

Is your supply chain serving your strategy? | June 2016

Putting your supply chain to work



How can you use your supply chain as a strategic asset to gain competitive advantage?

In today's global economy, supply chains are at once critical to an organisation's success and highly vulnerable to disruption. Increasing demands are being placed on organisations as a result of changing customer preferences and expectations. The increasing frequency of disruptive economic, environmental and social events work to compound this.

78%



of Australian CEOs see more threats today vs three years ago¹

Many CEOs are focusing on cutting costs to improve profitability in the short term, but they will need to look beyond just costs if they want to retain their competitive advantage in the face of future threats.

¹ PwC Australian CEO Survey 2016 (Ed 19)





By focusing on developing the right **capabilities**, whether around product launch, strategic sourcing, manufacturing, technology or your distribution network, a high-performing supply chain can contribute significantly to **differentiation**. It sounds like a tall order, but our research demonstrates that leading organisations manage their supply chain as a strategic asset to drive differentiation and boost performance and profitability.

High-performing organisations look at their supply chain at three levels by asking the following questions:

Level 3

Does your supply chain have differentiating capabilities that lead to market leadership?

Right to win

Level 2

Does your supply chain have the capabilities that are needed to compete effectively?

Right to compete

Level 1

Does your supply chain have the basic capabilities that are needed to operate the business?

**Table stakes/
Right-to-play capabilities**

Are you getting your supply chain strategy right?

Once you have identified your current capabilities, you can use these questions to figure out what's needed to make the next step change, ultimately using your supply chain as a strategic asset to develop your 'right to win'.



01

Better supply chain, better financial picture

High-performing supply chains deliver

Create value? Or reduce costs? Many organisations view this as an ‘either/or’ choice. Industry leaders achieve both outcomes by managing their supply chain more effectively.

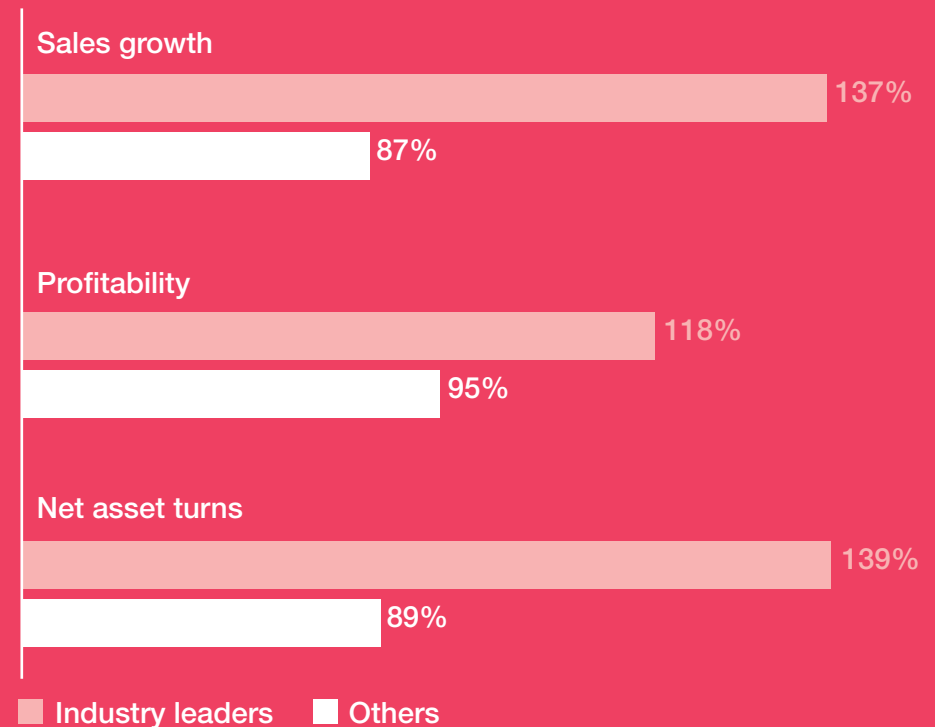
Industry leaders achieve growth ...

Industry leaders focus on the ‘right to win’ by looking at their supply chains from their customers’ perspective. These organisations recognise that their supply chains must support the things that matter to customers, like breakthrough products, distinctive services and unique customer experiences.

The results are clear in their business performance. Compared with their industry competitors, leaders see:

- 50% higher average annual sales growth
- 20% higher profitability
- 50% higher net asset turns.²

Want higher sales growth, profitability and net asset turns?
Improve your supply chain.



Analysis based on the supply chain benchmarking index developed by PwC's Performance Management Group.

Example: Leveraging supply chain capability

Take, for example, a major iron ore mining company struggling with lower commodity prices. The company increased profits while resisting the urge to increase production when prices were low and expected to rebound. It achieved this by leveraging its supply chain and processing capabilities – blending existing ore stocks to develop a more attractive product for the end customer.

² Shoshanah Cohen and Joseph Roussel, *Strategic Supply Chain Management, Second Edition, McGraw-Hill, 2013.*

... and manage costs at the same time

Using the supply chain for innovation and differentiation need not stand in the way of achieving efficiencies.

Industry leaders use their supply chain to manage working capital intelligently. They ensure their supply chains are designed to navigate complex tax, customs and excise rules that can get overlooked to optimise both their trading speed and cost. Leaders see these strengths as the minimum contribution a good supply chain can make.

Metrics show that, compared with others in their industry, leaders have:

- 15% lower supply chain management costs
- less than half the inventory levels
- more than three times shorter cash-to-cash cycle times.³

³ Ibid

Example: Cost reduction in international supply chains

A major Australian retailer with significant food and non-food import volumes wanted to optimise the performance of its international supply chain.

By fully utilising free trade agreements, participating in trade facilitation schemes and implementing favourable supplier incoterm arrangements, the retailer was able to reduce bottlenecks throughout the supply chain and reduce cost. Combined, these resulted in significant cost savings across both production and handling.



02

How to build a high-performing supply chain

What would it take for the supply chain to achieve sales and revenue growth while managing costs?

Design with the customer in mind

Be clear about what the business competes on: innovation, customer experience, quality or cost. While all four are important, find the one that pulls you ahead of the competition – and then design the supply chain ‘from the customer in’ to support that strategy. High-performing supply chains support the overall business strategy in all aspects of operations, including service delivery, sales channels and asset/tax footprint.

Industry leaders have a more focused offering

Finished products as indicated by stock keeping unit (SKU)

Leaders
2,078



Others
3,969

67%

of Australian CEOs see data and analytics as delivering the greatest return in terms of engagement with customers and stakeholders

Example: Segmentation in telecommunications

A large Australian telecommunications provider has multiple different operating models to serve distinct customer segments. It has a relationship-oriented supply chain that is responsive to the needs of larger business and enterprise customers. By contrast, its supply chain for personal users is focused on meeting a wide range of customer preferences, interaction and delivery channels.



Analytics to inform business and customer tradeoffs

Know when complexity is making a difference to the top line – and when it isn't. For example, leading organisations maintain more focused (i.e. fewer) product and service portfolios than their peers. They also use far fewer systems and applications. Yet, when it comes to meeting the needs of their customers, they don't hesitate to add complexity.

To serve their customers, they have more than three times as many manufacturing sites and roughly double the number of distribution centres compared with others in their industry.⁴ Adding complexity that supports competitiveness can also build resilience into the supply chain. Successful organisations recognise that different customer value propositions are vulnerable to different threats. So they map their supply chain capabilities to different potential risk profiles.⁵

Industry leaders have a more focused offering

Number of unique systems and applications



⁴ Shoshannah Cohen and Joseph Roussel, *Strategic Supply Chain Management, Second Edition*, McGraw-Hill, 2013.

⁵ PwC and the MIT Forum for Supply Chain Innovation, *Making the right risk decisions to strengthen operations performance*, 2013.

Source: Analysis based on the supply chain benchmarking index developed by PwC's Performance Management Group.

Put the right people in the right places

High-performing supply chains need more than just technical and operational expertise. Communication, collaboration and relationship skills are equally important. Securing talent from around the world and growing skills internally can really make a difference.

Example: Collaboration in grocery supply chain

Profitability in the grocery market is still highly reliant on promotional activity and catalogues. Success in this area requires a high level of internal collaboration between the marketing, merchandising and supply chain teams, and external collaboration with suppliers.

It is particularly critical that business processes throughout the retailer are aligned and that promotional plans are locked in. This allows for effective demand forecasting and enables the retailer to provide suppliers with reliable order plans. Aligned processes are also crucial to optimising supply chain cost, delivery performance and on-shelf availability.

Both internal and external collaboration are key to dealing with disruptive events (for example, the recent recall of berries due to the hepatitis scandal).





03 *The supply chain is everybody's business*

The best ideas almost always originate at the intersection of diverse disciplines. And the worst breakdowns often happen when interdependencies are not well understood. Even the brightest functional teams cannot deliver high-performing supply chains on their own. That is why industry **leaders make it a point to excel at internal collaboration.** They understand that the supply chain isn't just an issue to be dealt with by the supply chain department.

Get the top people talking

Consider context, culture and complexity when designing your supply chain organisational structure. Do you have the right resources in the right place at the right time to address our customer's needs? All functional managers regularly ask themselves that question. But at leading organisations, managers work together to make these resource decisions through cross-functional processes such as sales and operations planning.

Getting the leadership involved is essential to setting the right example. Different business units and functions may not immediately recognise the advantages of greater collaboration. Employees do well when they see the benefits of internal collaboration, such as **faster innovation, higher customer satisfaction and increased efficiency.** Reward them based on results, no matter where they work in the organisation.

83% 
of CEOs see digital technologies creating value for internal and external collaboration

Source: PwC Global CEO Survey 2016 (Ed 18)



Encourage teams to collaborate

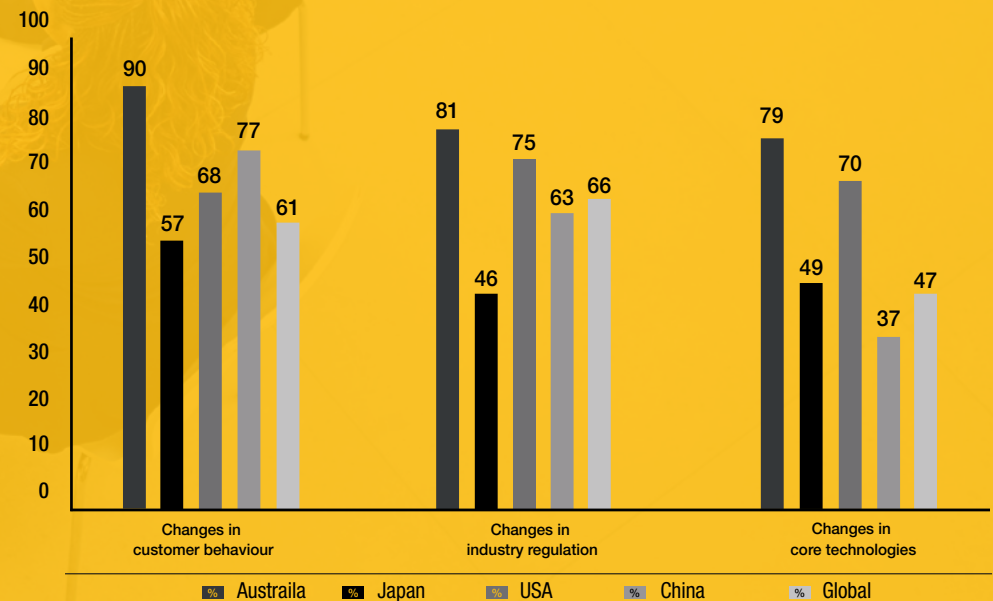
Conflicting objectives and performance metrics as well as poorly integrated processes and systems can make things complicated. But while the challenges are real, so are the results.

Attract the best suppliers

Internal collaboration has a huge extra payoff: it sets the stage for better external collaboration.

Increasingly, organisations have to position themselves as a customer of choice to attract the best suppliers. Industry leaders are more likely to have reliable networks of suppliers that are resilient to economic turbulence, eager to introduce innovations, and trusted to uphold environmental, health and safety standards in far-flung locations.

The top three most disruptive trends over the next five years (as ranked by Australian CEOs)



Source: PwC Global CEO Survey 2016 (Ed 18)



Supplier collaboration in the oil and gas industry

Following recent declines in the price of oil, a major oil and gas operator needed to reduce its cost of operations. It turned to its suppliers. Together they were able to reduce the burden and cost on the supplier – which translated into a direct financial benefit to the operator. They jointly implemented measures and processes for tracking continuous improvement. This translated into an increase in productivity and reduction in cost. Including suppliers in the solution helped reduce risk to business continuity in the face of future disruption.

Resilience is a key factor in surviving prolonged downturn in commodity prices for the oil and gas industry. Beyond reliability improvement, cost reductions and greater supplier collaboration, leaders are looking to technology and innovation to provide greater resilience to volatile pricing and to create competitive advantage. Drones, artificial intelligence, robotic processing and remote operations centres have all enabled the oil and gas industry to transform and build resilience.



04 *Bring about lasting change*

Compared to many change efforts, supply chain transformation can be very challenging. It needs to take into account diverse business units, dispersed locations, multiple customer segments, complex tax and regulatory rules and a global supply base. That's not all. You must create change in a competitive and demanding environment, where everything – from procurement to product launch – must carry on without missing a beat.

No meaningful change is too small

Successful transformation starts with setting realistic goals. Changes can range from incremental improvements, such as making processes more consistent and predictable, to breakthrough innovations, like brand new ways of competing in your industry. Many change efforts fall in between and aim for supply chain excellence. That may involve adding complexity to give customers what they want, such as moving from a global to regional production and order-fulfillment model. To achieve supply chain excellence and innovation, you need strong leadership from top management and dedicated operational teams.

Source: Shoshanah Cohen and Joseph Roussel, Strategic Supply Chain Management, Second Edition, McGraw-Hill, 2013.

Supply chain transformation – the more you put in, the more you get out





Capabilities matter more than you think

Did we achieve our goals? Can we sustain and continue to improve our performance? Ask these questions when evaluating the success of your transformation initiatives. To get the full picture, track outcomes against a comprehensive set of metrics. Business and operational metrics like margins and on-time delivery are certainly important. **But pay as much attention to what ultimately drives performance, such as the level of process maturity.**

Uneven progress is just fine

Keeping an eye on the critical steps along the way, rewarding progress and identifying and closing gaps are all equally important for meaningful change to take hold. Different teams across your supply chain are at different starting points so they will progress at different rates. Operational teams that move more quickly are able to set a solid foundation for others to build upon. In fact, standard milestones may not be enough. **Having visibility into the progress of colleagues and peers often creates positive pressure to change.**

Make the change stick

Industry leaders all have certain things in common. They:

- want their supply chain transformation to lead to permanent improvement. They're not interested in temporary fixes
- are realistic about the resources they have, and are prepared to move, train or hire people if they need to
- invest in processes and infrastructure to make sure people can keep improving the way they work every day.

Example: Redesign of postal supply chain to better meet customer needs

With the demand for physical mail services in decline, this postal organisation decided to harness the significant increase in parcels. Recognising that the existing network was not in a position to accommodate this, the postal organisation focused on developing their 'right to win', securing a US\$500m investment to both build capacity and transform capability. Two key facilities with the ability to sort over 50,000 parcels per hour were developed. Service was improved and costs reduced by more than 20%.

How PwC can help

To have a deeper discussion about strategic supply chain management, please contact:



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