

The New Supply Chain Executive:

Using the Integrated Supply Chain as a Competitive Weapon

By William V. Fello and Peter Everaert

The nature of the supply chain has changed dramatically in the past decade, and the transformation to an integrated supply chain has greatly influenced the role, responsibilities and compensation of supply chain executives. This paper examines a dual transformation: the evolution of the integrated supply chain and its implications on the role and responsibilities of supply chain executives. Much of our analysis and insights are culled from conversations with top supply chain executives at leading organizations, including the three who are cited in this paper. Those discussions produce a clear picture of the new supply chain executive as a strategic decision-maker with deep cross-functional expertise and relationships, strong customer and supplier relationships, a global mindset and demonstrated success as a “change agent.”

THE PANEL

Korn/Ferry's analysis is based on information culled from in-depth conversations with many of the world's leading supply chain executives who represent companies that manufacture a wide variety of products. We appreciate the "on the record" contributions of the following executives:



Bill Ramsey
Honeywell



Stu Reed
Motorola



Shelley Stewart, Jr.
Tyco International

The Evolution of the Supply Chain

Until about 10 years ago, the phrase "supply chain" rarely crossed an executive's lips. Rather, practitioners and experts used terms like "logistics" and "corporate transportation" to describe the movement of materials – and little else.

The emergence of supply management initially only linked transportation and logistics with purchasing, also called procurement. That initial integration progress soon extended into backend distribution and backend logistics. Manufacturing companies began to integrate the materials management function with those processes. More recently, manufacturing and, in many cases, customer support (or customer service) have also been woven into the process. That steady expansion has created an end-to-end core function: the integrated supply chain, which encompasses supply and demand management, sourcing, procurement, inbound transportation and logistics, manufacturing, quality assurance (typically), outbound distribution, logistics and customer support.

The growth in breadth and reach of the integrated supply chain has elevated the importance and stature of supply chain executives. In many large organizations, top supply chain executives report directly to the CEO. The movement of supply chain management executives up the corporate chain of command is a byproduct of the discipline's evolution during the past decade, as well as the benefits that integrated supply chains deliver.

"The whole idea of the integrated supply chain in Honeywell and other progressive companies is driven by customer expectations," notes Bill Ramsey, Honeywell's Vice President of Operations and Six Sigma, the top supply chain position in that US \$30 billion company. "This wasn't driven because somebody just thought it was a good idea."

What Ramsey describes as a "rapid escalation of customer requirements" has been accompanied by a fundamental change in the global economic landscape that has helped enable companies to satisfy those requirements.

The rise of Asian and Eastern European countries as viable manufacturing locations and the continued expansion of Mexican facilities provide U.S. and Western European companies with tremendous opportunities for efficiency and productivity improvements.

“The globalization of the supply chain represents a major impact on business,” says Ramsey. “People have talked about ‘global companies’ for several decades, but we did not have genuinely global supply sources until the past 10 or 15 years. Now, most companies must think about global sources of supply, and that marks a radical change.”

The degree to which companies leverage those global opportunities depends on how well their integrated supply chains operate. Pioneering companies such as Dell and Wal-Mart have dominated their markets through supply chain advancements. Recent benchmark studies have shown that leading supply chain performers can achieve as much as a four to six percent of top-line revenue cost advantage over competitors, giving these leaders the ability to exert tremendous price pressure, among other benefits.

Aside from bringing a new product to market first, the fastest way companies can achieve dramatic bottom-line improvements is by strengthening their supply chain. Doing so requires supply chain executives to understand and be able to drive rapid implementation of supply chain process improvements.

“Once a supply chain executive gets a seat at the senior decision-making table, we need to articulate our value in terms of how we can absolutely support growth opportunities,” explains Stu Reed, Motorola’s Executive Vice President of Integrated Supply Chain. “The challenge is translating our history of cost savings into growth opportunities for the businesses – articulating how we can use supply chain as a distinctive competitive weapon.”

Implications for Supply Chain Executives

Whether or not a supply chain executive can articulate the value that Reed describes separates top-notch and top-paid supply chain executives from the rest of the pack. There are other differentiators as well – most of which quickly rise to the surface when companies comb the market for an integrated supply chain leader.

“You can’t just walk in and say, ‘I’ve spent my whole life in manufacturing operations and I’m really good at it,’” explains Honeywell’s Ramsey. “You have to understand how to deal with suppliers, think about planning and inventory, identify the role of distribution in the process and know how to bring about change in the manufacturing organization, among other qualifications.”

Ramsey possesses one of the broadest supply chain backgrounds in the discipline today. An engineer by training, he worked in the public sector before returning to school for a master’s degree in business administration. Ramsey then worked for Xerox in a wide range of functions, including commodity management, sourcing, plant operations, manufacturing quality and strategic planning. He moved on to Bausch & Lomb, where he took on increasingly senior roles in procurement, strategy, manufacturing engineering and technology, and plant operations. Before accepting his current role at Honeywell, Ramsey served as head of procurement and manufacturing at division levels as well as company-wide.

The diverse experience exposed him to a variety of perspectives and skill sets, which Ramsey says has helped him “figure out how to drive change in an organization you control, how you drive change in a supplier’s organization and how to make the two interact.”

The following characteristics figure prominently in the world of leading supply chain executives:

1 A Seat at the Strategic Decision-Making Table

The standing of supply chain executives in the corporate pecking order has risen in recent years. Many heads of supply chain now report directly to the CEO of the company. While that reporting relationship is beneficial, it is not always necessary if other elements are in place.

“The reporting relationship for this position to the CEO is typically an indicator of how advanced that company’s thinking about supply chain is,” says Shelley Stewart, Jr., Senior Vice President of Operational Excellence and Chief Procurement Officer for Tyco International, who reports to his CEO. “I think it’s a good thing to have this reporting relationship but it’s not necessary if the company recognizes the importance of the function and if the senior leadership of the company supports the supply chain function.”

Stewart, for example, is a member of Tyco’s senior leadership team and speaks to the board of directors at least once each year.

2 Cross-Functional Expertise and Relationships

To ascend to these senior supply chain leadership positions, executives need to be strategic thinkers as well as tactical executors. And most of today’s supply chain executives boast such diverse backgrounds: their tickets have been punched in a wide range of supply chain functions, and often other corporate functions.

“Clearly you need cross-functional experience,” says Motorola’s Reed. “In the past, you’ve seen the head of

Key Characteristics of

Information Systems Savvy.

In its “Supply Chain Top 25 for 2005” report, AMR Research notes that integrated supply chains, or “demand-driven supply networks” (DDSN), “can only work with massive amounts of IT investment. Luckily, most of this investment was laid down during the Internet bubble. Now is the time to take advantage of it.” Dell, Procter & Gamble, IBM, Wal-Mart, Motorola and the other companies on AMR’s list employ highly sophisticated information systems to support their supply chain processes. For example, when a Wal-Mart customer buys an item, the transaction flows through internal systems and then outside to trigger a replenishment order in the system of a supplier, who can immediately restock the item through its distribution system.

Strong Sourcing and Procurement Capabilities.

Companies with highly effective integrated supply chains tend to be very tough negotiators. They also tend to collect cash far better than their competitors do.

Dominant Supply Chains

Equally Strong Partnerships with Suppliers.

Tough negotiating tactics and aggressive accounts receivable policies do not mean that leading supply chain organizations stick it to their suppliers. On the contrary, supply chain leaders nurture their relationships with suppliers through supplier development programs that help suppliers provide better products and services while reducing cost within their own supply chains, benefiting both sides of the relationship.

Obsessive Measurement.

The most effective supply chain executives and managers understand how their functions are performing at every moment. When asked how they have improved cycle time, order fulfillment or inventory turns, top-performing supply chain executives can immediately respond with specific statistics. Top supply chain executives know the exact impact their changes and improvements are delivering, and when there is a problem that needs to be resolved fast.

manufacturing become the head of a supply chain but I don't think that's a sustainable model."

Reed has amassed experience in just about every nook of the integrated supply chain during his tenure with Motorola and, previously, IBM. He counts a stint working with the CFO of a large business within IBM as a highly valuable experience in grooming him for his current role. "That gave me an overall view of the profit & loss dynamics of a major business," Reed notes. "I still use that perspective to help articulate the financial value that a supply chain delivers. As a supply chain executive, you need to talk to people throughout the organization and demonstrate your value to them. The easiest way to do that is to have been in their position."

Stewart agrees. "Most of our teams we're running at Tyco are cross-functional and cross-discipline," he reports. "You don't have to be a supply chain person to lead a sourcing initiative. If you're an IT person, for example, you might lead that team and we would serve as your support mechanism."

The effectiveness of cross-functional supply chain efforts depends on how well the supply chain function relates to and works with other parts of the organization. That sort of expertise comes through experience. "Supply chain groups are becoming the basis for operational excellence within the company," Reed adds. "For that reason, I think you need supply chain leaders who have been in brutally tough operational roles."

3 Strong Customer and Supplier Relationships
Some of the "beyond supply chain" experiences that current supply chain executives say they value include time spent with their company's customers. Customer interactions, particularly when those dealings are difficult or

confrontational, give supply chain executives a broader perspective and useful insights into supplier relationships.

Reed believes that a customer-centric view of supply chain operations is crucial. “Customers are the only reason our job exists,” he says. “If we don’t figure out how to enable a supply chain with attributes that delight customers, we will have failed.”

Earlier in his career, Stewart took on numerous customer-facing assignments. “You’re humbled by customer-facing experiences, which is a sensation that you don’t normally get when you’re being sold to by your own suppliers,” he points out. After playing the role of a tough customer on the supply side for more than a dozen years, Stewart was promoted to a vice president of program management and business development. The role required him to visit with tough customers frequently. “It wasn’t always a nice experience,” he recalls. “However, it made me think about how I treat suppliers and the positive impact I can have in managing and developing supplier relationships.”

4 A Global Mindset

The difference in labor costs between Asian and Eastern European countries and labor costs in Western Europe and North America remains striking. The magnitude of labor arbitrage exceeds the savings delivered by even the most stunning examples of efficiency-

generating process improvements. In short, the pressure to cut costs and the potential benefits of outsourcing will continue to drive more companies to locate greater portions of their manufacturing activities in Asia and other low-cost regions. Since the customer markets in those areas are still developing, it also behooves North American and Western European companies to set up shop in those areas.

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“Most of us are establishing capabilities in low-cost countries because our customers want us to go there – labor arbitrage is forcing us to go there,” says Stewart. “Plus, those areas represent developing markets for our products. It’s not just about chasing low cost or low price. Globalization is a big deal for supply chain executives, and we have to find more ways of getting people who come to work for us exposed to those things.”

That need, which represents a major challenge, comprises a growing part of the supply chain executive’s job responsibilities.

“A large percentage of business is going to be outside of your traditional market,” says Reed. “After you spend some time in India, for example, you see that those markets are very, very different. The infrastructure is different, the customer requirements are different, the channels are different – it’s unbelievable and difficult to describe. Still, as a supply chain leader you better figure it out or you won’t be successful.”

5 Demonstrated Success as a “Change Agent”

Companies also expect senior supply chain executives to be “change agents,” which translates to experience in helping to move a company from a functional or silo mode to an integrated supply chain.

Doing so often involves replacing managers, re-tooling employee skills, introducing new performance metrics (and changing compensation structures accordingly) and ensuring that previously segregated supply chain functions – such as manufacturing and procurement – work together as partners rather than squaring off as antagonists.

Reed views change management as an “absolutely imperative” aspect of the supply chain executive’s role because the various supply chain functions that need to be integrated are often entrenched in “the old way of doing things.” Additionally, many of the leaders of those functions have also become accustomed to outdated processes.

“Integrating the supply chain itself requires strong change-management skills,” Reed says. “And then, as soon as you achieve functional excellence within the supply chain, you have other frontiers that require change management skills. For example, you need to work with sales and marketing and with engineering to help produce attractive products faster.”

Looking Ahead

Achieving success as a supply chain leader in the past decade required a pioneering spirit. The current crop of supply chain executives has paved the way for their successors. Some business school students can now earn MBAs with a concentration in supply chain management.

Of course, nothing substitutes for on-the-job experience. As the supply chain trends identified in this paper continue to gain importance, that experience is guaranteed to include cross-functional team building, overseas posts, “brutal” operations assignments and plenty of change management challenges – something to which Stewart can attest. “I now have sales professionals on the other side of the house call me up because they’re dealing with my purchasing counterparts,” he adds. “Here at Tyco, a lot of our customers are also our suppliers, and you have to be very careful about how you manage both of those relationships. It’s a small world and a global world, and I think you’re going to find more of that in the future.”



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