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The online institute for global supply chain leaders

The SCM World Chief Supply Chain Officers' Report 2010

June 2010

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Forward

SCM World, a RaptureWorld company, is the leading online global community for supply chain executives. The SCM World Chief Supply Chain Officer Report 2010 is a collaboration between SCM World and Aberdeen Group. Aberdeen Group is the leading fact based market research and industry analyst firm.

The Report has been designed and developed to draw out the critical insights that drive C-level supply chain executives in 2010 and beyond. With such a rapidly shifting macro economic climate, we wanted to understand how companies are re-defining the role of the supply chain leader, and in turn how those executives are positioning their organizations to remain competitive in an increasingly globalized and complex operating environment.

Almost 400 global executives took the survey, which included SCM World members and non-members. Over 50 of those respondents were at C-level within Fortune 1000 organizations.

Over the coming month we will be releasing 3 further derivative surveys, looking at the Chief Supply Chain Officers' Technology Agenda, as well as specific reports focused on the CSCO agenda for Discrete and Process sectors.

This year's report is sponsored by Kinaxis, a leading provider of on-demand S&OP and supply chain management solutions. The report sponsor has no influence over the survey design or its results.

We are sure that you will find this useful reading, and please do not hesitate to get in contact to discuss any of the findings in greater detail.

Yours Sincerely,

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Research Brief

The Evolving Role of the Chief Supply Chain Officer – The Results of the SCM World Annual Chief Supply Chain Officers' Report

The goal of this research brief is to explore the view points of 396 supply chain professionals including 50 C-level executives who took the SCM World Chief Supply Chain Officer Report survey. The results of this survey were discussed in the key note presentation on June 15, 2010 at the Chief Supply Chain Officer Summit. Those survey responses provided insight and answers to questions such as: What are the Best-in-Class capabilities that companies have with respect to overall supply chain performance? And, what are the technology enablers that Chief Supply Chain Officers rely on? We will also see practical applications of these issues through case studies and end user anecdotes.

The Business Challenges for Chief Supply Chain Officers

Although cost savings in supply chain, logistics and manufacturing are often the key objectives of the organization, industry leaders realize there is another benefit – the ability to differentiate their customer service or market strategy from marketplace competitors. Although 31% of overall supply respondents report that their companies still view supply chain management as a cost center, today 33% of c-level respondents view supply chain management (SCM) as a market strategy differentiator.

The Chief Supply Chain Officer (CSCO) role provides a way for the supply chain to earn a place in the board room and drive strategic decision making. The CSCO has emerged as a key stakeholder in the company to make supply chain transformation happen. Today, senior management is looking for the Supply Chain Organization to deliver more than just efficiency – it is being asked to deliver innovative cost reduction strategies to help grow their company and present a market strategy differentiator.

Survey Demographics

Type of Organization:

√ Manufacturer - 56%

√ Services Provider - 23%

√ Distributor - 11%

√ Retailer - 7%

√ Contract Manufacturer - 6%

Position within Organization:

√ C-Level - 13%

√ VP/Director - 46%

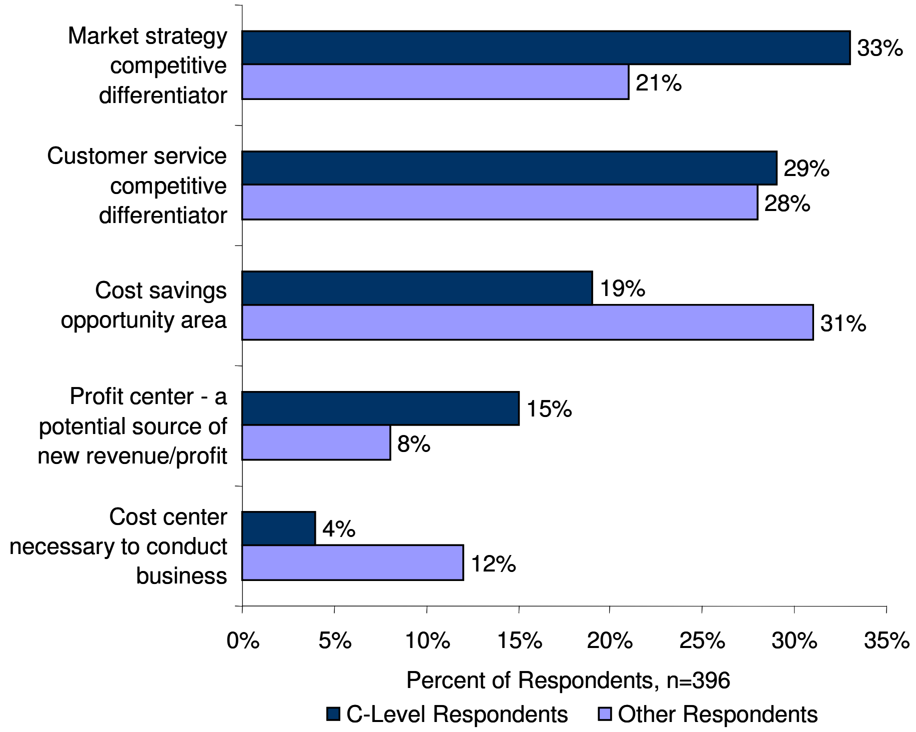
√ Manager/Head - 33%

√ Consultant - 5%

√ Other - 3%

For instance according to Reuben Slone, Executive VP of Supply Chain at OfficeMax, supply chain executives must speak the language of the CEO, CFO, and the board. Slone says, "Every supply chain initiative we have is judged on economic profit. We look at how we can reduce working capital and cost while making sustained improvements in product availability. All of our initiatives must have a return greater than the weighted average cost of capital for our firm." Slone and other top performing supply chain leaders know that to be a part of driving company strategy they have to relate all of their actions and results to what matters to the CEO.

Figure 1: View of Supply Chain Management by Organizations



Source: SCM World Chief Supply Chain Officer Report Survey 2010

To combat the challenges of today's economy, most companies have begun more intensely focusing on the supply chain. The top reported pressures driving companies to improve SCM in 2010 are:

- Escalating customer service demands – 55%
- Rising business complexity of managing global business – 40%
- Rising supply chain management costs - 29%

Survey Demographics

Geographic Region:

√ North and South America - 45%

√ EMEA - 45%

√ Asia and Australia - 6%

√ Rest of World - 4%

Survey Demographics

Geographic Region:

√ Large companies (> 1 B $ USD) - 46%

√ Upper Medium sized companies ($ 500 M - $ 1B USD) - 10%

√ Lower Medium sized companies ($50M - $ 500 M USD) - 20%

√ Small sized companies (< $ 50 M USD) - 15%

√ Undisclosed - 9%

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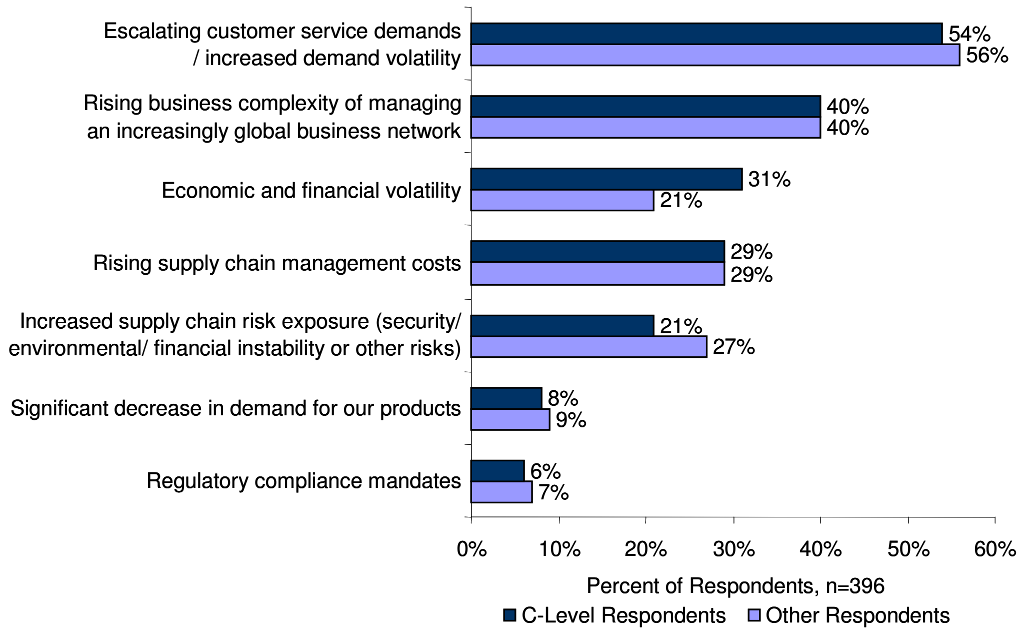
Figure 2: Key Pressures Forcing Organization Focus on Improving SCM



Source: SCM World Chief Supply Chain Officer Report Survey 2010

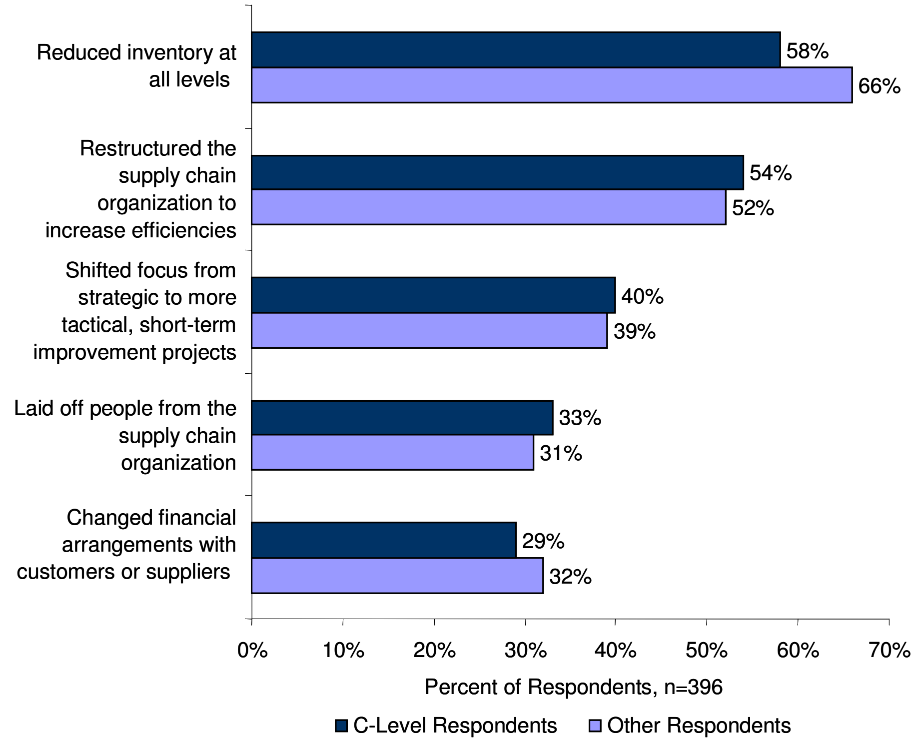
Chief Supply Chain Officers - Taking Action

With the business context above, it is important to note the various types of actions that companies are taking in response to these business pressures (Figure 3). It can be seen that both the C-level respondents and all other respondents are indicating that reducing inventory at all levels is the top action that companies are taking to help control costs and improve efficiency.

"We started a project a year ago to reduce unnecessary inventory in our supply chain so that we could carry strategic stock. We believe it is better to carry stock at its most raw level and therefore reduce finished goods. This means the stock we carry is at its most flexible stage in the production cycle. We have reduced factory stock by a third in the last year. To further control stock we have introduced lean methodologies the most successful being Kan Ban – not only has it helped to reduce inventory but also helped to wipe out most of our shortages. Before we introduced Kan Ban we could have had anything up to 20 shortages but since its introduction shortages have dwindled to 1 or 2 and quite often 0. We have also introduced MRP which has further reduced stock outs for buy to order items as we now have more accurate information regarding requirements in this area."

~Supply Chain Manager at a European SMB High-Tech Manufacturer

Figure 3: Key Actions Being Taken by Supply Chain Professionals



> "We created $700 M in cash flow through adoption of inventory optimization technology within our supply chain"
>
> ~ Didier Chenneveau
>
> Chief Supply Chain Officer at LG Electronics

Source: SCM World Chief Supply Chain Officer Report Survey 2010

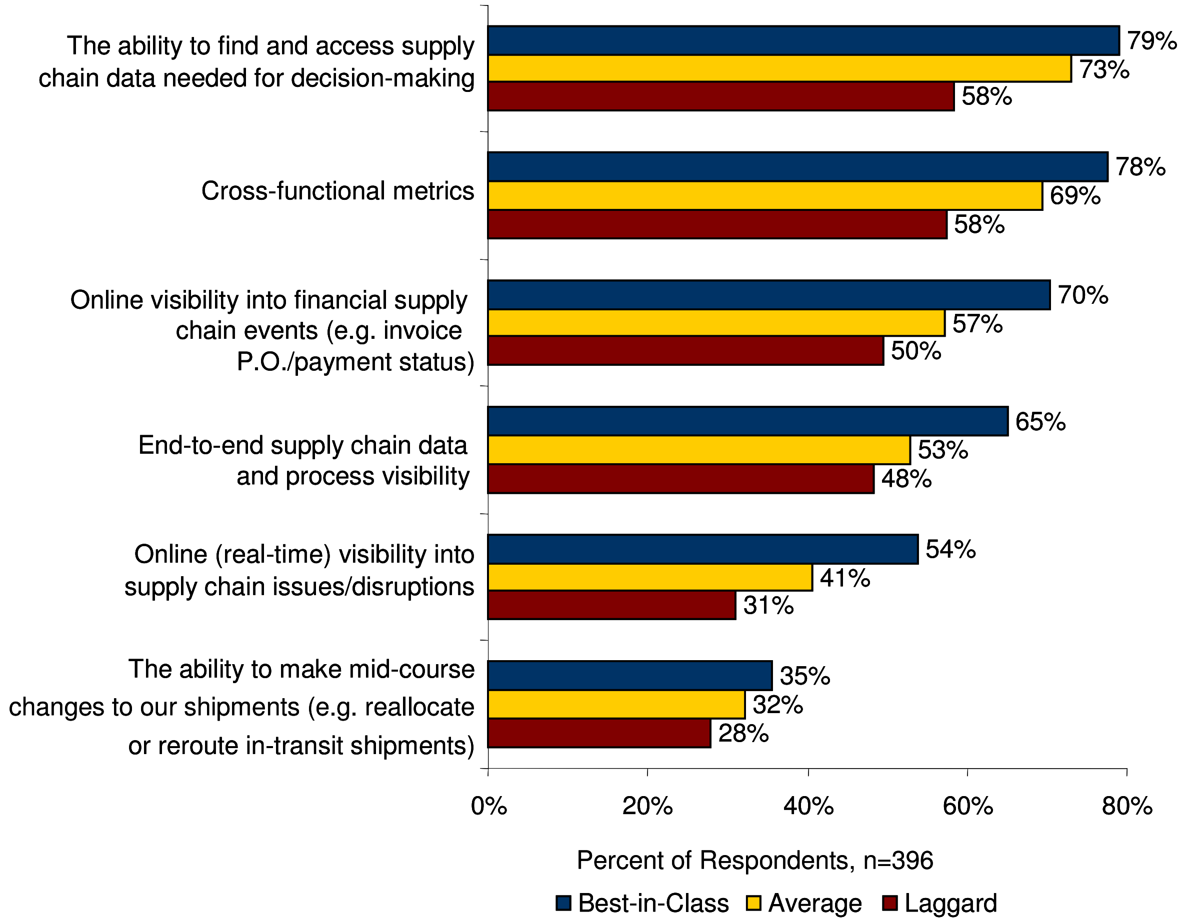
For many companies, especially those with global supply chains, inventory is the biggest lever impacting their working capital position. Due to increased global complexity companies are experiencing long lead times and high demand volatility. This has resulted in an increased emphasis on managing inventory. Organizations are looking for ways to leverage inventory management processes and technologies to unlock working capital.

Best-in-Class Process & Organization Capabilities

Aberdeen used three key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations as shown in the call out box to the right (Source: Chief Supply Chain Officer Report 2010). Aberdeen Group has analyzed the Best-in-Class, Industry Average, and Laggard companies across the following categories: (1) **process** (the approaches they take to execute daily operations); (2) **organization**; (3) **knowledge / information**

management; (4) information **technology**; and (5) **performance management**. In this section we will explore the process (Figure 4)and organization capabilities (Figure 5) of Best-in-Class companies.

Figure 4: Process Capabilities of the Best-in-Class Companies



Source: SCM World Chief Supply Chain Officer Report Survey 2010

The process capabilities outlined above are essential for companies to achieve end to end supply chain excellence all the way from planning to execution. Also these capabilities allow organizations to achieve visibility as well as responsiveness. Best-in-Class companies are leveraging their enhanced visibility into supply chain processes to make their supply chains more agile: if the market demands, they are able to change the direction of their shipment not just during the scheduling process, but at later points in the supply chain – after the cargo has been shipped (visibility). Best-in-Class companies are also are much more likely to perform various kinds of data analysis in support of supply chain decisions which ensures that the visibility data they collect are used to help them achieve the market advantage (responsiveness).

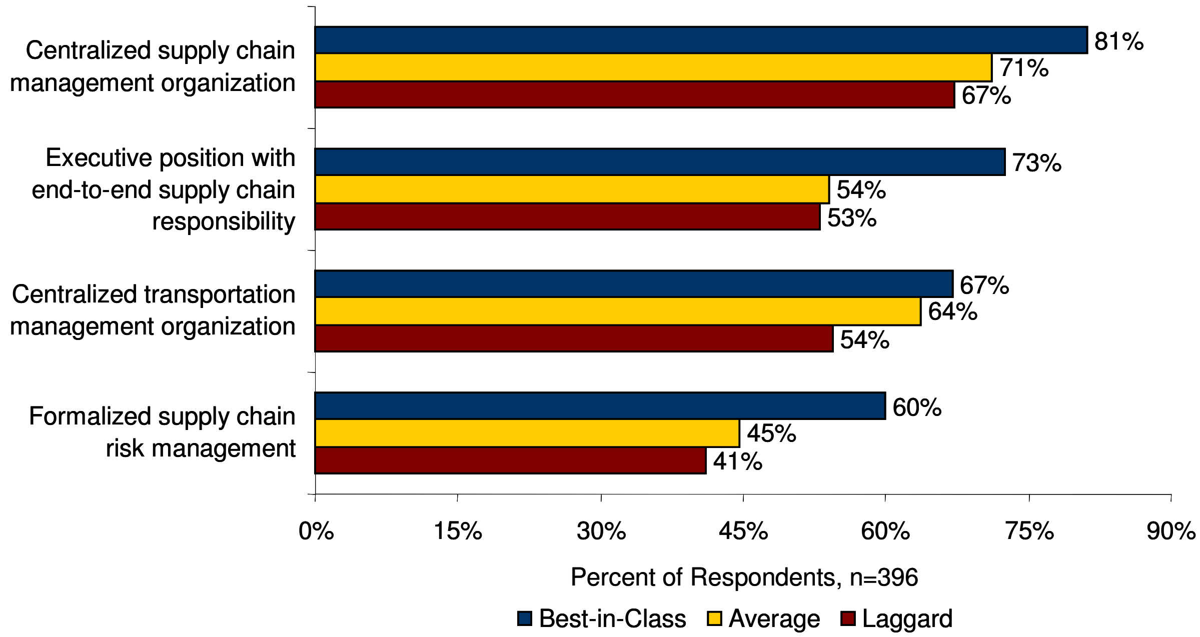
Best-in-Class Organization Capabilities

- √ Best-in-Class companies are the top 20% of aggregate performance scorers
- √ Industry Average the middle 50% of aggregate performance scorers and
- √ Laggards are the bottom 30% of aggregate performance scorers.

When it comes to tough economic conditions, having strong organizational leadership is essential for driving fast and effective SCM actions to help the business. In this study, Best-in-Class firms are 50% more likely than All Others to have an executive position with end-to-end SCM responsibility (Figure 5). Even though 81% of Best-in-Class companies report having a centralized supply chain organization, only 34% of these companies have a Chief Supply Chain Officer. These organizations are clearly seeing the benefits of centralizing supply chain operations, but to make SCM truly strategic, a strong leader can be a critical differentiator. No longer can companies run different supply chains for different products within the same business units. Consolidation and rationalization of business processes within supply chain organizations is a reality that has to be embraced. Having a CSCO role orchestrate the supply chain across these different business units is a key requirement.

When it comes to risk management, *less than one-third of companies in previous Aberdeen research reported actively managing each individual risk,* including risks related to trade compliance, raw materials, demand fluctuations, product quality, financial instability, risk profile of suppliers and customers, currency volatility, catastrophic events, logistics capacity and congestion, supply chain security, and environmental disasters. In these circumstances, formalized supply chain risk management is shown to be a Best-in-Class approach (Figure 5). This includes regular risk assessments and the identification of clear operational response procedures in case of disruptions. Companies need to evaluate their network-wide vulnerabilities and put preparedness plans in place; they should also ask all of their supply chain partners about their own risk preparedness plans.

Figure 5: Organization Capabilities of the Best-in-Class Companies



Source: SCM World Chief Supply Chain Officer Report Survey 2010

Process and Organizational Case in Point

W.R. Grace is a supplier of catalysts for petroleum products and other specialty materials. W.R. Grace sells their catalysts into a wide range of industries including manufacturing, food and beverage packaging, construction and specialty chemicals. Although headquartered in Maryland, W.R. Grace is a global company with operations in over 40 countries, employing over 6,300 professionals. In 2009, W.R. Grace had revenues of $2.8 billion dollars with approximately 64% of those revenues coming from outside of the United States.

Amid the economic turmoil of 2008, W.R. Grace found itself focusing on short term measures to maintain its financial position – price increases to compensate for rising raw materials costs, reduction of overall workforce and a reduction in the purchase of raw materials. These measures allowed W.R. Grace to increase their overall liquidity. Still, all of these short term measures came at a cost. “We were affected by the events of 2008 just like every other company. In response to that we began focusing on short term strategy – focusing on freeing up working capital and other short term measures. Unfortunately, we were less strategic in our view of the market than we needed to be," said Frank Roederer, Director Supply Chain Europe, Middle East & Africa at W.R. Grace.

W.R. Grace had through is short term efforts regained its footing in the market but the companies various departments had begun to experience the "silo" effect. The groups were while striving to become efficient individually in the short term had created inefficiencies and redundancies when taken as a whole. "As an example, each of our groups uses the ERP system in a different way often doubling of efforts between the groups. In essence, our groups were focusing on functional excellence instead of value chain excellence," said Roederer.

Additionally, shifting from short-term measures toward more long term strategies allowed W.R. Grace to examine its supply chain fundamentals. W.R. Grace has been making efforts to optimize its supply chain by focusing on a complete redesign of some key processes including workflow, transportation planning and inventory management. "With our more strategic view we decided to start from scratch with some of our key processes. We were, before, working hard to increase efficiency with some inherently flawed processes," said Roederer. This strategy of redesign has already paid major dividends for W.R. Grace and its shareholders. "We have seen a 5% reduction in overall logistics costs just from redesigning our processes. We have reduced the number of less than full trucks and we outsource many of our warehouses – all of which resulted from simply redesigning our processes

"Our overall approach to the supply chain is to ensure it is at the heart of the competitive position of the business both in terms of customer service proposition and also through a financial performance that delivers significant improvement key metrics on the P & L, balance sheet and cash flow statement. This is to be delivered through a constant focus on people and developing those people in the team to their maximum and quickly taking on new skills where required. It is the people rather than the technology that are making a difference right now."

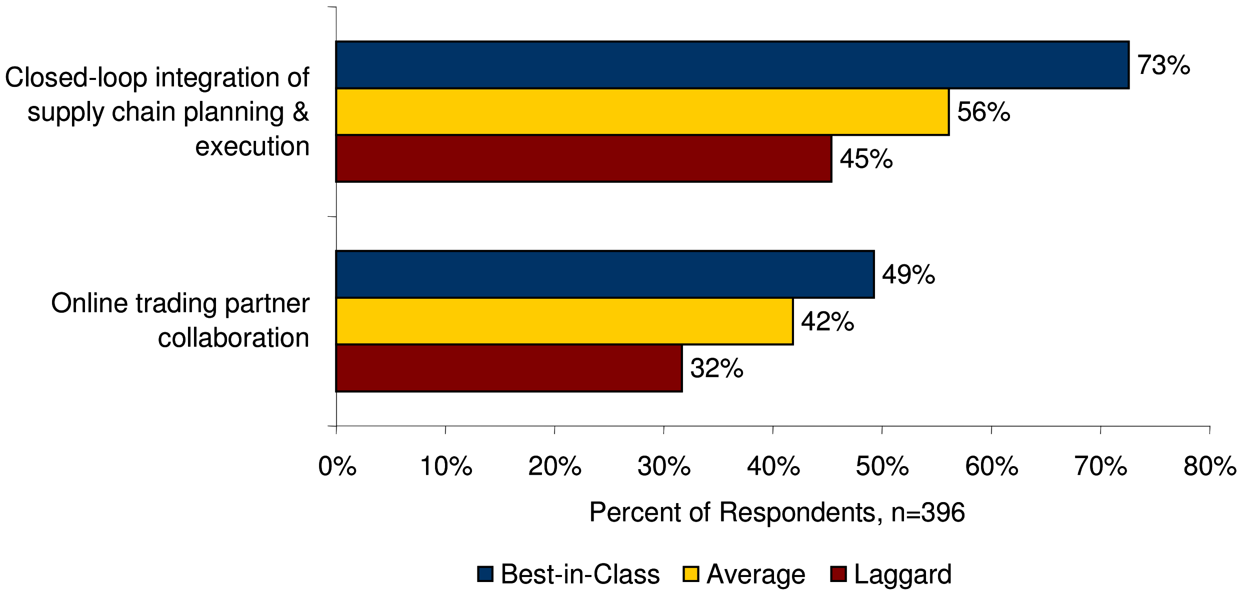
~ Oliver Burgess, Supply Chain Director at Mila Hardware

Best-in-Class Technology Capabilities

Figure 6 shows that the best performers have better integrated planning and execution as well as a focus on integrating with their trading community. The SCM World Chief Supply Chain Officers' Report 2010 tells a compelling story about the evolution of the SCM information technology where the integration between the planning and execution parts of the cycle has become a Best-in-Class differentiator. This integration between planning and execution results in both visibility as well as gaining responsiveness.

However, perhaps the most important benefit of trading partner connectivity is that it establishes a pipeline for process collaboration. Once a pipeline is created for basic purchasing transactions, it can be used to share critical planning and status information. This information can include sales activity, forecasts, inventory positions, and work-in-process and shipment statuses. Moreover, this information can be shared daily or weekly (or even in real time for certain processes), versus monthly or quarterly, creating leaner and more synchronized processes.

Figure 6: Technology Capabilities of the Best-in-Class Companies



Source: SCM World Chief Supply Chain Officer Report Survey 2010

When the survey respondents were asked about the top technology areas targeted for 2010, Inventory Management was cited as the top focus for companies closely followed by Sales and Operations planning as well Visibility/Collaboration.

Technology Case in Point

Company: LG Electronics continues to grow into a leading global corporation and lifestyle brand through its emphasis on technology and design. It is gaining more and more ground in its five business areas of Home Entertainment, Mobile Communications, Home Appliance, Air Conditioning and Business Solutions. LGE's global operations consist of 115 operations and a workforce of over 84,000 employees. LGE has been traditionally a highly vertically integrated organization.

Challenges Faced:

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The market position of LG Electronics (LGE) in their markets associated with Mobile and LCD TV was either #4 or #5 in 2006. LGE's manufacturing processes were Best-in-Class in 2006, however they were completely in-sourced and not really a global organization. Even though they had global facilities, they were not global by culture, process of management. They also lacked an end to end approach towards SCM. These were some of the factors resulting in a below-average position.

Solution Adopted:

The CEO of LGE Yong Nam stated in their 2006 Annual report that "the company's goal is to rank among the top three consumer electronics and telecommunications companies in the world by 2010". The CEO also hired seven new C-level executives to create a global culture and the Chief Supply Chain Officer role was one of these seven. Didier Chenneveau was selected as LG Electronics CSCO and was tasked with making LGE a global supply chain leader.

The approach that Didier and his team adopted for their SCM transformation initiative was to have the best process, best people and best partners. Metrics was a key initiative within the company. There were ten key global metrics chosen - some of them standard metrics like days of inventory, sales forecast accuracy, and on-time delivery. There were also other metrics such as supply chain cost rate, supply chain capability index chosen to complement the standard metrics.

Technology was a key area of focus for LGE. They worked towards standardizing on a global ERP instance across all their business units. Within SCM, inventory management was identified as a key area of focus. The reason for this is that they had excess inventory, poor customer service levels and stock-outs for key models. Their existing safety stock setting was crude. In order to rectify this situation, LGE partnered with a best of breed SCM software vendor to implement inventory optimization. Through the implementation of the inventory optimization solution, LGE was able to cut inventory across the board while maximizing customer service levels. In fact they were able to extract $700 M in cash flow through this initiative.

In addition LGE also implemented several other process and technology initiatives such as manufacturing outsourcing, logistics outsourcing, TMS, SKU rationalization.

Key Qualitative and Quantitative Benefits Gained

Some of the key benefits that LG Electronics has realized through their SCM transformation are:

- Cash flow improvement of $ 728 M due to inventory reduction

- Cost reduction of $ 135 M
- Emergence of SCM as a critical function within LGE

All of the above resulted in LG Electronics rising to the #2 or #3 status across their key mobile and LCD TV divisions in every major global market.

Recommended Actions / Next Steps / Key Insights

The following section highlights the top areas that companies need to look at for improving their supply chain processes:

Laggard Steps to Success

- **Institute formal S&OP plan to execute reporting and metrics.** Forty-five percent **(**45%) of Laggards have indicated that they have closed-loop integration of supply chain planning and execution versus 73% of Best-in-Class companies. Implement basic S&OP capabilities with supply planning capabilities and ensure that the S&OP plan to execute metrics are captured. The first area of plan-execution is at the manufacturing facilities.
- **Institute a formal supply chain visibility dashboard.** Only 28% of Laggards indicate that they have the ability to make mid-course changes to their shipments (e.g. reallocate or reroute in-transit shipments). It is important to establish visibility into at least the most critical supply chain milestones. Select a set of metrics targeted for improvement and assign responsibility for each metric to a specific person / unit in the company. Build a business case by citing the benefits achieved by the early adopters.
- **Institute a risk assessment program.** Only 41% of Laggards indicate that they have a formalized supply chain risk management strategy. The first step for Laggards is to identify sources of risk and business continuity and understand the impact on their business.

Industry Average Steps to Success

- **Include logistics and distribution metrics in the S&OP plan to execute.** Forty-six percent (46%) of Industry Average companies indicate that they have a closed-loop integration of supply chain planning and execution versus 73% of Best-in-Class companies. Expand the S&OP plan to execute closed loop dashboards, and include logistics and distribution related metrics in addition to manufacturing metrics.
- **Invest in data quality.** Fifty-three percent (53%) of Industry Average companies indicate that they have an end-to-end supply chain data and process visibility capability versus 65% of Best-in-Class companies. Focus on data quality. If internal means have been explored (e.g. collaboration initiatives with suppliers and customers to improve the quality of data feeds, on-boarding more partners to use the visibility system), consider the feasibility of using a third-party service to check data quality.

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Best-in-Class Steps to Success

- **Accelerate B2B process collaboration.** Forty-nine percent (49%) of Best-in-Class companies indicate that they have a process level electronic collaboration with their trading partner. Collaboration is one of the key tenets of transformation and has to be given more focus by Best-in-Class companies.
- **Improve supply chain responsiveness**. - supply chain visibility and agility combine to deliver a responsive supply chain that can quickly identify and react to changes in supply, demand, and execution threats/opportunities. This results in optimizing the supply chain in its use of enterprise resources while improving customer satisfaction.

In upcoming articles, SCM World and Aberdeen will specifically look at the technology initiatives of the Chief Supply Chain Officer as well as an industry focus towards process and discrete manufacturing companies.

For more information on this or other research topics, please visit www.aberdeen.com.

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Related Research	
Integrated Demand-Supply Networks: Five Steps to Gaining Visibility and Control; March 2009 *Sales and Operations Planning: Integrate with Finance and Improve Revenue;* July 2009	*Inventory Management: 3 Keys to Freeing Working Capital;* May 2009 *Supply Chain Intelligence: Adopt Role-Based Operational Business Intelligence and Improve Visibility;* Feb 2010
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