

CEO Perspective on Supply Chain Management



Survey Findings

February 2006

Results

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We are pleased to provide you with the results of our *CEO Perspective on Supply Chain Management* survey.

The survey was directed to nearly 500 Chicago-based Chief Executive Officers (CEOs) of leading companies ranging in size from \$50 million to over \$20 billion in sales, across a variety of industries. Individual survey responses were kept in strict confidence.

Our objective was simple: Obtain an understanding for what was on the CEO “agenda” and develop a deeper understanding, *from the view of the CEO*, of the value of supply chain management to their business.

The survey was designed to be as straightforward and concise as possible, respecting the time of our CEO respondents. Although the survey covered a relatively small population, we are pleased to report that the response rate exceeded our expectations and was far above the average for a direct-mail survey.

Included in this report are the responses to the survey questions, as well as our “Point of View” or interpretations of the findings, which took into consideration insights from personal interviews with various CEOs.

This report would not be possible without the help of this year’s respondents. We would like to thank participating CEOs for taking the time out of their busy schedules to share their insights, perspectives, and comments.

We hope you find these insights and findings helpful as you continue to lead your company to greater levels of profitable growth.

Sincerely,



Donald D. Eisenstein
Professor of Operations Management
The University of Chicago Graduate School of Business



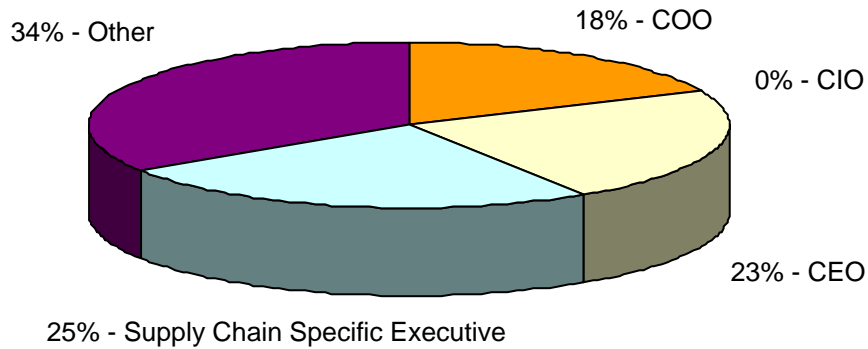
Richard H. Thompson
Partner
Charter Consulting, Inc.



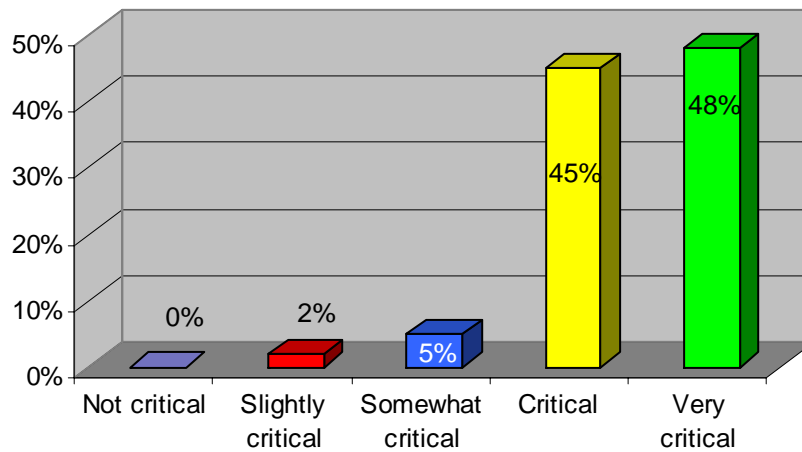
Findings

CEO Supply Chain Management Perspective Survey

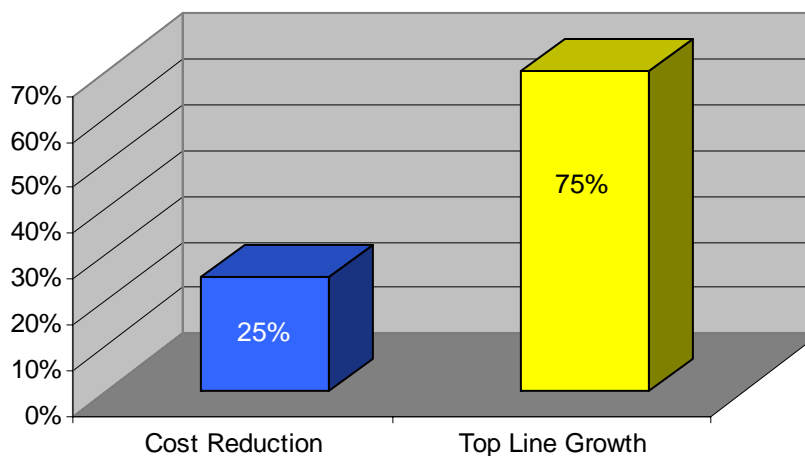
1. Who in your organization is responsible for driving the development and execution of a supply chain strategy?



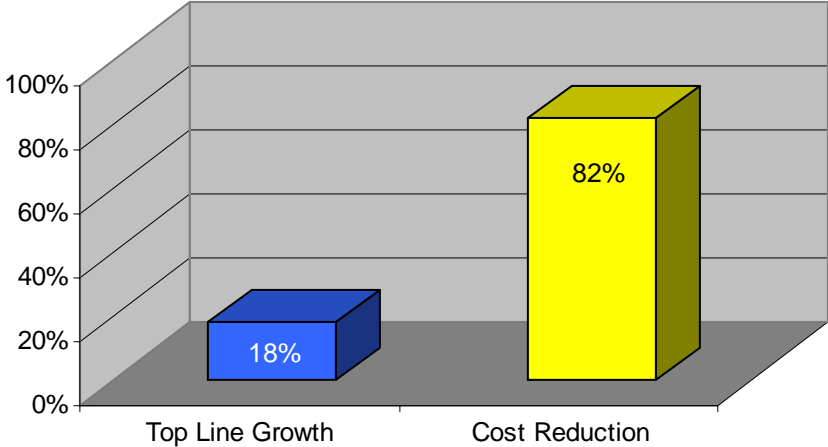
2. How important is supply chain management to the overall business strategy of your company?



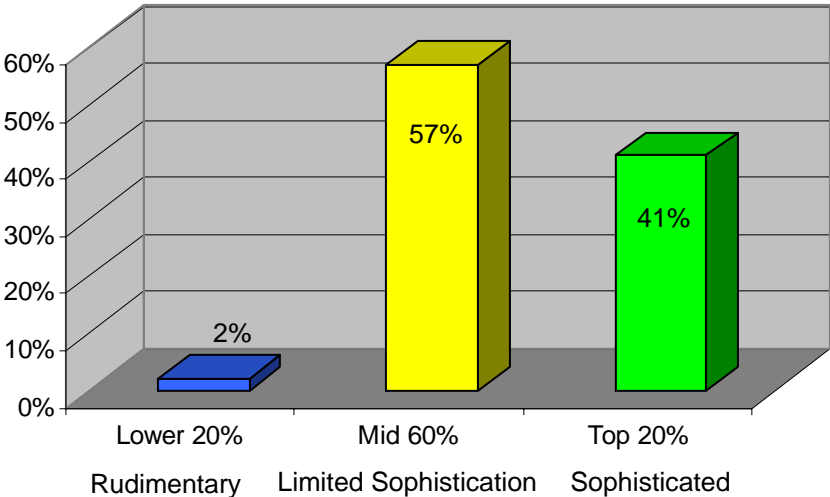
3. What is the current focus for your company overall?



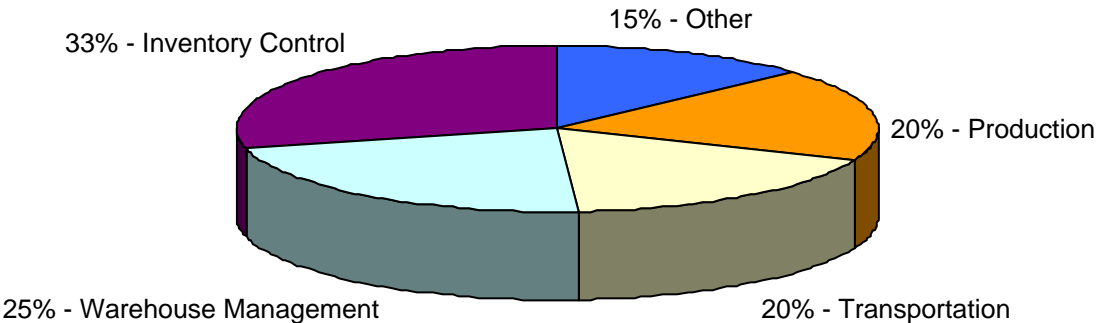
4. What is the current focus of your company's supply chain initiatives?



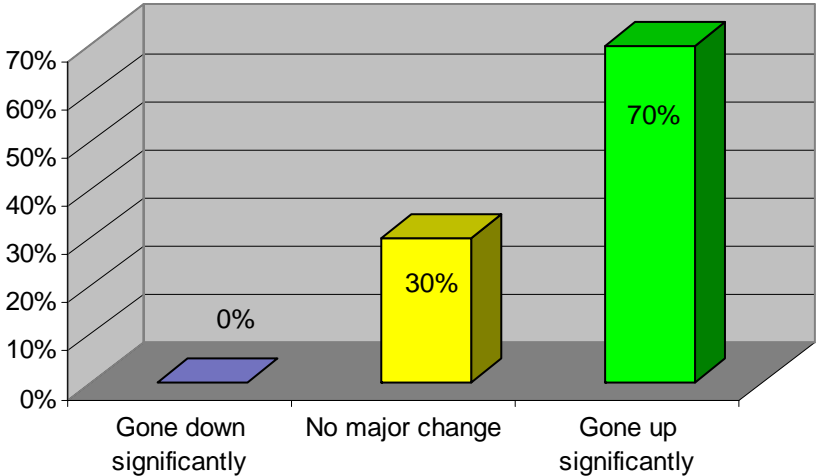
5. How would your company compare to its peers in regard to supply chain excellence?



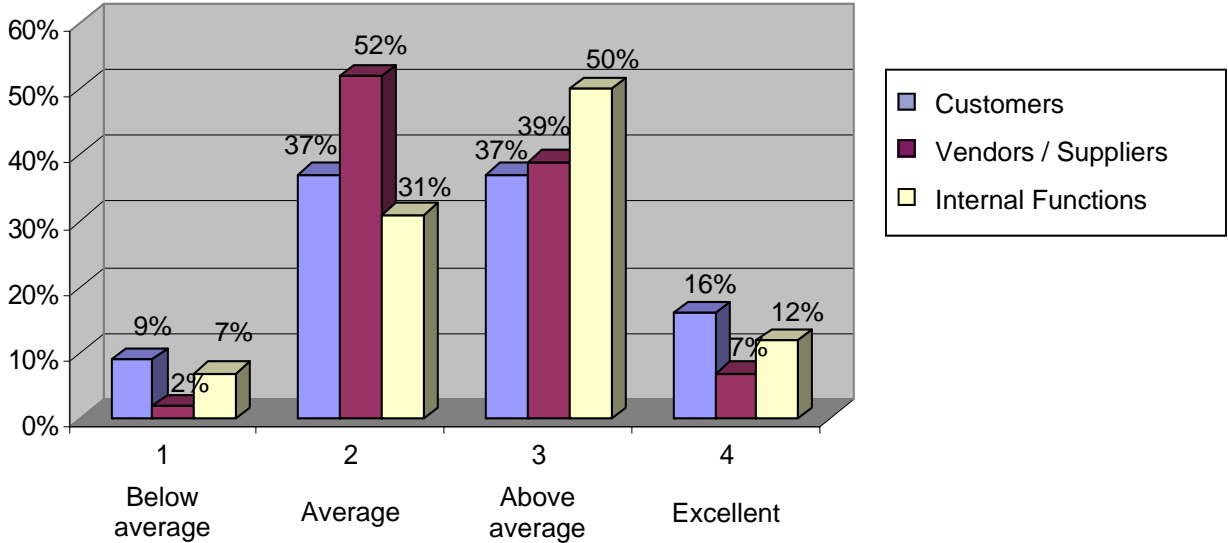
6. Which key area(s) have significantly contributed to gains achieved through your company's supply chain initiatives?



7. How has the time / effort / money your company has spent on supply chain initiatives changed over the past few years?

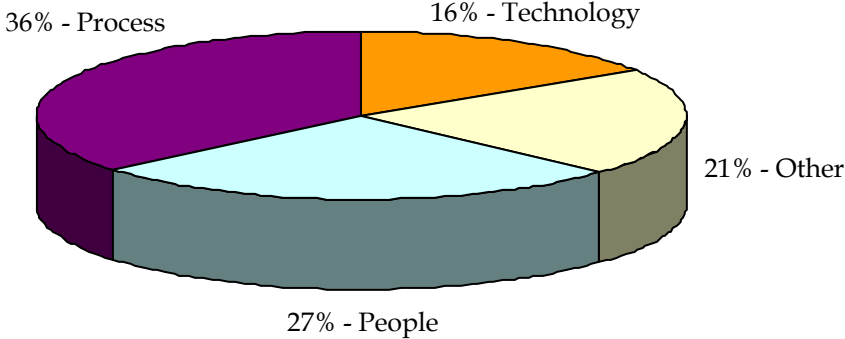


8. How would you rate the overall level of collaboration of your company with various supply chain partners?

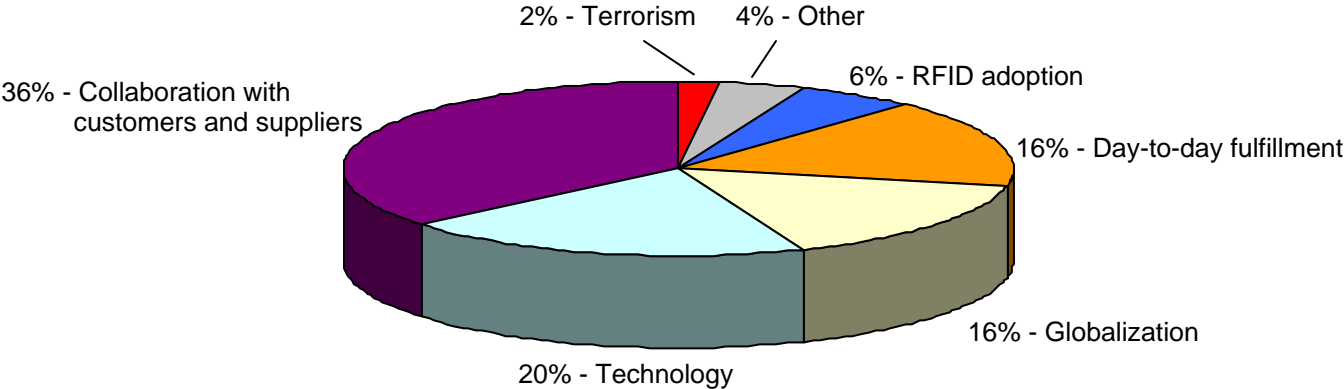


Note: No company selected poor for any category

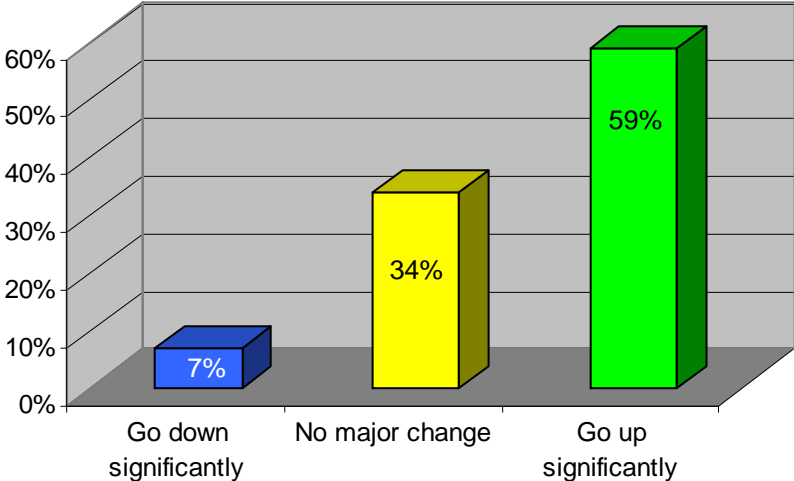
9. Overall, what are the biggest challenges in achieving supply chain excellence?



10. What are the critical supply chain challenges you are thinking about?



11. How do you expect the time / effort / money your company will spend on supply chain initiatives to change over the next few years?



12. What do you perceive as being the biggest “areas of opportunity” in supply chain management?

Representative write-in comments

- Customer / Vendor collaboration.
- Improved collaboration up and down the chain, driving the top line, reducing costs, improving margins.
- Inventory reduction and inventory turns while keeping level of service 99.7% perfect.
- Growth in low cost countries to provide access to growing markets and source of lower cost components
- Better response to customer needs, less working capital.
- Linking with our customers and suppliers to meet current requirements, but more importantly, innovating to provide solutions to unmet needs.
- Providing the link for customers to provide real-time usage data on our products as input to our production planning process and forecasting models.
- Projecting / Forecasting. Staffing up and down.
- Production management, transportation, and suppliers.
- More efficient levels of inventory.
- Improved forecasting models for cash flows, sales, and raw material needs.
- Balancing product quality, value and delivered pricing.
- Refined and Improved demand collection.
- Getting our customers to understand importance of supply chain in cost of goods issues.
- Collaboration with suppliers and improved IT systems.
- Refining our ability to communicate across/through and with multiple platform configurations and IT systems more efficiently.
- Supply Chain Management will become (within 3-5 years) the hub to integrating: Value add, product capability (Cost, Specs, Performance), delivery, and even after service activities, thereby insuring survival.
- Flow of "real-time" information.
- Network optimization using new technology.
- Collaboration - focus by shippers to consider improvement of carrier efficiencies as part of their overall strategy for operating improvements.
- Warehouse management.
- Working capital reduction.

Authors' Point of View

Reducing cost has, for many years, been the sole focus of supply chain management. The realization today is that supply chain management is a lot more than just a cost of doing business, but a true competitive differentiator. If you need some examples, just look at Wal-Mart, Dell, or Home Depot.

As more CEOs focus their efforts on driving profitable growth, there appears to be confusion on what the role of supply chain management is as it relates to the growth agenda. What follows is our Point of View - our perspective of the key issues - based in large part on our research findings, in-depth interviews with select CEOs, as well as over 40 years of combined industry, academic, and consulting experience.



CEOs' Agenda = Profitable Growth

After years of focus on cost reduction and efficiencies, the corporate agenda has clearly shifted. The vast majority, 75% in fact, of CEOs responding to the survey have their attention and focus on growth.

While the survey results make it clear that growth is a priority on the CEOs' agenda, supply chain management was overwhelmingly viewed as focused on cost reduction. So while 93% of CEOs agree that supply chain management is either "critical" or "very critical" to their overall business strategy, they are struggling to align supply chain initiatives to help drive their company's growth strategy.

This is not to say that highly efficient and effective supply chains fail to support the CEOs' agenda. Efficiency and effectiveness always lend themselves to market and sales growth, just as inefficiency and lack of effectiveness are detrimental. CEOs have related to us that they have squeezed all they can out of their costs and that it is now time to shift their attention to aligning the supply chain with a growth strategy. And although it may seem obvious, growth does not always equate to increased profits. The name of the game is *profitable growth*.

Collaboration on the Mind

There are a plethora of articles in supply chain periodicals dealing with collaboration. Indeed, the results of the survey found that collaboration was viewed by CEOs as the top supply chain initiative to help foster growth. At the same time, collaboration was identified as one of the greatest challenges. Though CEOs recognized the gap, current thinking and company culture has inhibited innovative problem solving. Sales and marketing have traditionally been responsible for growing revenues, then passing off to supply chain / operations to deliver in the most cost-effective way. While CEOs expressed to us the benefits to improved collaboration, many struggle with making it happen.

Authors' Point of View - continued

Our personal interviews with CEOs and professional experience has led to some insights and strategies on how to address and move collaboration efforts forward across the extended supply chain, specifically with customers and suppliers.

We have summarized these insights into four **Key Success Factors**:

- 1) **Quantify the Value** - Both parties need to be aware of how they will benefit from collaboration. In some cases that will require one partner to educate less sophisticated partners on the economics of collaboration. For example, “What will I save in inventory costs?”, “How much will this improve my profitability?”. This involves aligning the incentives of each, but most importantly it must be quantifiable with clear examples of how each party will benefit.

While value propositions at a “conceptual” level may be compelling, a more quantifiable, fact-based approach is required. It is an educational process that takes time. It requires the right people and a proven and rigorous process. Do not expect your customers or suppliers to start dedicating resources and sharing confidential data without fact-based, tangible, concrete value propositions of how they will profit incrementally.

- 2) **Make the Investment** – Value chain partners must be willing to invest in the process in order to make collaboration a reality. This is more than simply adding this as an objective on the salesperson's agenda or investing in technology in order to more readily share data. A CEO-to-CEO meeting / agreement is best. The CEO needs to be willing to shake-up the organization.

Some of the most successful examples involve dedicating employees to oversee the coordination and education of relevant partners. However, this is not enough. You have to dedicate your “A” players, your best and brightest, with boots on the ground. Look beyond the sales force to make collaboration happen. In some cases, companies have created new, independent and objective teams to work with the customer. Either way, collaboration requires knowledge and trust, which can only be developed over time. Therefore, do not expect immediate return on investment.

- 3) **Earn Trust and Create Mutual Ownership** - A trusting relationship needs to be built and fostered. Building trust can only happen over time and, as various CEOs have suggested, comes through the accumulation of small victories. Both partners need to become vested in the collaboration efforts, and the “weaker” partner needs to feel a sense of ownership that goes beyond any contractual agreements.

Contracts between companies do not ensure successful collaboration and can even deter its effectiveness. For example, when a supplier contractually agrees to deliver in X days, it eliminates incentives for the customer to share forecasts - “I don’t need to invest in collaboration, you have a contract to supply me what I need when I need it!” A more sophisticated approach, where mutual benefits are quantified and shared, is desired.

- 4) **Start with the Customer** – It all must begin with the customer. “Outside-in” thinking mandates a non-biased approach to understanding how value is created and exchanged with the customer. Asking questions such as, “What does the customer value?”, “What is the customer willing to pay?”, help in this process. Historically, supply chains have worked “inside-out” with limited personal contact or involvement with the customer outside the sales organization. CEOs reinforced that there clearly exists a strong cultural adherence to linear processes: marketing promotes, the sales organization sells, and *then* supply chain/operations delivers at the lowest cost. A more holistic approach is required that begins by documenting and quantifying the value chain economics starting with the customer and then working “backwards” to design the operational processes needed to optimally deliver or execute in the most profitable manner.

Authors' Point of View - continued

Conclusion

The overwhelming majority of CEOs view the supply chain as critical to their corporate agenda. But while most CEOs focus on top line growth, their supply chain initiatives remain focused on cost reduction.

Forward-thinking CEOs have set their sights on aligning the supply chain to a profitable growth strategy. CEOs are targeting collaboration between the marketing and operations functions as well as with customers and suppliers as the means to that end.

As Michael Hammer suggests, "... streamlining *cross-company* processes is the next great frontier for reducing costs, enhancing quality, and speeding operations." We agree, but realize it is easier said than done. While difficult to implement, it is clear that many companies have made successful strides forward, and those learnings and insights have led to the development of our four **key success factors** for collaboration.

Successful collaboration typically results in critical, real-time information leading to improved visibility, and provides the capability to proactively adapt to changes in demand and an improved ability to deliver — a wonderful platform to drive profitable growth. We hope that you will be able to leverage some of the insights from this report to help you and your company move forward in aligning your supply chain management initiatives to enable profitable growth.

About the Authors

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Professor Eisenstein is on the faculty at the Graduate School of Business at the University of Chicago, where he teaches courses in Operations Management. His research interests are in the modeling and improvement of operational systems. The focus of his research investigates how to organize systems to make them self-organize — automatically tend toward a configuration of balance and efficiency. This work has led to improvements to manufacturing lines, to warehouse order picking operations, and to cyclic production systems. Professor Eisenstein has also worked with the city of Chicago to reengineer the distribution system for the public schools, and researching ways for the City to improve its refuse collection system. His work has appeared in leading academic journals and has been featured in industry and trade publications. Professor Eisenstein holds a B.S. in Engineering Management and Mathematical Science from Southern Methodist University, and an M.S. and a Ph.D. in Operations Research from The Georgia Institute of Technology.



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Richard H. Thompson

Mr. Thompson is a Partner with Charter Consulting, Inc., headquartered in Chicago. He has more than 20 years of combined industry and consulting experience assisting companies in supply chain management initiatives that result in improved shareholder value and profitable growth. Prior to joining Charter Consulting, Mr. Thompson was a Senior Vice President and a Corporate Officer with Schreiber Foods, a \$3 billion global food company. Prior to joining Schreiber Foods, Mr. Thompson was a Vice President with Cap Gemini Ernst & Young and Partner with Ernst & Young LLP. Mr. Thompson is an active member of the Council of Supply Chain Management Professionals (formerly CLM). He is on the Editorial Advisory Board for *DC Velocity* magazine, and his publications have appeared in such journals as *Supply Chain Management Review*, *Logistics Management and Distribution Report*, and *Traffic World*. Mr. Thompson holds a B.S. degree in Marketing from Miami University (Ohio) and an M.B.A. degree in Finance and Marketing from The University of Chicago Graduate School of Business.



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