



# Is your supply-chain operating model right for you?

**Too many consumer-goods companies decide how to run their supply chain without first defining what it's supposed to deliver. Here's a methodology they can follow instead.**

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Most consumer-packaged-goods (CPG) companies know that a thoughtfully designed, high-functioning supply chain plays a crucial role in overcoming today's business challenges. It can, for example, drive innovation and reduce time to market—critical capabilities in light of slowed growth in developed countries. It enables shorter lead times and better customer service, helping CPG companies cope with a fiercely competitive retail landscape and heightened retailer expectations. And a well-run supply chain yields significant savings, which can then be reinvested in growth initiatives.

But as companies expand globally, designing a supply-chain operating model—which

encompasses the supply chain's organizational structure, governance, and processes—becomes an increasingly complex undertaking. It requires finding the best answers to tricky questions such as, “Should my supply chain be organized primarily by product categories, functions, or regions?” and “To what degree should each function be centralized?” Companies tend to make their decisions based on gut feeling, resort to trial and error, or simply mimic the operating models of more successful competitors. The result, too frequently, is an arbitrary operating model that fails to deliver on the company's strategic goals.

Drawing on our research and experience working with leading CPG companies worldwide, we have

developed a methodology that takes the guesswork out of the design process and helps companies implement a supply-chain operating model aligned with their aspirations.<sup>1</sup> Our methodology begins with a definition of the strategic vision. In our experience, only after a company has articulated its specific ambitions can it intelligently move on to the next steps: agreeing on operating principles, undertaking a detailed design of the supply-chain operating model, and implementing the new operating model as part of a broader supply-chain transformation.

Such an initiative can have tremendous impact. We've seen companies reduce materials costs by 5 percent, manufacturing and logistics costs by 10 percent, and inventory by as much as 30 percent, while improving service levels and shortening time to market.

### **Defining the strategic vision**

The design of the operating model should be dictated largely by what will deliver the most value. An important starting point, therefore, is the company's definition of value. What are the company's sources of competitive advantage? What are its strategic ambitions? What are its desired commercial outcomes, and what will internal and external stakeholders require from the supply chain in order to bring about those outcomes?

One manufacturer's strategy, for example, might be to win in the marketplace through premium products and brands. This manufacturer would therefore strive for an operating model that boosts joint innovation with suppliers, accelerates time to market, and incorporates the agility to respond to sudden changes in demand. Another company's strategy, on the other hand, might be to compete purely on cost with a small portfolio of

basic products. For this manufacturer, commercial performance will depend on a different set of supply-chain levers: it would focus on refining its production technology, building scale, and implementing lean techniques to increase efficiency.

Although defining the strategic vision and articulating commercial objectives may seem like an obvious first step, it's one that many CPG companies skip entirely. Designing the supply-chain organization thus becomes a pure "boxes and lines" exercise, with little connection to internal requirements or marketplace realities. At such companies, it's not uncommon for supply-chain operations to do a pendulum swing from centralized to decentralized and back again.

### **Agreeing on the operating principles**

Once it has defined its strategic vision, a company can begin debating the operating principles that will guide its design decisions. These principles will inform choices such as at what level—global, regional, local, or by business unit—each activity should be managed, and how activities should be grouped together. In particular, the four principles discussed below have helped CPG companies agree on difficult decisions about their supply-chain operating model.

*Build—and scale up—functional skills.* The company should seek to consolidate functional excellence at the level where the most synergies can be created. At many CPG companies, for example, planners and logistics managers are dispersed throughout the organization; they work independently of each other and use different tools and techniques—resulting in wide variability in planning and logistics performance across the company. Instead, companies could consider establishing virtual or physical supply-planning

<sup>1</sup>The methodology is backed by a fact base that includes a menu of design options, analyses of the benefits and drawbacks of each design option, sample organization charts for each supply-chain function, process-flow maps, lists of key performance indicators for major supply-chain activities, and detailed job descriptions.

hubs in which all planners are collocated. Such hubs would create a single point of accountability for supply planning, ensure that well-trained individuals use the latest tools and techniques, and facilitate the sharing of best practices.

*Allocate resources across markets.* Companies should optimize the allocation of assets, capital, and other resources by spreading them out across markets and categories, thereby reducing overall spending while increasing the return on investment. Businesses that face extreme capacity constraints, for instance, could choose to run a global sales-and-operations-planning process so that they can more flexibly allocate capacity to certain parts of their supply chain.

*Integrate end-to-end supply chains.* Our operations research in recent years has shown that integration of functions across the entire supply chain—from procurement all the way to distribution—is a strong driver of value. End-to-end integration links the traditional operations organization (manufacturing and supply) to the commercial organization, thus creating operational and financial transparency for better decision making. The order-to-cash process and delivery to retail stores, for instance, are two activities that can benefit from being closely integrated with the commercial organization. Indeed, in recent years a number of CPG companies have moved toward a more integrated model. At a leading CPG company, for instance,

the supply-chain leadership team is directly responsible for several activities that supply-chain executives don't typically lead, such as capacity management, production planning, inventory management, distribution, and the order-to-cash process.

*Recognize differences among regions and businesses.* The operating model should be able to accommodate the unique attributes of each region and business—not just the major differences between emerging and mature markets but also more subtle differences that require a different channel or approach to customers. For example, the logistics organization in charge of delivery to retail stores should probably have a more local (either province-based or country-based) setup in Asia given the fragmentation of the retail market and the specificities of each Asian country, whereas it can be set up at a more regional level in Europe.

### **Creating a detailed model**

Some companies establish sound operating principles but then don't stick to those principles during the detailed design phase. The same principles can lead to very different operating models at different companies, depending on business context and company characteristics. Factors that should come into play include the size and homogeneity of a company's product categories, the structure of its commercial organization, and its manufacturing footprint.



Exhibit 1 shows how a CPG company thought through six activities in one part of the supply chain. In this case, the company determined that both capital-expenditures management and technology management would generate the most value through the consolidation of functional skills and through cross-market resource allocation. The optimal level at which to conduct those activities, therefore, would be the global level.

For manufacturing management, the fifth activity listed on the exhibit, the company asked itself: Should its plants be organized by country or geographic region (for example, appointing a head of manufacturing for plants in the United States, another for plants in France, and so on), by product category (detergents versus personal care, or snacks versus ready-made meals), or by technology type (solids such as soap versus liquids

Exhibit 1

**The design principles apply differently to each supply-chain activity.**

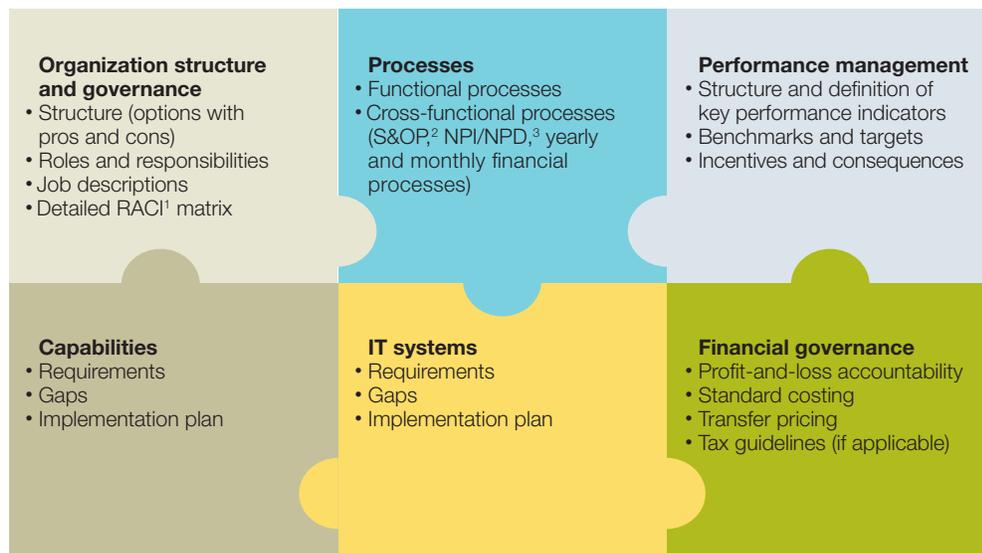
	Design principles to capture the value				Proposed option
	Drive scale, skills	Steer cross-market	Integrate E2E <sup>1</sup>	Tailor to BU <sup>2</sup>	
<b>Capital-expenditures management</b>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Global</b> Capital-expenditures portfolio best optimized at group level to align with strategic priorities
<b>Technology management</b>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<b>Global</b> Knowledge of technology shared among business units; relevant technology cascaded down to market level
<b>Continuous improvement</b>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Global</b> Best-practice sharing in global lean function
<b>Manufacturing network optimization</b>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Global</b> Most value capture coming from sites that span multiple business units
<b>Manufacturing management</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<b>Business unit</b> Provides scale advantage while ensuring manageable spans of control, P&L accountability
<b>Plant management and scheduling</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<b>Market</b> Knowledge of local plant specifications (eg, scheduling optimization) critical

Does not apply  
 Applies fully

<sup>1</sup>End to end.  
<sup>2</sup>Business unit.

## Exhibit 2

## A supply-chain transformation requires broad changes across the company.



<sup>1</sup>Responsible, accountable, consulted, informed.

<sup>2</sup>Sales and operations planning.

<sup>3</sup>New-product introduction/new-product development.

such as shampoo)? Company leaders agreed that the operating model should provide a scale advantage across markets while also ensuring manageable spans of control and reinforcing accountability of profit-and-loss performance. The company decided to organize its 60-plus manufacturing plants into four groups by product category—a grouping that aligned with the company's business-unit structure.

The end result of this exercise should be a target operating model that groups each major supply-chain function and activity at the level that maximizes its potential for benefit. It is important to build consensus around the target model among a broad set of stakeholders, both within and outside the supply-chain organization. In particular, operations leaders must collaborate

closely with the commercial organization to understand and address its concerns. One such concern might be potential changes in roles and perceived demotions (for instance, in the event that the new operating model takes some responsibilities away from country-level managing directors). Widespread support from across the company will create momentum and facilitate implementation.

### Implementing the new model

Companies should avoid introducing a new operating model in isolation, as it generally won't stick and will deliver minimal impact. Instead, the new model should be just one component of a comprehensive supply-chain transformation that includes efforts in capability building and performance management (Exhibit 2).

In other words, implementation of a new organizational structure should happen in parallel with other changes—for example, changes to cross-functional processes (such as the new-product-introduction process or monthly and yearly financial processes)—in order to ensure value capture. We estimate that half of companies that transform their operating model don't capture the full value, in part because company leaders become too focused on particular organizational changes and get caught up in office politics, and therefore lose track of the value at stake and the initial objectives of the transformation. One of the success factors we have observed is to formally and immediately hold new leaders and managers accountable for value delivery; they must see it as part of their new roles.

Companies should not underestimate the complexity of a supply-chain transformation. It is typically an 18- to 24-month undertaking that

requires a group of motivated leaders, including the CEO and a highly capable change team. Careful sequencing of initiatives and over-investment in change-management efforts will be critical to success, as hundreds of people will have new roles and will need to be trained in best-practice processes and adapt to a new way of working. To sustain impact, all along the change journey the company must constantly communicate progress and issues, as well as celebrate victories across the organization.



There is no one-size-fits-all supply-chain operating model. Every CPG company would do well to follow a thoughtful and systematic process to design and implement a customized model, with the company's strategic vision as a starting point. Done right, the reward will be a supply chain that enables the company to win, even in a challenging marketplace.○