

# Effective Supply Chain Strategy

Take the Strategy Test Below and  
See How Your Company Grades Out

By **Peter Bolstorff**



"Implementing supply chain strategy is like trying to solve a rubics cube puzzle."

Implementing Supply Chain Strategy is a lot like trying to solve a rubics cube puzzle; the objective of the puzzle is to twist layers of multi colored squares in such a way that each of the six faces of the cube contains all the squares of one color. I have to admit, I never solved the puzzle; I could always get to a point where two faces of the cube were solved but in assembling the third, I disrupted the first two. Solving the rubics cube provides a strong analogy to implementing effective supply chain strategy. As you already know, it is not good enough to get "two colors right" while disrupting the "rest of the cube".

Action research\* and experience seem to characterize **three dimensions of Supply Chain Strategy** including 1) defining **performance factors** – setting appropriate goals, utilizing effective design techniques, and managing performance measures; 2) cascading the factors to each of four **performance layers** – the organization chart layer, process layer, job layer, and technology layer; and 3) aligning each layer with your **trading partners** – suppliers and customers. **How effective is your strategy?** Take the survey to see if your company makes the grade.

\*Rummler, G. A. and Brache, A. P. (1995). *Improving Performance: How to Manage the White Space on the Organization Chart, 2<sup>nd</sup> Edition*. Jossey-Bass: San Francisco.



The supply chain strategy survey is organized using the two dimensional matrix illustrated in Table 1. Each cell contains questions that will help you assess the effectiveness of that specific dimension of supply chain strategy. For each question, respond with YES worth 2 points, PARTIALLY worth 1 point, or UNSURE – NO worth 0 points. Scoring instructions are included at the end of this article. Enjoy!

| Elements of Effective Supply Chain Strategy | Goals                         | Design                        | Measurement (Management) |
|---|-------------------------------|-------------------------------|--------------------------|
| Organization                                | Competitive Requirements      | Organizational Design         | Level 1 SCORcard         |
| Process                                     | Supply Chain Network Strategy | Material and Work Flow Design | Level 2 SCORcard         |
| Technology                                  | Technology Requirements       | Technology Architecture       | Level 3 SCORcard         |
| People – Jobs                               | Job – Task Requirements       | Job Design                    | Job Level KPIs           |

Table 1. Elements of effective supply chain strategy

## Supply Chain Strategy Survey

**Organization goals** is the facet of supply chain strategy that prioritizes organizational performance balancing customer facing requirements for delivery reliability, responsiveness, and flexibility with the internal needs of cost, profitability and asset utilization.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Have you defined your supply chains in terms of products and customers?
- Are your senior managers measured and incented on a balanced set of supply chain measures?
- Do you know where your supply chain performance rates against competition?
- Have you prioritized your competitive requirements for each supply chain?
- Are your performance goals aligned with supplier and customer contracts?

**Organization Design** is facet of supply chain strategy that has do with assembling the most efficient and effective supply chain organization chart. It attempts to balance the major challenges of centralization versus decentralization, globalization versus regionalization, and process versus functional focus.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Does your formal organization structure address centralization, globalization, and functional silos?
- Are all relevant functions in place?
- Are all the functions necessary?
- Is the current flow of inputs and outputs between functions appropriate?
- Does your organization structure support your suppliers and customers organization structure?



**Organization Measures (Management)** is the facet of supply chain strategy that defines your overall supply chain metric scheme including definition, data collection, data segmentation, reporting, and analytics for defect analysis.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Are you regularly measuring (and managing) customer facing metrics for delivery reliability, responsiveness, and flexibility?
- Are you regularly measuring (and managing) internal facing metrics for supply chain cost and asset management?
- Are you regularly measuring (and managing) shareholder facing metrics for profitability and return?
- Do you have the data analytics capability to support analyzing supply chain performance data?
- Is your scorecard (and metric definition) aligned with your suppliers and customers SLA or contractual requirements?

**Process goals** is the facet of supply chain strategy that cascades (translates) organization goals to your supply chain network and processes. **Network**, in this case, refers to the physical movement of goods from your suppliers' suppliers to your company to ultimately your customers' customer. **Process**, in this case, refers to the SCOR® processes (PLAN, SOURCE, MAKE, DELIVER, RETURN, and ENABLE). Factors considered in setting network goals include service level, order fulfillment cycle time, upside flexibility, supply chain management cost, COGS, and inventory days of supply. Factors considered in setting process goals include transactional productivity for sales orders, purchase orders, work orders, return authorizations, replenishment orders, and forecasts.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Do your organizational goals cascade to network goals for service level, order fulfillment cycle time, upside flexibility, supply chain management cost, COGS, and inventory days of supply?
- Do your organizational goals cascade to transactional productivity goals for sales orders, purchase orders, work orders, return authorizations, replenishment orders, and forecasts?
- Have you segmented your network and transactional "cost to serve" for each of your supply chains?
- Are your middle managers measured and incented on a network and transactional productivity measures?
- Are your network and transactional productivity goals aligned with supplier and customer SLA and contractual obligations?



**Process Design** is the facet of supply chain strategy that has to do with defining your material, work, and information flows using a combination of three strategies including Make-to-Stock, Make-To-Order, and/or Engineer-to-Order. Design factors include geographic maps for each of your supply chains, site SCOR® Level 2 Configuration, process maps using SCOR® Level 3 elements, leading practice assessment, and transactional analysis.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.



- Do you have an integrated PLAN, SOURCE, MAKE, DELIVER, and RETURN processes?
- Have you designed or reviewed your material flow network in the past three years?
- Does each of your SKUs have a “strategy” assigned to it, i.e. Make-to-Stock, Make-To-Order, and/or Engineer-to-Order?
- Have your supply chain processes incorporated leading practices?
- Are your processes aligned with customer requirements and supplier capability?

**Process Measures (Management)** is the facet of supply chain strategy that defines your site, functional area and process metric scheme including definition, data collection, data segmentation, reporting, and analytics for defect analysis. It cascades from organization measures.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Are you regularly measuring (and managing) site or function metrics for delivery reliability, responsiveness, and flexibility, i.e. manufacturing schedule attainment, delivery reliability of transportation providers, or planned lead times by SKU?
- Are you regularly measuring (and managing) site or function metrics for supply chain cost, i.e. order management cost, product acquisition cost, inventory carrying cost, IT cost for supply chain, and planning cost?
- Are you regularly measuring (and managing) transactional productivity, i.e. process efficiency and transactional yield, for purchase orders, work orders, and sales orders?
- Do you have site or functional area data analytics capability to support analyzing supply chain performance data?
- Does your organization scorecard (and metric definition) cascade to your sites or functional areas?
- Are your sites or functional area metrics aligned with your suppliers and customers SLA or contractual requirements?

**Technology goals** is the facet of supply chain strategy that defines supply chain system requirements to enable, plan, and execute your supply chain processes. The entire process layer is an input; other common factors involved in defining technology requirements include SCOR® level 4 process flows and definitions, transactional productivity targets, data warehouse and archiving needs, master data requirements, and system architecture constraints.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Do you have appropriate technology (functionality) that supports how you want to PLAN, SOURCE, MAKE, DELIVER, and RETURN?
- Did you define your TO BE processes based on leading practice? (versus system functionality)
- Do you have goals set for master data integrity?
- Are your technology managers measured and incented on transactional productivity measures?
- Do you have a collaboration technology plan with suppliers and customers?

**Technology Design** is the facet of supply chain strategy that has to do with defining your technical architecture, detailed requirements, and setting specific business configurations based on your process flows defined above.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Did you configure your system based on a TO BE process Blue Print?
- Are you using all of the functionality that you bought?
- Have you realized all the benefits that were a part of your business case?
- Do you have appropriate data warehouse and analytical tools to support supply chain analysis?
- Did you implement your system with less than 10 software code customizations?

**Technology Measures (Management)** is the facet of supply chain strategy that defines your technology performance metric scheme including definition, data collection, data segmentation, reporting, and analytics for defect analysis. It cascades from process measures.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Have appropriate technology sub goals been set?
- Is your technology performance managed?
- Are sufficient resources allocated to support effective use of technology?
- Are the interfaces between technologies being managed?
- Is your technology performance metrics aligned with your suppliers and customers SLA or contractual requirements, i.e. EDI performance?

**People – Job goals**, is the facet of supply chain strategy that defines the type of job requirements and goals necessary to execute supply chain processes and technology.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Have appropriate job sub goals been set?
- Are job outputs and standards linked to plan, source, make, deliver, and return process requirements?
- Are job goals cascaded from the organization and process levels?

**People – Job design**, is the facet of supply chain strategy that defines the type of job requirements and goals necessary to execute supply chain processes and technology.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Are sufficient resources allocated to support effective use of technology?
- Are the interfaces between technologies being managed?
- Are plan, source, make, deliver, and return process requirements reflected in the appropriate jobs?
- Are job steps in a logical sequence?
- Have supportive policies and procedures been developed?
- Is the job environment sound?





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**People – Job Measures (Management)**, is the facet of supply chain strategy that defines the type of job requirements and goals necessary to execute supply chain processes and technology.

Quick Assessment. 2 Yes – 1 Partially – 0 Unsure or No.

- Do the performers understand the job goals (outputs they are expected to produce and standards they are expected to meet?)
- Do the performers have sufficient resources, clear signals and priorities, and logical job design?
- Are the performers rewarded for achieving job goals?
- Do the performers know if they are meeting job goals?
- Do the performers have the necessary knowledge/skill to achieve the job goals?
- If the performers were in an environment in which the five questions above were answered, "yes," would they have the physical, mental, and emotional capacity to achieve the job goals?

**Scoring the survey** is a matter of adding up the raw score for each cell, creating a percentage score of points possible, and then assigning a grade based on the following scheme, A  $\geq$  90%; 80%  $\leq$  B < 90%; 70%  $\leq$  C < 80%; 60%  $\leq$  D < 70%; F < 60%. Table 2 illustrates an example of the calculation steps. For an excel version of the survey and scoring grid please email Peter directly, [peterbolstorff@scelimited.com](mailto:peterbolstorff@scelimited.com) or go to [www.scelimited.com](http://www.scelimited.com) click Services then Supply Chain Strategy.

| Raw SCORE |               | 28    | 29     | 32                    |
|-----------|---------------|-------|--------|-----------------------|
| 89        |               | Goals | Design | Measures (Management) |
| 23        | Organization  | 8     | 6      | 9                     |
| 25        | Process       | 8     | 9      | 8                     |
| 21        | Technology    | 7     | 7      | 7                     |
| 20        | People - Jobs | 5     | 7      | 8                     |

| Percentage SCORE |               | 70.0% | 72.5%  | 80.0%                 |
|------------------|---------------|-------|--------|-----------------------|
| 74.8%            |               | Goals | Design | Measures (Management) |
| 76.7%            | Organization  | 80.0% | 60.0%  | 90.0%                 |
| 83.3%            | Process       | 80.0% | 90.0%  | 66.7%                 |
| 70.0%            | Technology    | 70.0% | 70.0%  | 70.0%                 |
| 66.7%            | People - Jobs | 83.3% | 58.3%  | 66.7%                 |

| Grade SCORE |               | C     | C      | B                     |
|-------------|---------------|-------|--------|-----------------------|
| C           |               | Goals | Design | Measures (Management) |
| C           | Organization  | B     | D      | A                     |
| B           | Process       | B     | A      | D                     |
| C           | Technology    | C     | C      | C                     |
| D           | People - Jobs | B     | F      | D                     |

Table 2. Strategy Effectiveness Score