

The New Supply Chain Agenda: The 5 Steps that Drive Real Value

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An Overview of the Book

Slone is currently executive vice president of supply chain at OfficeMax. He is a veteran supply chain executive and widely recognized as an expert on supply chain and e-business. Dittmann is the Director of Corporate partnership, University of Tennessee. Mentzer was a professor at the University of Tennessee, and one of the industry's most prolific and well-known academics.

The authors wonderfully discussed and distil the complexity of supply chain management (SCM) to its essence through five pillars: 1) Hiring the right talent, 2) Selecting the appropriate technology, 3) Collaborating internally, 4) Collaborating externally, and 5) Managing change.

These five steps are the essence of the book which is divided into eight parts.

The book starts with a focus on supply chain as a primary driver of shareholder value. The authors feel that the supply chain professionals must speak the language of the CEO and the business directors who understand economic profit and its connection to shareholder value. The key term "economic profit," means you are making enough money to cover your cost of capital and meet shareholder expectations. But Supply chain professionals continue to look toward cost savings only. This chapter provides various such situations like when CEOs speak of working capital, cash flow, and DSO (days sales outstanding), those in supply chain conventionally speak of inventory turnover. When CEOs speak of NOPAT (net operating profit after taxes) and ROIC (return on invested capital), they tend to speak of fill rate, shipments, and cost.

As per the book "the most neglected pathway to increasing shareholder value runs through the supply chain." The various activities which are the part of supply chain help to achieve this goal. These are the activity that manages

the flow of information, money, and material across the extended enterprise, from supplier through the functional silos of the firm to customers, important point to note here is that the book does not restrict it to manufacturing only but rather focuses on the supply chain, outside the four walls of the plant.

So, two companies with identical profit levels on the income statement can have very different economic profits and which is achieved by the improved management of product availability, delivery, inventory, employed assets, and their associated costs and this is provided with evidence and industry data by the authors.

The book moves from this exciting opening chapter on acceptance of economic profit as a tool for the shareholder value to next part, devise a supply chain strategy. This is the centre theme of chapter two. The strategy formation composed of the five pillar elements. The authors include a short assessment tool to help senior executives quickly identify areas of deficiency. The tool, devised in a supply chain forum at the University of Tennessee, provides with an immediate sense for areas in need of attention.

The authors also provided a synopsis of findings from 35 companies that have completed the assessment. The findings suggest that a short-term focus on decision-making is "the greatest disease plaguing supply chain effectiveness," followed by cross-functional misalignments - which are two major barriers to achieving the supply chain dream.

The next five chapters (chapters three to seven) deal with the five pillars toward supply chain excellence. Assembling the right talent is proposed as the first step. Assembling supply chain talent is not limited to new hires coming in the door, but also the current personnel, including the senior supply chain leaders i.e. acquiring, developing and retaining the right talent is the key to build a world class supply chain.

This job of getting the right talent become more difficult because the supply chain executives not only need to possess expertise within the activities they manage but also they must have an ability to coordinate areas that they do not control in the end-to-end supply chain. This clearly poses challenges for the supply chain leaders who must not only understand the challenges faced by other functional areas of the firm (e.g., new product development, sales, finance, and marketing, among others) but to help these "outside" areas to appreciate the capabilities (and limitations) of supply chain operations. With this in mind, the supply chain executive must be held in the same esteem as the leaders of the interfacing functions.

The ideal supply chain leader must needs to have the following characteristics: global orientation, systems thinking, inspiring and inspirational leadership, technical savvy, and business skills. Perhaps most interesting quality of the modern supply chain leader is the ability to appreciate and accommodate cultural differences in a globally dispersed operation. Supply chain executives who have worked in other countries and understand the global environment are extremely valuable.

The next chapter deals with technology used by supply chain. The success of supply chain depends on selection of right technology. This section particularly offers a poignant consideration of various IT solutions, and their prospective role in advancing the supply chain agenda. It is the critical, enabling step towards building a strategy for supply chain excellence. But most of the time the technology employed in supply chain operations/planning often fall short of their anticipated benefit.

The authors have given three rules for successful implementation of technology - 1) Use leading-edge (beta) technology appropriately, 2) Realize that people issues are tougher than technical issues, and 3) Ensure that the technology project has a business case. The technology chapter closes with an excellent set of questions that supply chain executives should consider before acquiring or implementing a new piece of technology.

The next two chapters are with focus on the collaboration - both internal and external to the firm - to be the richest

of the five agendas. These chapters address the concept of systems thinking; when applied across the functions of the business and to the larger supply chain beyond the company. It is here that the "team sport" that is supply chain management must take root, and the authors provide good, practical advice for aligning departments and businesses for the success of supply chain performance that creates shareholder value for the focal firm and its fellow supply chain members. The section on matching supply with demand through sales and operations planning (S&OP) offers real contribution through rich examples and supporting data. The inclusion of an S&OP Assessment Test is a one of the important concept which is given by authors. Likewise, the examples of successful external collaboration from OfficeMax, Lowe's, and West Marine are interesting.

The last of the five pillars (Managing Change in the Supply Chain) is a compilation of the previous four steps.

The book ends with a chapter on case studies on two firms who were successful in development and execution of supply chain strategy. The first case study depicts the setting up of Whirlpool, North America and emphasises on the process of transformation of a supply chain operation paralyzed by a disastrous ERP rollout in the year 2000. The second case study describes the Stage Stores Incorporated (SSI), during its aggressive growth throughout the 2000. Both examples demonstrate the power of building a strategy for supply chain excellence to drive economic profit and share holder's value.

In short this book is worth reading for anyone who is willing to work in supply chain as it can work as a guide for the executives. The book is full of advices which are worthwhile to follow. It is easy to read and make you involve as you start reading it.

Sudhir Ambekar is presently a participant of Fellow Program in Management at IIM Indore. He has ten years of experience as faculty member in various business schools in India. He has conducted several MDPs and has delivered project consultancies. His key research interest is in supply chain management and logistics. His ongoing projects are supply chain management in textile, cross docking etc. He is a graduate in textile technology and a post graduate in management.