



Speeding up the Supply Chain

Report on The Access Group Supply Chain Leadership
Knowledge Exchange Roundtable
At the
Schulich School of Business Executive Learning Centre
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Access Group



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Supply Chain & Logistics Canada / Chaîne d'approvisionnement et logistique Canada

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How can supply chains help us increase market share and create strategic advantage?

The purpose of this Report is to summarize Roundtable views expressed, and offer pointers to more agile supply chain strategy, structure and performance.

Speeding up the Supply Chain

Key Findings

1. Canadian organizations must invest in manufacturing and service supply chain strategy - people, process and technology as an economic necessity
2. Keeping the system running is critical, but closing the cost gap calls for incremental improvement – supply chain productivity and agility
3. Many productivity examples are cited to help improve performance incrementally, and these may close the competitive cost gap somewhat
4. Sustained competitive advantage calls for true innovation – supply chain breakthroughs in strategy, structure and performance, for example:
 - New supply chain technologies must be adopted to automate routine processes and speed up flow of information
 - Collaboration can extend the enterprise with design is built in to the whole process and non-core functions outsourced selectively to keep costs down
 - Supply chain managers must seek out executives ready to sponsor supply chain change and be directly at the executive table
 - IT, finance, marketing, and other areas must be more seamlessly integrated with supply chain management
 - A knowledge and learning culture must support innovation right across the enterprise, not just silo'ed productivity improvement
 - Goal setting must self-directed and compatible with strategic goals right across the enterprise by being bottom up as well as top down
 - Selected supply chain metrics are tracked to help plan strategy shifts and fine tune business decisions using real time data as the basis for change

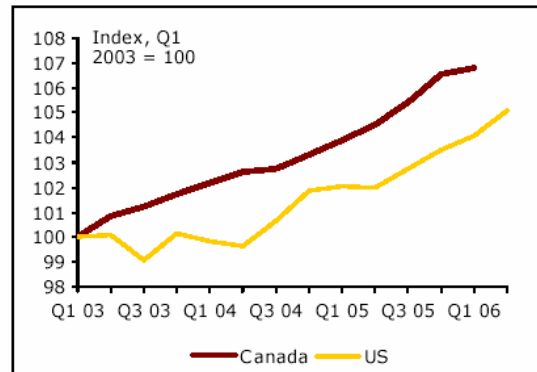
1. Introduction

“The business world has changed so radically that even the US Army’s Procurement agency is forming partnerships in China,” said Barry Gander, EVP of CATA, in launching the Supply Chain Roundtable.

Global competition is well documented. Product and service companies alike, all face enormous pressures. It is not just on price, although Far East labor costs less than half those in Canada are challenge enough. Competition covers the entire value chain, from strategyto designto distributionto post-sales service. Information travels rapidly around the world, making innovation widespread and competitive advantage rare.

Alan Kay, Roundtable moderator, notes the 40% Canadian dollar increase in 40 months and the Canada/US labor cost gap (see CIBC World Markets chart, August 2006) that have made supply chain management even more demanding. Add a looming skills shortage, and we need answers urgently.

Unit Labour Costs



This is the topic that brought together over 70 supply chain practitioners for a morning of Roundtable discussion.

“Supply chains directly affect your customer service levels, costs and profits,” says David Long, Program Director at the Centre of Excellence in Supply Chain & Logistics Management at Schulich Executive Education Centre, and President of Supply Chain and Logistics Association Canada.

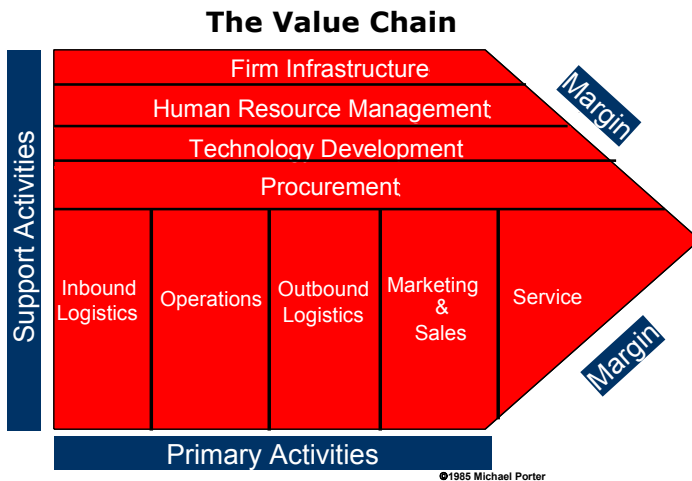
This document summarizes Roundtable views expressed on how can supply chains can help us increase market share and create strategic advantage through more agile supply chain strategy, structure and performance.

2. Looking for Value

“What is supply chain management?” Several Roundtable participants have asked this question in the context of understanding where best to place our efforts.

A supply chain or logistics network is a coordinated system of organizations, people, activities, information, processes, and resources involved in moving products or services physically or virtually from supplier to customer. Supply chain activities transform raw

materials and components into a finished product or service delivered to end customers.



Supply chains link value chains, a term popularized by Michael Porter to denote a framework for organizations to analyze value added activities, to create value and competitive advantage.

Supply chain or value chain – they touch most areas of your business.

Supply chains also cover both manufacturing and services. Robert Crawhall, President and CEO of National Capital Institute of Telecommunications and Roundtable keynote speaker, points out that services, representing 75% of the economy and jobs, get relatively little IT investment. Small wonder that Canada lags US service sector growth by 1.7% to 2.5%. Canada is now increasing investment faster than the US on people and service sector technology and is in better supply chain shape than many other countries, but “the outlook for Canada is still for a 20 year economic battle”.

3. Basic SCM – Making it happen

Supply chain management competencies can be viewed as three cumulative and progressively more innovative stages. The basic stage is “expediting”, **simply keeping the supply chain running** – goods and services flowing through the system, problems tracked and blockages removed, and commitments met.

No matter how systematized your supply chain, un-programmed occurrences must be dealt with – such as container bug infestations, containers stuck in traffic accidents, random customs duty assessments, examples cited by Roundtable participants.

Small companies see themselves at a disadvantage in such day-to-day matters. Certainly, large companies should have a resource advantage. As Crawhall points out, a Small/Medium Enterprise has difficulty finding a good VP Marketing let alone a good supply chain manager.

However, the comparison should not be taken too far.

Large companies have a resource advantage... but “nimble” is easier for a small company

Darryl McCoy, Director of Global Supply Chain Management at MDS Pharma Services, reminds us that the opportunity is usually quite similar and small companies tend to react more quickly. John Newell, Director Information Technology M&M Meat Shops agrees that a supply chain architect would be pipe dream in a small company, but there are offsetting opportunities e.g. for sourcing private label products. In his job, he must be aware of technology even though he cannot adopt all of it – “nimble” is a prerequisite for small business to survive; but “nimble” is easier for a small company.

4. Incremental SCM – Making it happen *better*

The second stage of supply chain management is “improving”. Supply chain managers still work at keeping the system running, but they also seek out ways to improve the supply chain process continuously. **Ongoing attention to cost levels and productivity are prerequisites for being in business in the face of low-cost overseas competition.**

Ongoing attention to cost levels and productivity are prerequisites for being in business.....

Supply chain improvement has broad application. For example, scheduling people is a supply chain issue for the Supreme Court’s clerk who with thousands of cases in progress has to make sure all those jurymen are in the right place at the right time.

The Roundtable heard numerous examples of supply chain incremental improvement in practice. Paul Blom, VP Procurement and Supply Chain Management at CFM, links ideas in his group’s different supply chains, even in other industries.

NCIT’s Crawhall recounts how Nortel’s advanced technology people worked with sales and marketing to get \$10K investments in small research programs. After long time resistance, it was realized that there was attractive brand equity for small companies from being in the program, so participants made the needed trade offs. An individual in a small company is often better placed to work opportunities to extract value.

Claude Germain, EVP and COO of Schenker of Canada Limited, gives a customs duty example. Total added cost is highly unpredictable since 85% of rated entries to Canada are manually processed by entry level people, making duties subjective. For example, challenging coconut milk rated as a dairy product reduced the assessment from 6% to 0% and saved \$100K/year, while a transformer split into two components with only a slight increase in shipping costs came in duty free.

A mid-cap oil field supply firm changed purchasing terms so that instead of supply chain costs being buried in cost of goods sold, the contract was changed to ex-works to give

visibility of shipping cost from India and China; the company then teamed up with a large global player to reduce supply chain costs and improve on time supplies delivery.

Bell Canada self-funds continuous improvement, Celestica aligns metrics for right behaviors, Health Connections' runs a talent awareness program, MDS focuses on metrics across the enterprise rather than internally, and Alberto Culver links strategy to success measures.

Challenges may vary from sector to sector. **Crawhall commented on the enthusiasm for supply chain management in the health care sector**

.....but not enough by itself to confer real strategic competitive advantage

currently. This perhaps reflects that supply chain awareness is only now showing up in this sector. It is not just about your own organization, rather making different organizations in the chain work seamlessly, e.g. hospitals want blood when it is needed, while Canadian Blood Services wants economical blood distribution. However, electronic commerce being adopted by every sector is creating a commonality of issues and speeding up rate of adoption.

The real question is the extent to which incremental improvements can bring back competitive advantage. It is tempting to imagine that this will be sufficient to meet strategic needs, but experience clearly indicates that much more will be required. Sustained strategic advantage requires a level of innovation that goes far beyond productivity gains, as discussed in the rest of this Report.

5. Strategic SCM – Making it happen *differently*

The third stage of supply chain management builds on day-to-day expediting and incremental improvements with visionary supply chain management. **The goal is strategic “leadership” – to create and fulfill new customer needs, differentiate our organization, and disrupt the competition.**

Strategic supply chain change is quite different from tactical and incremental changes to raise productivity and lower unit costs. This was the main theme of Crawhall’s keynote

Supply Chain Change Strategies

- **Integrate supply chains – back to suppliers, forward to customers**
- **Outsource *non-core* functions to lower cost providers**
- **Involve customers and suppliers in services/ products design**
- **Build in complexity as a competitive differentiator**

address, that we still have more work to do in stablishing supply chain strategies and teamwork led from the top of the organization.

Nortel’s digital phone systems were considered cool technology when Crawhall was there in the late 1980s. But, *supply chain strategy* brought success, not technology.

Nortel’s supply chain quality program resulted in minimal defects, and 48-hour inventory

replenishment enabled a top tier customer, BT, to eliminate its own warehousing.

Supply chain management must be directly represented at the executive table, with IT, finance, marketing, and other areas must be more seamlessly integrated with supply chains. A culture of innovation must be embedded across the enterprise, not just silo’ed productivity improvement. The benefits of change must be made more tangible, with performance tracking aimed at producing measurable results and corrective actions.

This is easy to say, and indeed some participants expressed impatience with high level discussion that never produces much action let alone measurable results. How are we to break out of the incremental supply chain straightjacket and achieve market leadership breakthroughs? In this section we review areas requiring urgent attention – technology, collaboration, organization, and culture.

Technology for Competitive Advantage

Crawhall of NCIT sees a potent brew of supply chain technology emerging: broadband wireless with location capability, Voice over IP with alerting capability that automatically notifies you if something happens, XML-based standards for open information exchange, and sensor networks including RFID technology. Major advances are coming in data bases, data fusion, information search and query, knowledge management, business intelligence, and visualization.

This will mean shifting from a “product design” approach to designing the product with the complete customer fulfillment system included – beyond design-for-test, design-for-manufacturer, and design-for-shipping. Organizational barriers and resistance to untried technology must be overcome before product design is sufficiently supply chain friendly. Product design must incorporate supply chain factors such as supply and demand variability into the product specifications. For example, identifying price sensitivities if demand spikes or supply chokes. Optimization is the goal, not just cost reduction.

Blom says that platform standardization just to keep down costs risks rewarding people for the wrong answer. McCoy is facing consequences of technology just being dropped in without process design and is now having to redesign the technology. Up front preparation is vital and impatience can be counterproductive.

Collaboration and Value

There must be a change towards collaboration internally and partnership externally. Outsourcing starts with knowing when *not* to outsource, for example the presence of: intellectual property, core strengths, strategic implications, and management-intensive processes. Supply chain functions should be kept in-house when the cost of outsourcing failure would be high, or there are out of control or undocumented processes, or outsourcing might compromise quality. In contrast, you *should* outsource when: the costs are well understood, outsourcing promotes growth, investment funds are lacking in a particular location, there is a service that you do not have, or an outsourcer offers an opportunity simply to do it better.

Report on Roundtable – Speeding up Supply Chains

The Canadian military sees strategic outsourcing as a way of opening up the entire supply chain and determining the full cost of business, although keeping technology and processes in house to maintain management teams and integrate supply chains. Coca-Cola sees outsourcing as a solution to a current product strategy challenge, how to handle niche markets within a large scale distribution system.

Governance of an outsourced supply chain operation is critical, and with it a new management competency of managing service providers and sourcing. Germain says the role of a logistics company is changing to managing the entire experience, in other words from that of “Travel Agent” to more a “Tour Operator”.

Organization structure

Getting what Taimour Zaman (President, the Access Group and Roundtable convener) calls the supply chain model right for your business has become a strategic necessity.

Several participants noted supply chains’ lack of recognition in the organization, especially the absence of supply chain managers from the executive suite. Supply chain managers must take the initiative as an advocate with the CEO. The business case must be made for supply chain design as an integral part of product design. Skills must be promoted, so a supply chain architect is seen as a contributor along with product management. Supply chains managers must drive integration with other functions. A supply chain strategic plan must be developed that looks at least two generations ahead, and deals with complexity, margins, customer expectations, shorter product cycles, and greener business trends.

For Blom, the key is leadership, curiosity and passion. He likes to enlist the engineering side, where he finds greater readiness to sponsor supply chain change. Colonel Marie LeLoup reports that Canadian Forces devolved supply chain responsibility to a decentralized management but lost a crucial element of oversight, so now the pendulum is moving back to centralized metrics.

Changing the Culture

Without getting the culture right, solving other issues will be insufficient for sustained results. Crawhall sees culture coming under increasing scrutiny. He often observes cultural differences between young designers and older supply chain managers, and recommends hiring designers into the supply chain team. Merck did this in its blood research group, even overriding existing compensation and organization structure.

Foundation	Advanced	Breakthrough	
Hierarchical Command and Control	Departmental	Self-directed Virtual Teams	Management
Transactional and Aggregated	Integration across the Enterprise	Learning & Service Delivery Architecture	Information
Cost and Risk Reduction	Productivity Improvement	Collaborative Improvement	Supply Chain
Service/Product Oriented	Segmented View	Customers' Individual Needs and Value	Customers
Growth & Maintenance	Growth & Performance	Innovation	Strategy

Organizational style can be viewed as a Continuum. The firm progressively moves itself to higher levels of achievement, lifting performance at each of three levels (see the article, “Putting an Innovation Culture

into Practice”, *Ivey Business Journal*, January-February 2006 for more details).

Rather than being hierarchical and risk-focused, emphasizing on transactions and keeping costs in check, an “advanced” culture helps departments work with each other for productivity improvements and more flexible response, pushing operating decisions down to the front line. Advanced companies outsource non-core activities when it improves performance and streamline supply chains with quality and lean processes.

Early adopters find this will only take them so far. Aspiring to supply chain innovation “breakthroughs”, they change the culture – extending strategy alignment to goal alignment with an adaptive, knowledge and learning culture in which performance improvement is not just cascaded down but also self-directed. They collaborate with their customers and suppliers in product development. Selected supply chain metrics are tracked to help plan strategy shifts and fine tune business decisions using real time data as the basis for change. Innovation becomes the driving force.

Report on Roundtable – Speeding up Supply Chains

Supply chain leadership capabilities; front line supervisory skills that produce employee retention; cooperative and creative business practices including integration of the supply chain into senior management; organization-wide self-actualization – these all lead to a shared knowledge and learning supply chain organization. The payoff is strategic competitive advantage, self-sustaining even as the market continues to change.

Interestingly, a consensus is building in supply chain circles for national initiatives that will foster Canadian competitive advantage. Several Roundtable participants reinforced the growing desire to be organized at sector and national levels. Three thrusts stand out as having strong support:

- Environmental – concerns are growing e.g. about sustainability, food chain traceability, energy use, pollution reduction, leading to environmental certification and potential for branding competitive advantage – Government programs should provide remove uncompetitive regulatory hurdles, encourage technology investment, and promote education on business benefits (Return on Invested Capital)
- People talents – Canada can capitalize on diversity and immigrant cultural ties to global markets, with a particular advantage in historical links with the Commonwealth to build a more critical mass in SME supply chain innovation, e.g. working with India to address repercussions of their rapid growth and a still changing environment
- Transportation – a national strategy should build a competitive supply chain advantage on existing Canadian shipping and logistics infrastructure and expertise

Several industry associations were represented at the Roundtable, and it is to be hoped that they will carry these ideas forward. In summary, the Canadian Advanced Technology Alliance says that “looking at a pure cost, Canada can’t compete at the level of India or China; (but) when you move up in the engineering class or the highly innovative manufacturing talent, Canada ranks right up there”. Collaboration must be built into global supply chain management to make this happen.

6. Conclusion – We are not there yet!

Shaping supply chain strategy is neither easy nor an every day occurrence. However, it is an imperative to stay a step ahead of low cost suppliers around the world who are increasingly thinking strategically themselves. The Roundtable gave us plenty of anecdotal evidence of advances in supply chain management.

This is only a beginning. The Roundtable has made a solid contribution to continuing on the road to breakthrough supply chain management, but much work remains.

Appreciation is expressed to the Roundtable sponsors and partners: Schulich Executive Education Centre (SEEC), Supply Chain & Logistics Canada, CATA Alliance, HiMMS Ontario, KPMG, CGI, MTCG & Associates Inc., Quartet Service, Health Connexions, Supply Chain Alliance, and Trade Merit. Appreciation is also expressed to the Roundtable panelists, facilitators, and participants for making the three hours of discussion a good step in the right direction.

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November 27, 2006

Roundtable Panel, Sponsors & Partners

Panelists:

Robert Crawhall, President and CEO, National Capital Institute of Telecommunications

Claude Germain, EVP and COO, Schenker of Canada Limited

Darryl McCoy, Director of Global Supply Chain Management, MDS Pharma Services

John Newell, Director Information Technology, M&M Meat Shops

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Sponsors & Partners:



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David Long, President, Supply Chain and Logistics Association Canada

Barry Gander, Executive Vice President, Canadian Advanced Technology Alliance

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Rick Wolfe, PostStone Corporation

Attendees

Ace Packaging Limited	Kelton Consulting Firm
Alberto-Culver Canada Inc.	Kisko Products
ALTANA Pharma Inc.	London Health Sciences Centre
Bell	M&M Meat Shops Ltd.
BMO Financial Group	Mendelsohn Global Economics
Canadian Air Transport Security Authority	National Capital Institute of Telecommunications (NCIT),
Canadian Courier Association	Parmalat Canada
Canadian Tire	Quartet Service
Celestica	R3D
Centennial College	Rubbermaid Canada
CGI	Sears Canada
Colgate--Palmolive Canada Inc.	Smart Systems for Health Agency
Colliers Internantional	Sockeye Solutions
Coca-Cola Bottling Company	South Lake Regional Health Centre
Compas	The Mitchener Institute
Dole	The Shopping Channel
Etratech Inc.	TradeMerit
G.H.I.	University Health Network & University of Toronto
Invester Based Finance Group Inc.	UPS
IT Business	Wainbee Limited
J D Smith	Weston Foods Canada
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