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Supply Chain
Management

Creating and Sustaining the High- Performance Business:

Research and
Insights on the
Role of Supply
Chain Mastery

Few companies question the value of supply chain excellence. But until recently, empirical data connecting financial and supply chain performance did not exist. In this white paper, the authors report the results of a groundbreaking study that proves supply chain mastery is rewarded. They then examine the supply chain insights and behaviors of nearly 20 major companies that have demonstrated ongoing financial success and consistent leadership in supply chain management.

Supply Chain Perspectives helps senior management improve business performance through supply chain innovation.

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Creating and Sustaining the High-Performance Business:

Research and Insights on the Role of Supply Chain Mastery

With the exception of profit motive, desire for growth and an inability to predict the future, all companies are unique. Every industry has its leaders, followers, stragglers and innovators. And in every field, differentiation stems from a multitude of sources: manufacturing, marketing, merchandising, supply chain, customer service, cost management and many more. Moreover, within a particular category, industry or market, very different approaches can drive strong performance. This is why both Wal-Mart and Nordstroms are retail success stories. The common trait that they, and other business leaders, often share is a clear, differentiating strategy supported by measured—and measurable—action.

Companies that consistently turn insights into action may not be unique, but they certainly are a minority. Yet these high-performance businesses do have several identifiable characteristics. At a high level, their strategic mission is crystal clear; yet they are willing and structurally able to refocus and redirect as business conditions warrant. They also fixate on mastering the core competencies needed to excel in their industry, while functions that are not core competencies are outsourced to service providers for which the work is a core competency. And nearly all high-performance businesses are collaborators: They know that a tight relationship with business partners can enhance financial strength, increase their own uniqueness and make their market positions less vulnerable.

High-performance businesses also are particularly adept at using information to make the right decisions at the right time. Compared to less-effective organizations, they:

- Gather more and better information about their business and competitive environments.
- Analyze that information more thoroughly, and make better decisions based on the results of their analyses.
- Act more quickly and decisively on the acquired information.
- Monitor their performance more closely.
- Improve and innovate continuously.

Lastly, high-performance businesses truly understand the drivers of current and future value, and they translate those insights into differentiated operating models and business architectures. One such driver often is supply chain management, a process that still is viewed by many as a cost center or, at best, a means to extend companywide efficiency. The reality, however, is that the benefits of exceptional

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supply chain management greatly transcend cost savings. More than ever before, leading companies are using the supply chain to enhance differentiation, increase sales, and penetrate new markets and channels. This white paper looks closely at how they do it—the role supply chain management plays in building and supporting a high-performance business. The paper's initial focus is a remarkable research effort that has documented a direct connection between companies' supply chain performance and their bottom lines. The remainder looks closely at a handful of best practices and best practice companies that, as market leaders, have positioned the supply chain as a vital contributor to their business success.

Successful Companies Often Are Supply Chain Masters

Most senior decision makers now acknowledge that supply chain management is an essential contributor to operational excellence. This has been documented many times, most recently by an international study team staffed by researchers from Accenture, INSEAD and Stanford University. Results gleaned from that effort show that the supply chain is "very important" or "critical" to nearly 90 percent of the executive survey population. Backing up those statements, a nearly equal percentage have increased their supply chain investments in recent years.

But what is the actual relationship between supply chain mastery and business success? Can it be proven that supply chain leaders are also business leaders? Does supply chain success equal financial success? Until recently, this correlation had not been established.

As part of its investigation, the research team noted above set out to quantify the relationship between companies' financial success and the depth and sophistication of their supply chains. To establish this linkage they analyzed corporate disclosure data from 636 Global 3,000 companies in 24 industries. For each company, three supply chain performance variables were measured: inventory turns, cost of goods sold as a percent of revenue, and return on assets. Two distinct time periods—1995 to 1997 and 1998 to 2000—were used to associate gains or slips in supply chain performance with improvements or deterioration in financial performance.

For the purposes of the research, superior supply chain performers were defined as those whose supply chain execution was ranked in the top third of their industry for two of the three variables (inventory turns, cost of goods sold and return on assets). Companies were assessed according to these criteria for each time period and placed in one of four categories (Figure 1):

- **Leader:** Superior supply chain performance demonstrated across both time periods.
- **Transformer:** Supply chain performance migrated into the superior range over time.
- **Decliner:** Supply chain performance deteriorated over time, from within the superior range to below it.
- **Laggard:** Superior supply chain performance was not achieved during either time period.

Next, a similar exercise was performed to identify and categorize each company's financial performance across the same time periods. Superior financial performance was defined as better-than-average compound average growth rate (CAGR) of market capitalization within an industry. Again, each company was defined as a leader, transformer, decliner or laggard based on its financial performance across both time periods.

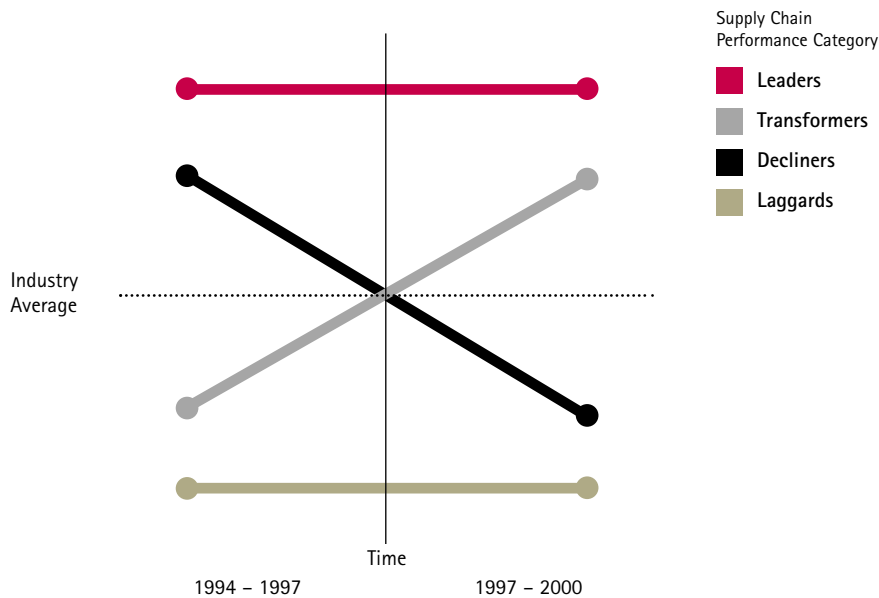


Figure 1: Classifications of supply chain performers.

From there, the team cross-tabulated the researched companies on the supply chain and financial performance categories noted above. What they found was a strong and consistent relationship between supply chain and financial performance: Supply chain leaders showed a higher-than-expected probability of also being financial leaders; supply chain transformers showed a higher-than-expected probability of also being financial transformers; and so on.

As shown in Figure 2, supply chain leaders showed a market cap CAGR between seven and 26 percentage points higher than the industry average growth rate. Over time, transformers showed an average boost in relative market cap CAGR of eight percentage points. Conversely, laggards' market cap CAGRs trailed the industry average growth rate by two to five percentage points, while decliners showed an average drop in relative market cap CAGR of 25 percentage points.

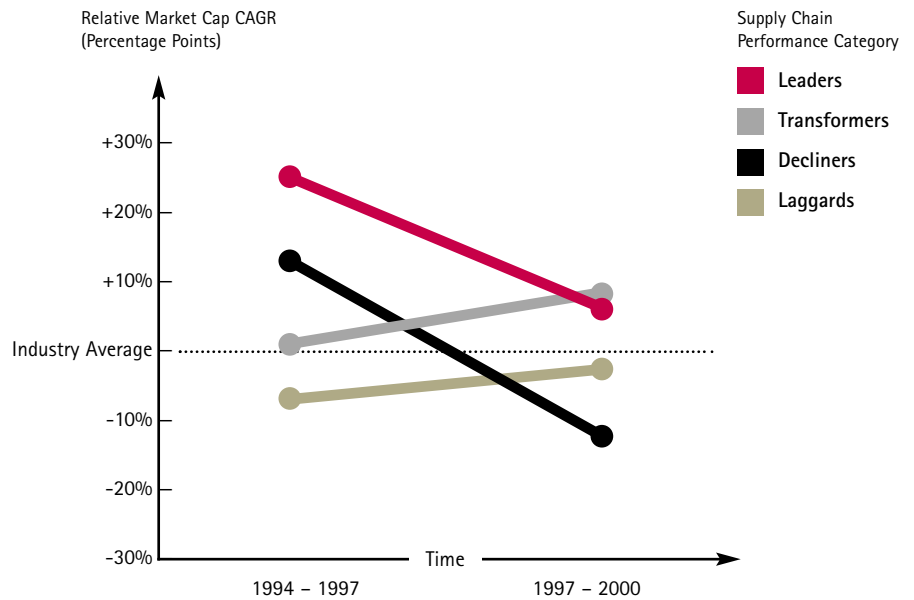


Figure 2: The financial success of companies in the four categories tracked tightly to supply chain performance. (Note: Time periods cover four years to calculate three-year CAGRs.)

Leveraging the Supply Chain to Improve Business Performance

Supply chain excellence clearly has the potential to drive—not just influence—business performance. But most supply chain managers still see “greater efficiency” as their principal mission. As a result, they propagate an inward focus on cost control, rather than spearheading supply chain strategies that seek to improve overall business performance. Senior executives often fall into the same trap: Few think about how they might position supply chain mastery as an engine of differentiated market positioning and sales growth.

Still, there are exceptions: companies that put the supply chain center stage when defining, enabling and executing business strategies. More often than not, these are the leaders and transformers identified in the previous section. And in all probability, they also practice many—if not all—of the following supply chain behaviors:

1. **Recognize the strategic possibilities** that innovative supply chain strategies and operating models do enhance shareholder value and competitive differentiation.
2. **Embrace end-to-end process integration**—across firms, systems and people—as the key to aligning demand and supply.
3. **Execute supply chain initiatives selectively** using common processes and technologies to achieve uncommon results.
4. **Challenge the status quo regularly and aggressively** to drive supply chain and business strategy innovations within and across companies.

1. Leaders Recognize the Strategic Possibilities

Most companies regularly envisage supply chain opportunities, but they also limit those visions to operating cost efficiencies and, perhaps, service enhancements. Leaders and transformers look at the same supply chains, but they come away with novel possibilities for new, market-changing value propositions. Often, those innovations result in more favorable trade-offs. For example, there might be less need to increase costs in order to ensure premium delivery. Redefined trade-offs make it possible to offer new product/service varieties to customers at lower costs and with greater speed.

Researchers found a strong and consistent relationship between supply chain and financial performance: Supply chain leaders showed a higher-than-expected probability of also being financial leaders.

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Meticulous development of integrated operating models go hand in hand with those visions. Basically, integrated operating models help companies define how they will leverage supply chain management to maximize competitive advantage. As such, they consider:

- Channel relationships, channel and network strategies, product flow strategies, and the degree of operational integration with channel partners.
- Inventory and service strategies across the extended supply chain.
- Linkage with pricing and customer development.

Most companies spend far less time on the design of integrated operating models than they do on business strategy development or process design. However, the research team discovered that supply chain and financial leaders spend a larger percentage of time on the design of their operating models. Those models vary significantly by industry, but they always incorporate world-class business processes—particularly customer relations, supplier management, new product design and core logistical operations. They also are the product of a management culture that encourages supply chain mastery and insists that its people understand and flawlessly execute supply chain processes.

International clothing manufacturer/retailer Zara looked at advances in communications and manufacturing systems, and visualized a quantum leap in variety of styles and the speed with which it could respond to changing consumer tastes. The result was a value proposition that combines moderate prices with up-to-the-minute fashions—Zara delivers 11,000 different styles every year.

Leveraging hand-held technology, managers at all of Zara's 450 stores (nearly all of which are company-owned) now send customer feedback directly to in-house designers. This keeps designers instantly abreast of fast-changing trends and demands. Because Zara built an operating model around this capacity, it can act on the information almost instantaneously and respond to changing customer preferences far more swiftly than its competitors. One way that it does this is to keep the design and cutting of fabrics in house. In addition, Zara acquires and stocks fabrics in only four colors, and postpones outsourced dyeing and printing until just before manufacture—which minimizes waste and keeps inventory low. Zara also outsources manufacturing to a small network of local suppliers. Each supplier has close ties to Zara. This helps orders get top priority in manufacturing and fulfillment, without compromising the company's ability to respond swiftly and economically to changing demand.

With an eye for supply chain innovation and assiduous attention to an integrated operating model, Zara can deliver new styles in three to six weeks, compared to up to five months for competitors. Small wonder that Zara has enjoyed 20 percent sales growth for more than a decade, along with consistent, industry-leading 10 percent profit margins.

More often than not, leaders make key decisions based on the potential to improve operating performance. That is what Zara did: built its businesses around the possibilities of the supply chain. Most companies have not done this; so their task must begin with a strategic review of their supply chain capabilities, followed by an analysis of the relationship between those capabilities and their value propositions and operating models. Generally, these analyses will reveal that the company has multiple operating models for different business units, or even for the same product. At this point, supply-chain-driven market opportunities become clearer, thus driving the company's rationalization of its operating models and supporting value chain.

At British Airways, a strategic review identified several significant opportunities associated with supply chain improvement. In March 2000, for example, a strategic sourcing initiative was undertaken by the company's Procurement organization. By April 2002, the company had reduced its supplier base by more than half, and realized supply chain savings of £50 million. Additional savings of £70 million are expected.

But transforming its procurement and sourcing practices didn't just reduce British Airways' costs. It also helped the company respond quickly to changing market conditions. For example, the airline took action to stimulate demand by introducing Club World business-class flat bed seats on key routes. And it inaugurated the new seat concept in half the time normally needed to make such a change. This improvement was possible because Marketing brought in Procurement and Sourcing early in the design process, and those organizations were able to work with a tighter stable of suppliers to refine the product quickly and efficiently. The timely introduction of Club World flat bed seats enabled British Airways to differentiate its business class and expand market share for premium passengers in a slowing economy.

Zara and British Airways are not the only companies that have redesigned their supply chains and operating models to support new value propositions in their industries. Dell did so with a direct-sale model for build-to-order computers. Supply chain innovations focused on frequent and rapid product introductions helped Nokia attain a 35 percent market share with 20 percent operating margins. And Taiwan Semiconductor Manufacturing Company's (TSMC's) Web-enabled linkages with suppliers

Transforming its procurement and sourcing practices not only reduced British Airways' costs, but also helped the company respond quickly to changing market conditions.

Companies with superior supply/demand-matching capabilities generally are more responsive to changing market conditions. They also may require less operating capital than their peers.

(demand forecasts, manufacturing requirements and logistics data available 24/7) and customers (many have electronic access to TSMC design, planning and logistics tools) helped it achieve the semiconductor industry's shortest manufacturing cycle times, highest yields and best customer-satisfaction levels.

2. Leaders Embrace End-to-End Process Integration

Leading supply chain companies "do the basics well" by ensuring that processes are designed to be easily executed, that strict performance standards are met, and that key processes are integrated end to end—from supplier to customer. The latter capability—effective end-to-end integration—is particularly important because it helps align supply with demand. Companies with superior supply/demand-matching capabilities generally are more responsive to changing market conditions. They also may require less operating capital than their peers. And like Zara and Seven-Eleven Japan, they often leverage this capability by expanding product variety and increasing speed to market, as well as reducing costs.

Saturn's service supply chain illustrates many of the benefits of end-to-end process integration: Its automotive service generates return-on-sales revenues that are twice that of other GM brands. The company also has the highest percentage of car owners who go to the dealer for repairs, rather than to independent repair shops; its retailers' service-part inventories average more than seven turns per year, rather than between one and five turns, which is typical for other auto retailers.

The keys to Saturn's service success are its powerful information systems and its ability to integrate service operations and parts-supply processes with the demands of its retailers. Every night, all transactions for all SKUs at each retailer's site are sent to Saturn's central system via satellite. The system then uses basic cost/volume rules to make replenishment decisions for each SKU and retailer. Individual retailers then can accept, reject or modify the suggested replenishment plans.

Saturn also links service operations with its parts-supply process. Supplier-integration efforts at its co-located manufacturing plant in Spring Hill, Tennessee, include:

- Developing shared material-flow systems.
- Positioning supplier staff within the production facility.
- Using direct supplier-performance metrics.
- Sharing inventories among production and after-sale logistics to cover emergency shortages in production or service delivery.
- Linking demand data to external parts suppliers to support production planning.

In net, Saturn epitomizes two of the most basic tenets of process integration: concentrating on systems that increase visibility across the entire supply chain and sharing key information with suppliers and positioning them as business partners. The high level of process integration made possible by these behaviors enables the entire supply side of the Saturn service supply chain to be driven by consumer demand.

As illustrated by Saturn, capturing the benefits of better supply-demand matching requires information sharing and collaboration across the supply chain: process integration supported—but not led—by technology. At Nokia, employees' process orientation extends well beyond their specific function. Frequent job rotation helps them work as teams. Cross-functional steering groups (including senior executives) regularly scrutinize supply chain initiatives. Additionally, process-management issues are approached from the customer back through internal functions, thus ensuring a market-driven perspective.

End-to-end process integration also requires companies to invest in knowledge sharing and training. This may be the single best way to help scale and diffuse process innovations. A good example is Nucor's "BESTmarking™" program, a benchmarking initiative designed to identify and propagate best practices. When an innovative practice is implemented (e.g., a new procurement program), Nucor's CEO invites those who initiated the practice to share its tenets with other Nucor divisions. And when British Airways tightened its focus on strategic sourcing, every member of the Procurement staff was provided with intensive and ongoing strategic sourcing instruction.

3. Leaders Execute Supply Chain Initiatives Selectively

Supply chain leaders are particularly careful about choosing and implementing supply chain initiatives. They understand that, to be effective, those initiatives must mesh well with the company's business strategies and operating models, and have clear potential to generate above-average returns and yield new sources of competitive advantage.

One of Cisco Systems' supply chain strategies might be referred to as "tempered outsourcing." The company outsources select manufacturing operations to Jabil and other electronics manufacturing services suppliers, thus leveraging economies of scale and specialization in manufacturing.

But Cisco also retains certain manufacturing/assembly facilities and capabilities, which it uses to test and refine new assembly processes that then may be shared with (or assumed by) outsourcing partners. With this approach, Cisco can maintain its manufacturing expertise and commitment to manufacturing innovation, while capturing the strategic and economic benefits of outsourcing.

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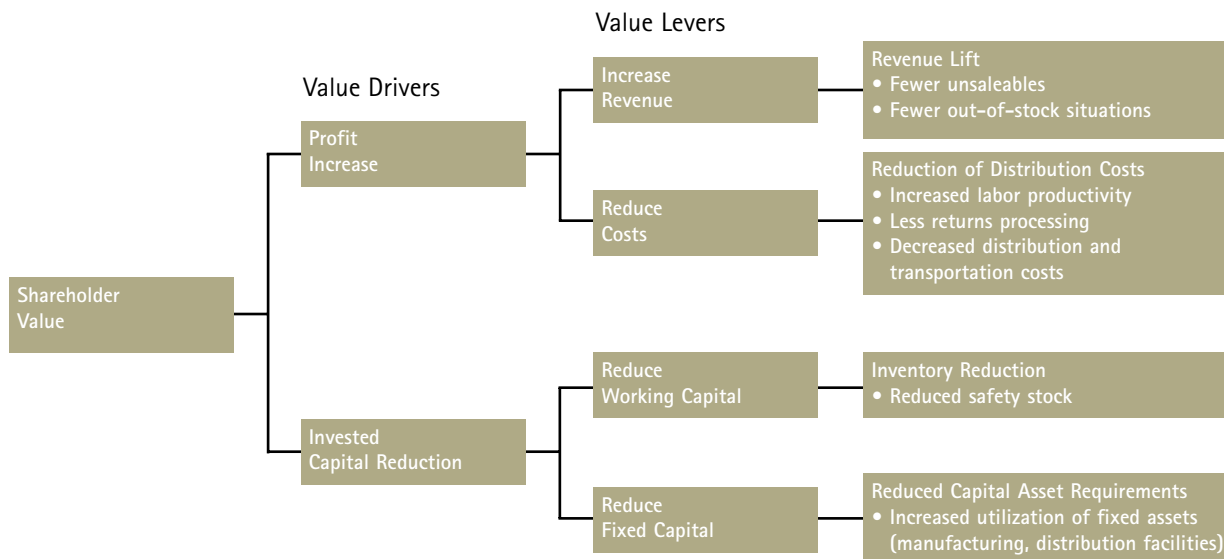


Figure 3: RFID implementation can affect shareholder value in a multitude of ways.

Supply chain leaders also are selective in their deployment of information technology—often opting for systems with distinct or proprietary features to support critical parts of their operating models. Dell, for example, developed a sophisticated “dynamic pricing” application that helps the company manage demand by frequently changing the prices of configurations and components. This capability makes it possible to shift demand to available and committed stocks of supplies, thereby stabilizing supply chain operations and reducing costs. As mentioned earlier, Zara also uses a proprietary information system to connect its stores to its headquarters and suppliers. And TSMC leverages proprietary design, simulation and scheduling systems to be more responsive to clients. The latter’s software helps its clients’ chip designers evaluate the manufacturing costs of alternative design choices and quickly alter work schedules to better suit their needs.

4. Leaders Challenge the Status Quo

No supply chain leader ever defaulted to “that’s the way it’s always been done.” Instead, leading performers constantly challenge the status quo and revisit the assumptions that underlie their supply chain approaches, business models and technology infrastructures.

Look at Tesco—the largest and most successful UK supermarket chain—which did careful, yet imaginative experimentation when piloting online grocery shopping through pick-and-pack fulfillment of orders from its stores. Refusing to follow the lead of Webvan and other online grocers, Tesco did not invest initially in expensive, dedicated distribution centers for online grocery. Instead, it learned how to refine its online grocery offerings in concert with its store assets. Or consider Dell’s refusal to

stand firm with its highly successful build-to-order business strategy. In July 2002, to promote sales during back-to-school and holiday periods, the company opened its first mall kiosk. However, the approach was so successful that Dell made many kiosks permanent and then began putting them in Sears stores. Several months later, Dell began leveraging its supply chain prowess even more by offering build-to-order, unbranded PCs through resellers.

Leaders don't just revisit their own operating model assumptions: They push their insights and innovations throughout the company, drive them out to suppliers and actively promote them to third parties. They also embrace new technologies and implement them (when suitable) with key partners in the supply chain.

Procter & Gamble is working with major retailers and the Auto-ID Center (an academia collaboration) to develop and test new types of radio frequency identification (RFID) technologies across the consumer goods value chain. RFID tags attached to P&G products or cases can be detected automatically by RFID readers. The resulting "reads" (transmitted locally or even over the Internet) make it possible for P&G and its retailers to track inventories down to the item level, thus reducing channel volume and enhancing forecasting and planning capabilities. P&G also gains the ability to track product from point-of-manufacture to point-of-sale, while its retailers can restock shelves and replenish inventory with greater speed and efficiency. No intervention (e.g., reading a barcode) is needed. In fact, RFID is likely to replace barcodes in many applications, dramatically increasing supply chain visibility while reducing the costs of tallying inventory and expediting transactions. Additional benefits are depicted in Figure 3.

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Making Change: Guidelines for Supply Chain Transformation

Like companies, no two operating models are—or should be—exactly alike. There simply are too many variables in any corporate environment to make blind emulation plausible. However, studying the behaviors of business leaders is vital. At a minimum, such analyses confirm what most companies know but many ignore: that innovation matters...that change is unavoidable...and that staying the course too long is usually catastrophic. Leading supply chain companies are no exception. They achieve and sustain competitive advantage by continuously incorporating new supply chain innovations. In effect, they are in a permanent state of transformation—constantly scanning the supply chain environment (marketplace, partners, competitors) for new ideas and opportunities.

Wal-Mart has been anything but shy about leveraging its supply chain expertise to address new markets, which is why the company is now North America's largest seller of groceries.

Dell—which literally invented build-to-order PCs and reinvented the high-tech supply chain—never rests on its laurels. The company constantly reexamines its priorities and works to take advantage of changes in the business environment. This explains why Dell is now an emerging presence in store-based retail and still a profit leader in its industry. Dell's approach to supply chain transformation is basically staged: First, it tackles high-payoff areas, such as shared facilities and transport among suppliers. Then it uses the savings and goodwill that have been created to solve tougher challenges, such as developing new forecasting and inventory management capabilities.

Wal-Mart's never-ending mission is to remove costs from the supply chain: from producer to consumer. Improvements are being implemented continually. For example, the company has been a supply chain leader for more than a decade, but still has led its industry's more-recent transition to Web-enabled supply chain management. It also has reset the bar in cross-docking and advanced warehouse management. Lastly, Wal-Mart has been anything but shy about leveraging its supply chain expertise to address new markets, which is why the company is now North America's largest seller of groceries!

Continuous enhancements to its supply chain allow market leader Nokia to adapt swiftly to fast-changing consumer cell phone preferences. All nine of the company's plants can switch product lines exceptionally quickly—and with operating costs that are up to 18 percent lower than rivals! In fact, a commitment to ongoing supply chain transformation is part of the company's fabric. Steering groups that include senior executives convene regularly to consider supply chain investments. Rigorously maintained internal benchmarks and audits are used to compare investment priorities with high-tech competitors. And measurable impacts on end-to-end supply chain metrics—required for proposed investments and supply chain changes—are gathered routinely.

Each in their own way, the above companies have positioned supply chain management as a principal source of profit enhancement and competitive differentiation. Their strategy and tactics are different. But supply chain innovation is their common denominator. As transformation leaders, they also share certain leadership characteristics:

- **A spirit of entrepreneurship** is needed to sell supply chain initiatives across functions and organizations, as well as to manage risk, marshal project sub-teams and kick-start initiatives.
- **Customer focus** is key to bringing a market-driven perspective to the supply chain initiative.

- **Collaboration skills** are vital for engaging partners across functional areas, throughout the company and across the supply chain.
- **Project execution experience** is needed to keep momentum going and bring key supply chain projects to completion.

Leadership styles, on the other hand, vary considerably. Whirlpool's transformation leader first managed electronic commerce initiatives and then was recruited to lead supply chain transformation activities. That person now spends considerable time selling the concept of supply chain management throughout the organization and fostering collaboration across functions. At Scottish Power, a transformation leader was recruited from a customer organization to bring new procurement expertise to the utility and additional insights into the needs of its customers. Scottish Power's transformation team also fosters a collaborative mind-set by partnering with other utilities to collectively purchase key supplies. Establishing a leadership team that cuts across the organization helps break down functional silos and drive change throughout the supply chain.

Transformation Challenges and Pitfalls

Most companies have undergone a supply chain transformation of one sort or another. And statistically speaking, it is likely that most of those transformations were reasonably—if not completely—successful. But research also shows that unexpected problems are unavoidable, particularly those relating to inadequate or overhyped technology, internal/external resistance to change, and unrealistic cost projections or controls. Following are four more of the most common pitfalls, along with the approaches that various supply chain leaders have taken to avoid or minimize them:

- **Top-management commitment wanes:** Supply chain transformations are often expensive, complex and time-consuming, and there always is a chance that strategies and/or executive priorities will change. To mitigate this risk, Nokia places top executives on its supply chain project steering committees. And supply chain executives at Dell meet regularly with top officers for detailed strategy and project reviews.
- **Technology solutions fail to meet expectations:** This is a common problem, as evidenced by the supply chain problems at Kmart, Nike and others. TSMC addresses it by implementing supply chain software using a small-project, staged approach: making sure that one system works well before starting on another. Intel's response is to install the same technology in all plants, thus reducing potential errors and minimizing training barriers. Sun Microsystems works similarly: Its customers receive consistent service and quality across the globe from Sun employees with instant access to all account, ordering and delivery information through integrated regional databases.

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- **Change requirements exceed management/culture limits:** The level of strategic change often conflicts with daily operational requirements, thus intensifying organizational stress. Seven-Eleven Japan's solution is to use suppliers to design and operate "experimental" store deliveries for new products. And Groupe Danone partnered with Coca-Cola to distribute Evian water in North America, thus avoiding the time, cost and trauma of building and operating a new distribution channel.
- **Partners fail to deliver:** Ensuring that everyone does their part is a significant challenge. To minimize the problem, Wal-Mart holds frequent meetings with suppliers—clearly detailing requirements and how performance will be measured. And smart, the European small-car manufacturer, co-locates suppliers near or within final assembly operations, setting up joint management committees to oversee compliance.

The Path to High Performance

Supply chain transformation approaches are multifold. Supply chain transformation challenges are abundant. And the metrics, key performance indicators (KPIs) and best practices associated with supply chain transformation are practically innumerable. So with all those variables, how do companies select the right transformation path—the best way to make supply chain mastery a competitive leverage point?

Naturally, there isn't one right answer or stock solution. But there are several right questions. For example, high-performance companies nearly always have superior supply/demand-matching capabilities that help them operate more efficiently and respond more effectively to changing market conditions (Dell, for example). Therefore, transformation-focused companies need to ask themselves, "How can we do a better job of integrating supply with demand?"

High performers also work ceaselessly to reduce supply chain complexity by limiting handoffs and maximizing visibility (consider Sun Microsystems). So they never stop thinking, "What options exist to reduce the size of our manufacturing and distribution networks?" In addition, most supply chain leaders are in a perpetual state of strategic sourcing—evaluating, rationalizing and tightening relationships with suppliers to reduce costs and build strategic alliances. Every day, those companies (such as British Airways) ask, "How can we better leverage our supplier base?"

Lastly, most supply chains have become too complicated for any one entity to manage effectively. This is why performance leaders like Coca-Cola and Procter & Gamble ponder, "What companies should we be working with to build a potent supply chain advantage?" And because that collaboration mission demands a tight focus on the specific functions that extend competitiveness, leaders also ask, "How do we determine what capabilities to retain, outsource or spin off?" Collaboration and outsourcing both do more than reduce complexity; they also help control the risks that stem from business complexity (Cisco Systems, for example).

Hundreds of other, more individualized questions also precede an effective supply chain transformation. But binding them together is one mission that—like the profit motive and desire for growth—is common to all companies: Do it better than the competition. As this paper demonstrates, high-performance companies that successfully position their supply chains as a strategic capability really do outrun the competition. They may not be more successful at predicting future business conditions. But their supply chain mastery does enable them to respond more quickly to marketplace changes, and to reach tomorrow's customers with the right-priced products, services and capabilities they need.

Collaboration and outsourcing both do more than reduce complexity; they also help control the risks that stem from business complexity.

Supply Chain Transformation Principles

One-size-fits-all solutions have little place in supply chain management, much less in something as critical as supply chain transformation. Nevertheless, several transformation behaviors can be inferred as common to most business leaders, regardless of industry:

- **Focus on shortening the supply chain.** Zara is able to bring 11,000 new fashions to market each year—generally with a three-week lead time.
- **Investigate opportunities for collaboration.** Danone works with Coca-Cola to distribute its bottled water in the United States. Working together, General Electric and Home Depot developed a “buy one/make-and-ship one” model for home appliances. And EMC uses Dell’s supply chain—one of the world’s most sophisticated—to move many of its storage products.
- **Design strategies and operating models that can evolve in response to changing market conditions.** Seven-Eleven Japan makes ultra-frequent deliveries to match consumer desires that shift during the day. Those deliveries are coupled with new product and service offerings that build on efficient supply chain models.
- **Jointly define KPIs.** Henkel (a multinational manufacturer of consumer and industrial products), Condis (a Spanish supermarket chain) and several packaging suppliers established an interesting CPFR² process for laundry and home care products. Key components are daily data interchange for key items and coordinated business plans (e.g., combined promotions and collaborative forecasts). The participants also have set specific, mutually acceptable key performance indicators.
- **Exhibit unwavering leadership.** Supply chain transformations become casualties when leaders lose faith in the strategy or process. Texas Instruments had multiple, senior-level champions behind a global project to reengineer planning and forecasting. This helped Texas Instruments overcome obstacles and stay focused on its mission to simultaneously schedule all plants and thus reduce costs.
- **Use third parties to help develop and distribute new products quickly.** Microsoft used an extensive network of contract manufacturers and logistics providers to successfully launch its Xbox game machine.
- **Make customers an integral part of the supply chain change process.** DuPont’s retail customers take responsibility for mixing final colors and ensuring paint quality, thus reducing DuPont’s supply chain costs significantly.
- **Constantly challenge employees to bring forward new ideas.** Zara includes store-level employees in decisions involving new fashion introductions and prospective efficiency improvements, thereby securing buy-in to support change and minimize implementation problems.
- **Monitor competitors’ actions closely and look to other industries for guidance.** Tesco made the decision to pick and pack Web orders from its retail stores after watching other online grocers make unprofitable investments in separate distribution facilities.

¹ *San Francisco Business Times*, <http://www.bizjournals.com/sanfrancisco/stories/2002/05/13/daily37.html>

² CPFR is a registered trademark of the VIC (Voluntary Interindustry Commerce Standards) organization.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources, and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance.

The Accenture Supply Chain Management service line works with clients across a broad range of industries to plan and implement innovative operating models that support overall business strategies and enhance revenue, reduce cost, and improve asset productivity and customer service. In particular, the service line combines deep skills and leading-edge approaches to fulfillment, supply chain planning, manufacturing and design, procurement—and new solutions such as supply chain and procurement outsourcing, service parts management, RFID technologies, and supply chain education—to help clients improve their operational performance. Its home page is www.accenture.com/supplychain.

About the Stanford Global Supply Chain Management Forum

Headed by Dr. Hau Lee and Dr. Seungjin Whang, the Stanford Global Supply Chain Management Forum is a leading research institute in partnership with industry experts and the School of Engineering and Graduate School of Business at Stanford University. The forum's mission is to advance the theory and practice of excellence in global supply chain management. Working with Accenture and many industrial organizations, it is actively engaged with a broad cross section of leading and emerging industries to identify, document, research, develop and disseminate best practices in a dynamic and increasingly global economic business environment. Its home page is www.stanford.edu/group/scforum.

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