Theory of Constraints
TOC REVIEW
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Broad Scale Supply Chain Results Are Hard to Find

By Mark Woeppel

In early January, ***Computerworld*** magazine reported on a study that concluded that few companies achieved *any* return on their supply chain project investment. More than 850 companies were surveyed, including those that had highly publicized supply chain failures. One of the authors of the study, Vinod Singhal, said, "Much of the evidence [for payoff] is anecdotal." The article further quotes Robert Austin of Harvard University, saying, "Only a few lucky companies can prove that they achieved any real payoff from their SCM (supply chain management) efforts."

Management has a powerful incentive to improve supply chain operations. The Singhal, Hendricks study shows companies that report supply chain glitches experience a 20% loss in shareholder value. Investors have always considered a well functioning supply chain to be a necessary condition of creating value. Thus, you have the explosion of SCM software products proliferating the marketplace and an increasing emphasis on collaboration among chain partners.

So with all these smart people working on SCM, why are there so few examples of successful SCM implementations? A better question to ask would be, why, if management spends millions of dollars on supply chain management technology, aren't we seeing breakthrough improvements in supply chain efficiency?

Based on the fact that so little real improvement has been demonstrated, we can conclude that nothing in these businesses has fundamentally changed, except that the companies now have some very nice expensive software.

At the most fundamental level, the goal of supply chain management is to satisfy the market demand. The market demands a reliable supply of goods and competitive edge can be gained if your supply chain is more effective than your competition's. The supply

chain enhances value and the design of the supply/value chain should be at the core of the company's value strategy.

Is there way to ensure favorable results in your supply chain management implementation? I don't think there is any guarantee of success, but you can avoid many fundamental mistakes, the first being that SCM is about efficiency. The results of the study show that management should be focusing not only on the efficiency of the supply chain, but also the reliability. Yes, we should be cost effective, but if we can't deliver consistently, our customers and our shareholders will punish us severely. Many managers underestimate the value customers place on reliability.

Secondly, an effective supply chain is not about technology, it's about process. It seems to me that many of these projects are approached as "technology" projects, instead of business projects. The problem with that thinking is that most of the technology being offered is transaction support, not decision support. What the technology does is allow us to do things faster and more efficiently, but not more effectively. Thus, all we do are the same things, only faster. How can we expect a change in results if we do not change the design of the system (business processes) that produces those results?

Third, you can't delegate supply chain design. It's not something that happens "in the back room". The supply chain affects every stakeholder in your business. As the research (and the marketplace) shows, SCM practices can make or break your business. Successful supply chains are customer-centric and built around the value proposition of the business. That kind of integration is not going to happen unless the entire management team is involved.

So how do you deliver results?

1. Have a business manager responsible for the implementation. Without the head of the business unit involved and leading the implementation, you won't be successful. That's not to say the head of the unit is leading the project, but he or she is providing vision and guidance to the project team.
2. Define bottom line results for the project. It seems basic, because it is. However, many SCM projects are started with non-financial objectives to justify them. What is the goal of your project? Revenue growth from increased market share due to improved responsiveness? Reducing the cost of goods sold through more effective sourcing partnerships? Reducing capital costs by reducing inventory investment in the channel?

Only you can set these objectives. Your supply chain design team needs input on what results the chain is to produce. Your shareholders demand to know what you have to show for that $5 million you invested in the SCM project. They don't care if your customers like you more. They want to know what happened on your income statement and your balance sheet.

3. When you begin your SCM project, make the project manager explain how the results are to be achieved – in other words, what within the business is going to fundamentally change and how does that connect to the bottom line? He or she should have a clear vision of the processes to be changed, what they are going to be changed to, and a strategy to change the organization's practices.

Having a great technology is no substitute for good process design. If we are to introduce a new technology, let's make sure the processes are modified to capitalize on the technology. I mean – the internet is great and all, but if I keep the same amount of inventory in the same places and only change ordering procedures, well I just don't think that's going to create the bottom line results that justify $5 million. You can't buy the technology and expect the results to magically materialize. Think about this; if you're using a hand saw to manufacture tables and someone offers you a power saw to accomplish the same task, wouldn't you change your business process to capitalize on this (revolutionary!) new technology? Of course you would. Your supply chain project is no different. Technology and business process changes go hand in hand.

The software companies are not going to help you (much) on this. They're not measured on your bottom line, you are. They're measured on license revenue. Once you have the product installed, the results are your problem. The software company is going to move on to the next install.

The *real* results in SCM are derived from business processes that are specifically designed to deliver those results. Technology is important and will help you do things you can't do today, but it does not deliver the results you need unless you also re-think your chain design and processes. Your supply chain project has to take place in the context of your market mission and global goal. As in all projects you undertake, remember to measure your results on throughput, inventory, and operating expense. If you can't demonstrate or justify a change in these metrics, find something else to fix.

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