Supply Chain as a Competitive Advantage

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Outline

• A Supply Chain Fable
• The Emergence of the Strategic Supply Chain
• Strategic Supply Chain Management:
  The Five Disciplines
• The Five Disciplines in Action
• Q&A
A Supply Chain Fable

Gap Inc. – one of the world’s largest specialty retailers

- More than 3,400 stores
- 2012 revenues of $15.7 billion
- Highly recognized brands
Gap Inc. is “Committed to Jeans”

“I created Gap with a simple idea: to make it easier to find a pair of jeans. We remain committed to that principle.”

— Don Fisher, Founder, Gap Inc.

Three pairs of jeans

- The “Perfect Boot” (GAP) - $59.95
- The “Sweetheart” (OLD NAVY) - $29.50
- The “Classic” (BANANA REPUBLIC) - $78.00
Several years ago, Gap Inc. launched an initiative to “remake” its supply chain. The strategy worked:

- Three brands, one type of denim
- Fabric ordered in advance
- Fewer suppliers, more leverage
“Any customer can have a car painted any color that he wants so long as it is black.”

– Henry Ford

A bit like the Model T

- You can have any denim you want, as long as it’s the one we bought
- Mismatch with customer requirements
- Fewer design innovations
- Strategy abandoned
And the moral of this story is...

*The New York Times*

Under Fire, Gap Chief Steps Down

By MICHAEL BARBARO and ANDREW ROSS SORKIN

Published: January 23, 2007

**BusinessWeek**

FEBRUARY 26, 2007

Paul Pressler's Fall From The Gap

Hailed on his arrival as the chief executive officer of Gap Inc. (GPS) in the fall of 2002, he was exactly what the board wanted—or at least what it thought it wanted. The blockbuster, good-looking Disney veteran was a hands-on executive operations manager, not a strategy-driven visionary. He seemed to be just what the new business needed to turn around the struggling company. But over the next four years, Gap's performance came apart at the seams. On Jan. 22, Pressler resigned.

The immediate postmortem analysis was a numbers guy who didn't appreciate the nuances of the fashion business. Truth be told, but it's a big part of the story. Pressler's problems involved more than just a few bad bets on colors and styles. According to 12 former employees interviewed by BusinessWeek, he also tangled with some of the very things that were supposed to be his strengths, including new-catalog campaigns, human resources initiatives, and supply chain streamlining efforts. One ex-employee characterized Pressler's tenure as "total system failure."

The Emergence of the Strategic Supply Chain
The economic cycles of the past decades have “piled on” challenges to supply chains

- Shorter economic cycles
- More frequent natural disasters
- Rising costs in low-cost countries
- Reduced access to working capital
- Competition for talent
- Greater focus on sustainability
- Increased competition
- Shorter product life cycles
- Multiplication of channels and segments

Increased pressure on companies and their supply chains

Supply chains can no longer operate in an “everything for everybody” model. Strategic supply chain management is critical to top-line and bottom-line performance.

Superior supply chains drive superior top and bottom-lines

In spite of clear performance advantages:

- Supply chain performance leaders are twice as likely to treat their supply chain strategically.
- Supply chain performance leaders have 20% higher profitability than their industry peers.
- Supply chain performance leaders have almost 50% higher sales growth than their industry peers.

Most companies still do not treat SC strategically:

- Surprisingly, only 45% of companies treat their supply chain as a strategic asset.
- And only 9% say the supply chain is helping them outperform their peers.

What is Strategic Supply Chain Management?

The Five Disciplines

- View your supply chain as a strategic asset
- Use metrics to drive performance
- Develop an end-to-end process architecture
- Design your organization for performance
- Build the right collaborative model
The Five Disciplines of Strategic Supply Chain Management in Action

- Develop an end-to-end process architecture
- Design your organization for performance
- Build the right collaborative model
- Use metrics to drive performance
- View your supply chain as a strategic asset
- Design your organization for performance
"I have dreamed about improving our inventory turnover for 10 years."

“But we have not been successful yet.”

Terry Lundgren
Chairman, President and CEO of Macy’s Inc.
“If you don’t like what’s being said, change the conversation.”

Don Draper
Fictional Ad Exec

The new conversation: Omnichannel

• Let customers shop the way they prefer
• Integrate stores, the Internet, and mobile devices
• Deploy all inventory, no matter where it is
• Integrate supply chain processes and systems
• Leverage new technology
• Customers don’t buy what they can’t see

• Customers don’t buy what you don’t have
Creating a process architecture

- Not all stores need the same inventory
- The best source for an item may not be the nearest store
- A slow mover in one location may be in high demand in another
- Accurate inventory is essential
Develop an end-to-end process architecture

Design your organization for performance

Use metrics to drive performance

Build the right collaborative model

View your supply chain as a strategic asset

Crude Supply
- Concentrated, fixed sources
- Regional/global trading
- Refinery “diet” constraints

Refined Product Distribution
- Primarily country focused
- Different products, laws, modes
- Local/regional trading

Maps courtesy of Worldmapper (www.worldmapper.org)

Increase in Fuel Consumption

How would you organize to manage a supply chain in this industry?
Develop an end-to-end process architecture

Use metrics to drive performance

Build the right collaborative model

Design your organization for performance

View your supply chain as a strategic asset

Titanium Casting
Lead time 100-200 days

Component Fabrication
Lead time 20-30 days

Helicopter Assembly
Daily schedule changes

End to end plan

Production Schedule

POs

Portal

MRP

MRP

APICS2013
Segmenting partners

The Collaboration Spectrum

- Too many best friends
- Little pain, little gain

Number of relationships
- Many
- Few

Degree of collaboration
- Extensive
- Limited

- Synchronized
- Coordinated
- Cooperative
- Transactional

Develop an end-to-end process architecture
Design your organization for performance
Build the right collaborative model
Use metrics to drive performance
View your supply chain as a strategic asset
Metrics: Four key principles

- Measure from your customer’s perspective
- Choose the metrics that will drive your supply chain strategy forward
- Ensure your metrics are balanced and comprehensive
- Benchmark to understand potential performance levels

“But it did ship on-time!”
“T’s a strategic customer, it’s OK to lose money on them”

Cost of Sub-optimization
Planning Value Add
Tension is good!

Q&A