasteful cost should be a priority, but for markets that place a premium on service and product availability, it may be more profitable to maintain or even increase cost to meet that market's need. Understanding the value drivers of the various products, customers, and

delivery channels can be critical to effectively designing your supply chain strategies by segment. Segmenting these effectively requires involvement from sales and marketing personnel who understand key market dynamics, including:

- Relative market share, competitive landscape, and market influence
- Customer segments served and what they value
- Your organization's unique value proposition and core competencies
- Long-term growth plans and market trends

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With an understanding of each segment's market landscape, you can define critical success factors for profitably meeting market needs. For example, a customer segment that purchases a commodity product through a distributor might value lowest delivered cost, while another segment that purchases a highly differentiated product from a big box retailer might value flexibility and reliability. Segment-specific differentiators serve as the backbone for the vision statement and provide a high-level view of what excellence means for your company.

Next is gathering additional input to bring the vision to life and begin building the case for change. A SWOT-like approach can be valuable. Internal resources should provide a clear idea of strengths and weaknesses based on historical performance, while external resources can provide a perspective on specific opportunities and vulnerabilities based on effective practices and long-term market trends.

Once the vision has been drafted and adequately socialized with specific leaders in the organization, it should be circulated broadly and used as both the case for action and the guard rails for future decisions.

Step 2: Building the case for change

Having an aspirational vision helps align the organization around the destination, but developing a roadmap requires similar alignment around the need for change. Opinions will vary across the organization about current performance, and these disparate views will multiply in companies with multiple business units and manufacturing locations around the world. Performance benchmarks often serve as a reference point, yet while they can be a good high-level indicator of relative performance, such benchmarks may have inherent limitations, including:

When looking for quantitative and qualitative benchmarks, don't limit yourself to your industry. Often leading practices in one industry can be replicated in others and they will be more open to sharing those practices and lessons learned with companies outside of their industry.

Apples-to-apples comparison. Inventory days (a commonly used metric to normalize inventory levels with sales volume) in two different companies with different product portfolios (e.g., blend of high margin vs. low margin) and geographical footprints (e.g., international shipments vs. predominantly national) are not a fair comparison. Some companies even use metrics differently, so forecast accuracy, inventory days, or perfect order metrics may be calculated very different across business units.

Rear-view facing. Benchmarks are dated the moment after they are collected. For example, a quality metric often needs 12 months of reported data, so it is often a reflection of last-year's performance at best. Likewise, a broad and relevant benchmarking exercise takes time and can be costly, so it may only be done every two or three years, making it a poor input for your business case.

Incomplete picture. One common characteristic of benchmarks is that they are blind (i.e., the companies compared are anonymous). As a result, the company rated best-in-class in inventory days on hand may also be the worst in fill rate. Companies with a customer intimacy strategy may be mixed with companies that want to be cost leaders, so they may be using different metrics by design.

This does not mean you shouldn't use benchmarks to gauge your performance against peers. But understanding their limitations and not relying solely on them to justify action is important. Qualitative factors should be evaluated in combination with benchmarks including process maturity and pain point identification (challenges identified at the user-level).

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Aligning your supply chain vision with a current state assessment provides a balanced view of where the organization sees opportunities, what's possible given the direction of your industry and other similar ones, and where the issues are today that need to be addressed to reach the desired future state. Then it's important to craft these elements into a compelling business case.

Step 3: Selling the case for change requires dollars and sense

Creating a business case after only a high-level evaluation may make some people uncomfortable, since tolerance for ambiguity and the assignment of values based on leading estimate approaches varies widely by company and individual. Yet the fact remains that resources are needed to develop a more thorough assessment, and those resources cost money. Securing additional funding, therefore, means demonstrating a reasonable expected return, one that clears the hurdle-rate for alternative investments with similar risk. Here are several ways to do that:

Getting the baseline wrong can sink a project before it starts. To define baseline costs within the scope of the project, start with macro numbers (i.e., total supply chain costs). Don't assume anything, since a wrong answer can dramatically impact the opportunity, along with the credibility of the business case. Dissect the baseline by business unit, region, transportation mode, product line, and, potentially, customer and supplier. Remove any spending amounts known to be out of scope or that cannot be addressed – for example, if a particular business unit or region is out of scope or if you move product via pipeline, which won't be impacted. Sanity check the baseline with subject matter advisors at lower levels of detail and aggregate up to validate totals.

Set aspirational, but realistic benefit targets. Looking at the relative maturity of value-driving processes, benchmarks, and known impediments, you can derive a percentage improvement range against the baseline it impacts. Experience is a significant enabler of this process. For example, consulting firms estimate opportunity benefits and often have a network and repository of information to pull from for comparable improvement efforts and realized benefits. Companies that choose to estimate benefits internally will need to draw on the experience of subject matter advisors and probably take a more conservative approach. After applying estimates to the potential improvement levers, it's time to apply the litmus test: If, depending on your organization's current maturity level, the total dollar value of benefits is greater than 10 percent to 20 percent or more of total in-scope supply chain spending, you may be double-counting benefits, and your estimates may be questioned. For example, if you have five

opportunities to drive down inventory, several of them may overlap, so you will need to account for that.

Estimating costs – one of the biggest mistakes companies can make. Estimating costs is no less challenging than estimating benefits. Often companies don't have many data points to compare, and the magnitude of resources needed at the peak of transformation can be daunting. Yet the process is crucial, because overestimating costs can scare an organization from taking action, while underestimating can result in a failed project midway through after significant costs have already been incurred.

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Many factors influence costs, the most significant of which is likely to be the degree of technology change. Projects with large-scale technology implementations, such as ERP implementations, can add substantially more cost and time to implement. Other influencing factors include global scale, number of independent business units, scope of change, pace of implementation, and cultural factors within the organization.

Costs are typically easier to estimate if the initiative is broken down into project groupings and execution phases. Project scope will determine natural groupings, but companies often delineate groupings by process areas such as planning, sourcing, logistics, and distribution. Execution phases often follow some variant of the following: diagnostic, scoping (or deep dive assessment), design, and implementation. Technology projects tend to follow more structured and rigorous stage-gating processes. In calculating costs, companies should count on adding 50 to 100 percent of current resources at each phase.

Once a cost estimate is established, another 10 to 20 percent should be added for the project management office (PMO) and change management. For global transformations, adding another 5 to 10 percent for travel is prudent since consulting burn rates typically do not include international travel.

Now that you have your transformation costs calculated – double it. This may seem aggressive, but rarely if ever do transformation projects give money back at their conclusion. Each phase will reveal more about the accuracy of the contingency, and you can reduce it if needed, but for the initial business case, a 100-percent contingency is not out of line and may save the project later.

An estimated return that's below the targeted hurdle rate may prompt a reduction in the contingency amount, but this is not advisable. Instead, consider the benefit basis. Are the opportunities identified really aspirational, or do they reflect more traditional improvement efforts based on historical achievements? Consider another outside perspective for an objective look at where opportunities are. If adding to the benefit basis isn't feasible, then take another look at scope. Are there areas that may require more effort with less upside (go back to the baseline)? If the dollars still aren't there, avoid forcing it – you may pay for it later. But don't be afraid to push the envelope, either, as that is the point of transformational change.

Step 4: There are three strategic execution strategies you should define up front

Important decisions need to be made early in the development of an execution strategy. How will the project be funded? What level of technology implementation is required? Is the current organization capable of implementing and sustaining the projected benefits?

Here are three important elements of an execution strategy:

Self-funding. The price tag of a major transformation is often what causes organizations to fall back on smaller, incremental projects. When evaluating opportunities, it helps to call out specific implementation opportunities that require minimal IT and organizational effort. Develop an "ease of implementation" score that can be depicted on the X axis of a scatter plot, with the potential transformation value (NPV) on the Y-axis. Efforts should focus on the northeastern quadrant first – for example, strategic sourcing activities; inventory policy changes such as slow-moving and obsolete or safety stock; and bill-pay auditing and controls. Identifying early benefits can make the transformation more palatable for sponsoring leadership and generates momentum along the way.

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To go or not to go? Each company has methods and hurdle rates for green-lighting projects. For longer term transformations, a minimum of 10-year net present value (NPV) is advisable. Some companies will go as far as taking the full terminal value. Technology projects should consider the useful life of that technology. If the return is much more than 10X, assumptions should be checked again. Not only could credibility be at risk, but it's likely that costs are underestimated or credits inflated significantly.

IT strategy definition. Organizations often treat technology as a cure-all, assuming that any manual effort is bad and should be automated. Actually, technology is an enabler of supply chain strategy, but without sound policies, mature processes, and a capable organization, it can be underutilized or even damaging. How effective have previous IT implementations been? Were expected benefits achieved? Are the systems fully utilized? If not, why? Addressing these questions first, before seeking funding to add new technology, can save significant costs and avoid project delays. Remember that the real or perceived need for new technology can be a powerful catalyst for starting a transformation and gaining organizational support, but it should not define the overall strategy.

Organizational effectiveness. Often the overlooked area of transformational change, organizational effectiveness is one of the defining elements of true transformation. With the strategic vision defined, it's important to determine what organizational structure will support it – a process that can unfold over time through carefully facilitated working sessions with specific stakeholders and subject matter advisors across the organization. Redesigning the organization early in the transformation will make the new organization feel more ownership for the transformation and serve as a powerful catalyst for change. More discussion of organizational effectiveness appears later in this paper.

Step 5: Chart the course and set sail

With the vision and execution strategy laid out, the next step is to build out a multiyear plan. Start with these building blocks:

- Phases or stage-gate deliverables
- Process, organization, and technology scope
- Grouped opportunities (from vision)
- Early benefit capture opportunities
- Internal constraints (e.g., other implementations, frequency of leadership reviews and peak season)

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These building blocks should facilitate a high-level plan under which subsequent detail can be developed. When prioritizing each opportunity, it is important to take stock of other supply chain projects already in motion or in the organization's five-year plan – a challenge, because in essence, it means assessing a moving target at the same time that others are trying to impact the same handful of key metrics. The transformation vision should be the end-point, and initiatives should be evaluated against that vision and the projected financial return. If the organization is resource constrained, analysis of internal rates of return and full-time equivalents (FTEs) may be needed to maximize return per FTE.

Once work is prioritized and the plan is developed, cost and benefit timing can be incorporated into a revised business case.

Avoid common pitfalls: 10 key factors for effective transformations

10 lessons learned – a snapshot



Developing a cross-functional supply chain strategy, defining the operating model required to execute the strategy, identifying the gaps in operational requirements and capabilities, and then developing a roadmap to achieve such a transformation can be daunting at first glance. Pitfalls and challenges likely exist at every turn given the longer duration and broad scope of transformational efforts. However, organizations considering supply chain transformation may find that the following lessons learned can help avoid many pitfalls and effectively address challenges as they arise.

Stepping out of the comfort zone

A natural tendency of supply chain organizations is to push for incremental changes rather than wholesale, step-out opportunities that are more typical in a transformation effort. People don't like change – especially significant change. For example, tweaking an algorithm in a planning tool is much easier than redesigning the forecasting process. Manually adjusting safety and cycle stock positions is simpler than developing inventory optimization capabilities. Often supply chain organizations choose quick and dirty incremental solutions rather than the more complex transformational solutions. "Solutions," as used in this context and through the remainder of this paper, include some combination of people, processes, technology, and governance.

Yet it's important to move the performance needle when proposing and executing supply chain initiatives. So, when considering solutions for a given supply chain challenge, take the time to properly and thoroughly evaluate a broad range of potential solutions. In many cases, transformational options exist that can provide significantly more value than their incremental alternatives. This is not to say that transformational solutions are normally the right answer, but given the tendency for organizations to stay in the comfort zone, transformational options are often discounted, overlooked, or poorly positioned in the evaluation process. Bottom line, closing significant supply chain performance gaps will require some level of transformation.

Establishing a True North

Having a clear, well-defined strategy as the cornerstone of a change initiative is intuitive, yet many organizations simply don't establish consensus around their strategy in the early stages of transformation. A clearly defined strategy is simple, easy to understand, and clearly articulates the principles that define the future state supply chain. It's imperative to share this with executive stakeholders across the organization. Gathering feedback and direction early on will help to build support, strengthen alignment, and create a broad understanding of the supply chain vision. It is important to not cut corners here as this is the foundation of all future investment and work. Developing multiple work products, including an executive briefing supported by a more robust supply chain vision document, is an effective practice that can yield benefits throughout the transformation. Otherwise, you risk misalignment of expectations that can lead to delays, rework, and overall inefficiency.

Cross-functional leadership support

Many supply chain transformations fail because leadership support exists only in pockets across the organization. This challenge is greater in organizations having carved-out supply chain functions. Because supply chain transformations tend to be global and impact many business functions beyond just the supply chain, recognizing the numerous touch-points with sales, marketing and shared services functions is critical when engaging the organization for leadership support. Unlike incremental projects that require support from a single leader within the organization, transformation requires the support of leaders from many impacted functions. Failure to gain the required support can create delays, additional costs, and the potential for derailing the effort altogether.

Leadership support manifests itself in various activities and behaviors that are critical to the achievements of the transformation. Leaders should understand the strategic vision and be aligned with the strategic priorities that define the future state supply chain organization. They should act as change agents within their respective organizations – visible leaders who are well informed and supportive – provide resources, subject matter advisors, functional insights, and information to support the project.

Don't expect every leader to be a strong supporter of the transformation. Instead, proactively manage stakeholders by developing a stakeholder alignment and communication plan. Be diligent and aggressive in engaging with leaders early in the process and frequently thereafter. This is especially important when the transformation is running at full throttle so leaders across the functions are supportive at each stage of the transformation.

Technology that supports, but doesn't drive, strategy

As alluded to earlier, a common myth in supply chain transformation is that tools and technology create business value. In the classic people, process, and technology model, organizations tend to place greatest value on technology. Yet in our experience, it is often the lowest contributor of value. Although every organization is different, we commonly see people, process, and technology accounting for 40 percent, 40 percent, and 20 percent of value capture, respectively. Yet supply chain technology is often the scapegoat for underlying problems such as inefficient core supply chain processes and resource capability gaps.

In the classic people, process, and technology model, organizations tend to place greatest value on technology. Yet in our experience, it is often the lowest contributor of value.

An effective practice in supply chain transformation is to consider supply chain technology solutions only after core supply chain processes are developed or redefined. Start with business processes first. Invest heavily in streamlining and improving core supply chain processes and establishing a robust set of business requirements.

Effective resourcing through focus and discipline

Many organizations today run lean and continually seek ways to do more with less – a trend that is likely to continue in coming years. For this reason, organizations may try to stretch their resource pool and drive supply chain performance improvements with as few full-time project resources as possible. This can lead to a vicious cycle in which the focus is on incremental improvements rather than transformative ones.

A number of options exist for closing resource gaps and enabling more transformative change across the supply chain. First and foremost, focus the organization on a few critical projects rather than many trivial ones. An evaluation of the supply chain project portfolio often reveals a laundry list of less important initiatives that consume limited resources. Targeting resources on a few transformational efforts can produce more visible and valuable results while freeing up resources.

Second, consider augmenting project teams with contractors. They can provide deep experience in many areas and be deployed efficiently, without requiring an exit strategy at project completion.

Finally, identify and on-board resources from other business functions. Supply chain projects often benefit from outside experience. A cross-functional team can be powerful and help generate support and enthusiasm for the transformation.

Aligning resources to evolving project skillset needs

Hand-in-hand with resource constraints is the challenge of finding effective skills and capabilities to carry out supply chain transformation efforts. Compounding this challenge is the fact that such efforts are typically of longer duration than stand-alone supply chain projects. As a result, two other important resource considerations should be top of mind when planning a supply chain transformation.

First, unlike incremental supply chain efforts, transformations usually require broad skills – at a bare minimum, functional, business, technology, organizational, and project management experience is needed. At

the same time, very specialized capabilities may be required to address specific issues that arise during transformation. For example, if a technology solution is implemented to support mode optimization within logistics and distribution, resources with deep transportation management system capabilities will likely be needed. However, these technical resources may be of little help in supporting the design and implementation of an inventory optimization tool. Finding and deploying resources to meet many the needs of the project should be an important focus early on.

Second, the longer life cycle of supply chain transformation projects means the resource pool is likely to change over time. In transformations, the first phase of work requires deep functional and business experience to develop a case for action, frame-up the business case, and document high-level business and systems requirements. The second phase of the transformation requires more focus on technical skills as business requirements are translated into a technical design. The third phase of the transformation requires a balance of business and technical resources as the solutions are implemented and the business adopts the new processes and tools.

Organizations are likely to struggle to address both the breadth of skills required and the need for an evolving resource pool. Planning for these resource challenges is a critical success factor for supply chain transformation initiatives.

A strong and durable business case

By their very nature, transformations impact large numbers of business stakeholders and draw heavily on business and technology budgets. For these reasons, a strong business case with very calculated alignment between budget and organization is needed.

The business case should form the foundation of the transformation and be used to align specific stakeholders and generate buy-in from the broader organization. It becomes the case for action that should be challenged and refreshed periodically. Refreshing the business case every 6 months is required because assumptions and baselines change over time. So, as a rule of thumb, business case refining the business case every six months is an effective practice, especially when developing supply chain solution options since costs can vary significantly depending on the proposed solution.

With each release of new funds, expectations for precision will increase. So while the initial business case is meant to be directional – using experience, benchmarks, and hypotheses, to prioritize effort and test the validity of the project – the next phases should focus on deeper dives with more interviews and detailed data analyses to substantiate and refine assumptions. It is important to seek fresh perspectives on specific assumptions and conduct a sensitivity analysis to identify critical drivers within the model. Taking time to gain budget and organizational alignment, including allowing business units to challenge key assumptions, can reinforce and refresh support for the initiative over the long run.

Spend the time to get the budget right

One potential major vulnerability for transformations is underfunding as a result of inadequate financial planning. During business case development, there can be a tendency to focus on the expected benefits versus the necessary costs to deliver.

An effective practice, therefore, is to estimate costs during development of the initial business case. Doing so may force the transformation team to think through high-level solutions and design options early in the project lifecycle.

Adding a contingency amount to the business case is another effective practice. As mentioned previously, the initial cost estimate should be doubled. This may seem excessive, but if the benefits analysis does not suggest a 100-percent contingency, the transformation scope may be too limited. A contingency can protect the transformation from unforeseen costs and provide a buffer to avoid time-consuming capital requests during project delivery.

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A final consideration regarding budget is to determine that cost assumptions are tested and confirmed with someone from the finance organization. Small errors regarding loaded resource costs, contractor costs, weighted average cost of capital (WACC), model duration, and other critical inputs can dramatically impact cost estimates and put unnecessary pressure on a transformation budget.

Cross functional boundaries early and often

Within complex supply chain initiatives, solutions typically cut across product development, planning, sourcing, manufacturing, and logistics and distribution. In addition, the supply chain function has multiple integration points with the sales, commercial, and marketing organizations. Tight integration both within the supply chain and across the broader organization is an important element of supply chain transformations.

Build solutions that last

Long-term value creation is one critical measure of effective supply chain transformation, with long-term loosely defined as being greater than five years. Despite making significant investments in developing world-class supply chain capabilities, organizations often short-change themselves by not establishing the operating structure, governance, and metrics required to sustain the benefits over time.

The combination of appointing a senior supply chain leader, establishing an appropriate governance model and developing cascading supply chain metrics can contribute heavily to transformation that is sustainable both in the near term and ongoing.

An effective practice to consider is conducting integration sessions to cover integration points and discuss and agree on integrated solutions. An internal supply chain example is injecting integration planning into logistics and distribution. As product demand fluctuates, the need to modify the transportation plan and asset base will change. Effectively integrating these two activities is critical to creating value. An example outside the supply chain is integration planning between global functions such as procurement and technology. Leveraging a global procurement organization to support the development of a core carrier program requires tight integration between the supply chain and procurement organizations.

Many effective supply chain organizations are led by a single senior leader that has the ability to influence the C-suite and drive the supply chain agenda. Identifying and assigning such a leader is an effective practice. Another effective practice is establishing a governance structure with clear decision rights and well-defined roles and responsibilities, which encourages organizations to drive accountability. Finally, it is important to develop and manage supply chain processes against a series of cascading performance metrics that directly link the business strategy to supply chain performance measures down to operational metrics. In this way the impact of supply chain solutions can be measured and tracked over time.

The combination of appointing a senior supply chain leader, establishing an appropriate governance model and developing cascading supply chain metrics can contribute heavily to transformation that is sustainable both in the near term and ongoing.

Looking forward

Economic downturns, repeatedly missed earnings targets, significant acquisitions, or major systems implementations are often the catalysts that precede many large-scale supply change transformations, creating a burning platform for change. In the absence of such a catalyst, it can be more difficult to convince the organization to undertake such an ambitious effort.

However, with the potential for continued economic headwinds, an increasing competition on a global scale, and the many different challenges multinational businesses face today, it's likely just a matter of time before the pressing need for supply chain transformation rears its head. To stay ahead of the curve and avoid potentially limiting incrementalism, leading businesses should rally around an aspirational supply chain vision and leverage lessons learned that can help them proactively identify and capture performance improvement opportunities while addressing future risks, challenges, and competitive threats.

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