

keepingSCOR

Updating the Supply-Chain Council's implementation model

Target the impact, cut the risk

by Peter Bolstorff

You too can sponsor a supply chain project without becoming the victim of jokes in the boardroom

"I'm going to fund this supply chain project even though I haven't budgeted for it," the operations vice president at a major consumer goods manufacturer told me. "But I need to minimize the risk."

Haven't we *all* been there?

As a general rule, capital expenditures must have budgets. But, if someone uncovers a great idea with a potential return on investment (ROI) in less than 12 months, executives need to know how to fund new business opportunities with a high confidence level of success. That includes supply

chain projects.

Leading companies are beginning to budget for supply chain optimization just as they do for an increase in manufacturing capacity or other capital investment. After all, **supply chains are never static** —

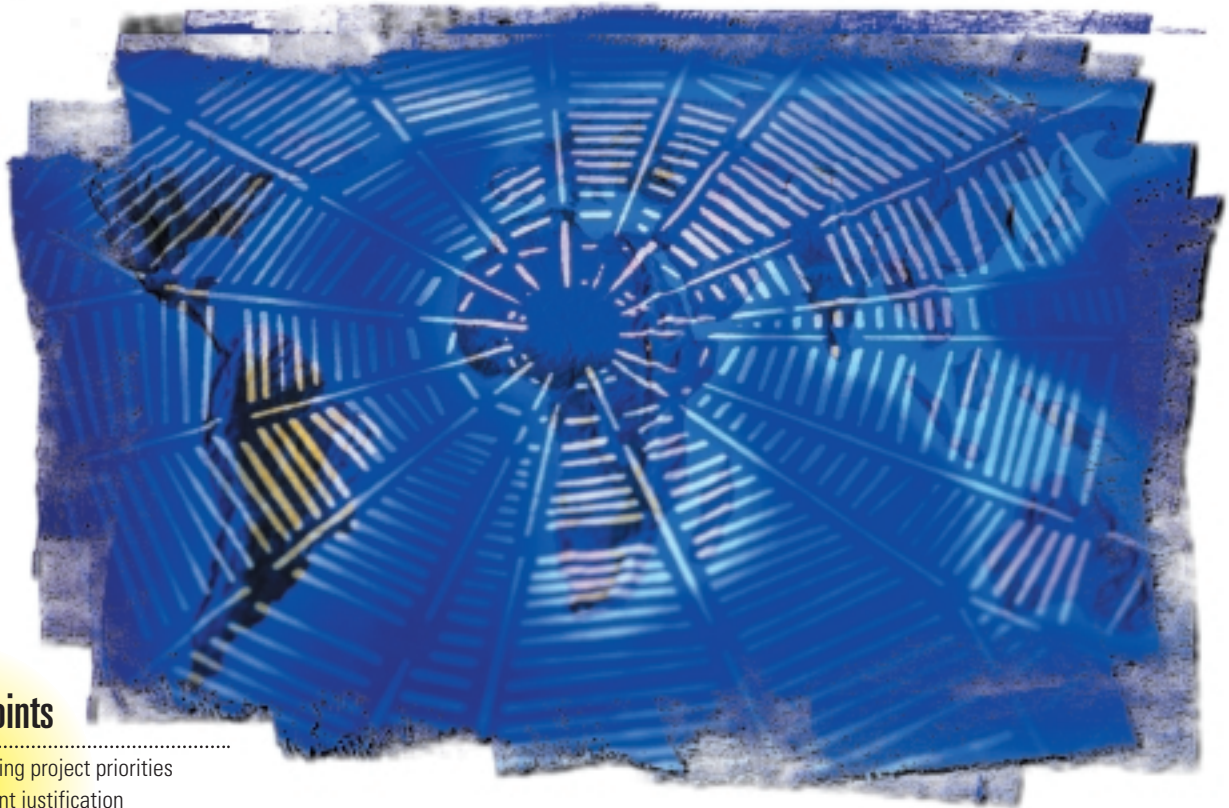
there's always something to be improved.

But there's a difference. Technology demands make supply chain investments capital-intensive, and the implementation horror stories perpetuate a high-risk reputation.

That's the value of being able to apply a standardized supply

What is SCOR?

The **Supply Chain Operations Reference** model, developed by the Supply-Chain Council, provides a standard methodology for managing supply chain projects.



Flash points

- Establishing project priorities
- Investment justification
- Project implementation
- ROI

Learning points:

- You can increase the probability of ROI using SCOR as a reliable roadmap to help align supply chain improvement projects to support operational strategy.
- Treat supply chain improvement like a capital investment for manufacturing capacity. You can budget for it either annually or as part of fiscal planning.
- Whether it's budgeted or not, the SCOR methodology will gain an ROI of two to six times the investment in less than 12 months.
- SCOR projects can be big or small. In either case, ROI can be calculated.
- There's a difference between opportunity and project goals. Opportunity goals are benchmarked, targeted performance minus actual performance. Project goals are based on known issues in a supply chain and the value of solving the issues.
- Supply chain projects not only help drive savings, but also validate and shape operational strategy. This is a big need as "e-stuff" happens.

chain model — the SCOR model — to such a project. SCOR is designed to help build the business case for your idea, whether it's budgeted or not. It also can be used to provide a **reliable roadmap** for on-time, on-budget projects. In many cases, the savings from these supply chain projects pays for the required technology — a benefit that quickly eases the **risk factor**.

Building a business case for either budgeted or unbudgeted expenditures includes four activities, outlined as follows:

Demonstrate the business opportunity

Successfully defined supply chain business opportunities have three things in common: focus, focus and focus.

Focus first on defining the scope.

Second, focus on understanding the supply chain metrics *and* their impact on both the P&L statement and balance sheet.

Third, focus on understanding competitive performance requirements, which includes both **benchmark and market survey**.

The first step in the SCOR model is to **analyze the basis of competition**. This drives the data to define the business opportunity. In the case of the consumer goods manufacturer with an unbudgeted project, the scope was defined using three criteria — geography (U.S.), division (P&L) and product — to achieve a well-defined set of products, sold to a well-defined market.

The analysis then called for the company to identify appropriate **SCOR Level 1 Metrics** for delivery reliability, flexibility/responsiveness, cost and assets. In this business case, the business team identified the

following metrics for **supply chain performance**: line fill rate, backorder duration, total supply chain cost, cost of goods sold and cash-to-cash. These metrics were mapped directly to the divisional P&L, providing the necessary cause and effect between the project and P&L improvement.

Leveraging current SCOR benchmark data, as well as conducting a customer survey, completed the last phase of this analysis. The business team articulated the competitive needs for each metric category, which resulted in a clear business opportunity for performance improvement.

Accurately estimate the savings or benefits

There's a difference between opportunity and project goals.

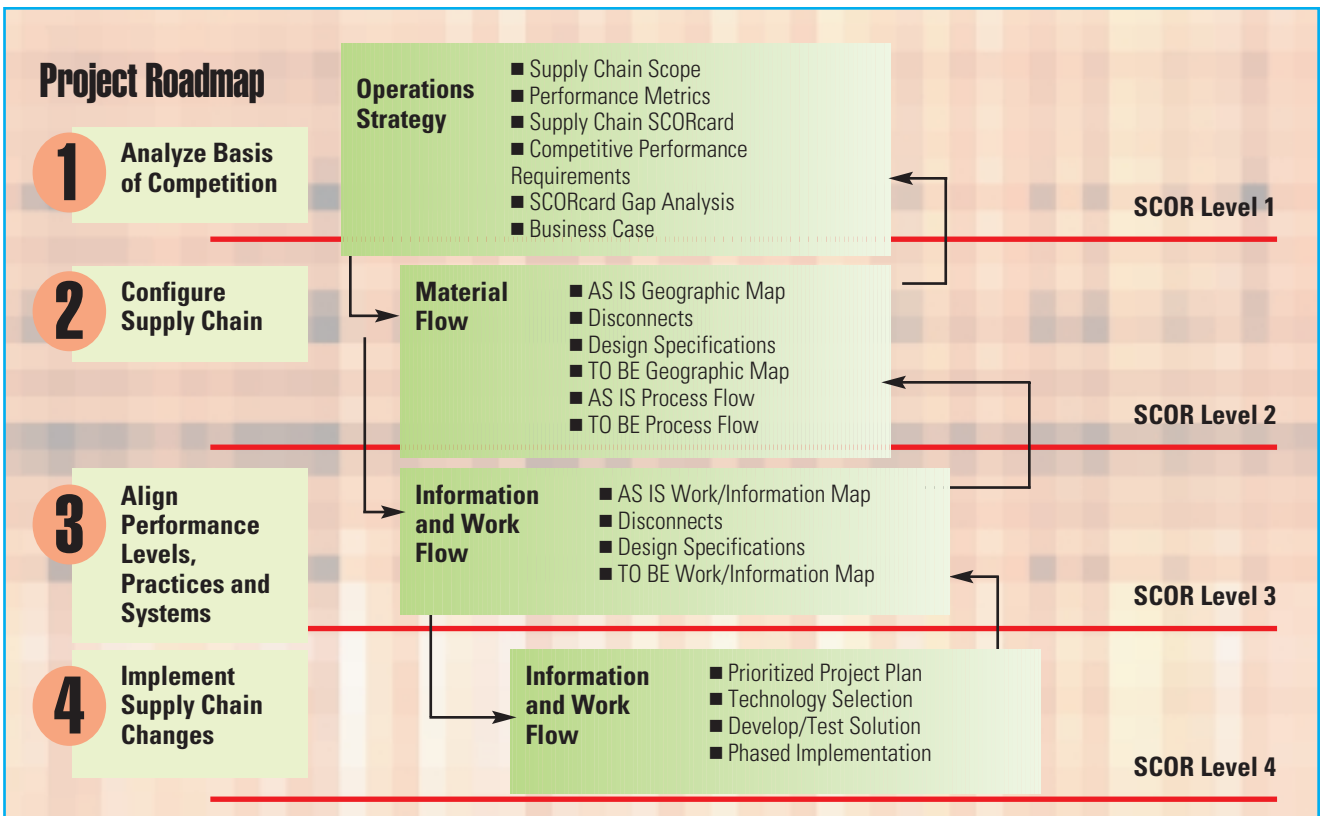
Opportunity goals are: targeted performance minus actual performance. They're set using benchmark data. I would never make a promise to an executive based on opportunity.

Project goals are based on known issues in a supply chain and the value of solving those issues.

It's an important distinction. Project goals are short-term, while opportunity goals are only achieved over time.

For my consumer manufacturing case, a training session for the operations vice president and his business team about the SCOR model led to setting project goals by identifying key issues and opportunities. In this company's case, the benchmarks suggested a \$2 million business opportunity to improve actual supply chain performance. But the ROI promise was based on real projects with real people making real changes.

The **SCOR Project Roadmap** helps to estimate savings by



A simple master plan

It's important when developing the implementation plan (or master schedule of projects) that a **balanced project mix** is taken into consideration.

Using a **four-quadrant grid**, you need to plot projects in terms of the pace of change and the scope of change.

The **Fast** side of the quadrant includes "low hanging fruit" projects with few dependencies, small teams and requiring less than three months to complete. The **Measured** projects are more complex and take more time. They typically encompass a cross-functional team, multiple dependencies and take longer than three months. In terms of scope, **Tactical** projects focus on a finite problem or current deficiency and offer less ROI impact, whereas **Strategic** projects focus on global, interdependent issues that offer a greater ROI impact over time.

The SCOR Project Roadmap helped the consumer goods manufacturer to align the quick hitters with the more strategic projects. As a result, the operations vice president is looking at a 600 percent ROI as the project enters its final phase. He also found another positive result of investing up-front time to learn this methodology: The tactical side of the supply chain project is slated to pay off the investment by two to six times — which is a risk he couldn't afford to pass up.



addressing the real changes (or work) through a series of **disconnect analyses**.

The roadmap assimilates and prioritizes material flow disconnects, workflow disconnects, information system disconnects, and overall organizational disconnects into a well-defined, quantified and prioritized list of changes. This list comprises the real savings.

Another critical aspect of how to estimate savings is a balanced means of measuring success. Without a balanced, prioritized scorecard, a dent on one side of the balloon makes a bump on the other.

Clearly and confidently articulate the costs involved (resources, capital, etc.)

With proper scope and adequate resources, the SCOR Project Roadmap takes 12-16 weeks to produce design changes based on leading practices and/or technology tools for material, work and information flow. The roadmap applies solid **principles of project and change management**, resulting in an accelerated implementation.

Words for the wise

Disconnect: Any issue contributing to the gap between actual and target performance.

The good news is that most of the changes can be completed within a rolling 12 months. This process gives the project sponsor great confidence that the work is scheduled based on business impact so that the **easy projects with big payoff** (the *gems*) start first, and are followed by the **easy projects with small payoff** (the *quick hits*).

Only then can you move to the tough side of the implementation scale by looking to both the extra efforts with a **big payoff**. The last of the possibilities — big effort and small payoff — may never see the light of day. But if you look at them all as a whole, you get the clear picture why project goals and opportunity goals shouldn't be confused when you start a project.

By following this project roadmap, the 29 changes made by the consumer goods manufacturer were completed on budget with two weeks to spare.

Summarize the ROI schedule

ROI for a SCOR-managed project is a stream of events — not just a “Big Bang” event on the last day of the fiscal year. In fact, because of the process approach, **unpredicted side benefits** are often observed as early as the sixth week.

Most of the time, the direct cost of the project has been recovered within the first six months of implementation. Expectations for a **200% to 500% return in 12 months** are normal.

In fact, when compared to manufacturing capacity investments, supply chain investments have very quick returns.

The strength of the SCOR model makes the cost side of the project predictable and reliable. This fairly rigorous approach produces a supply chain design to meet business performance requirements. ◀



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About SCOR

The Supply Chain Operations Reference model (SCOR) has been developed by the Supply-Chain Council and is SCTN's recommended implementation model for SCM initiatives. While the author of this article is affiliated with the Supply-Chain Council, this article was prepared under the direction of SCTN and was not subject to prior review or approval by the Supply-Chain Council or any of its members/affiliates.