

THE RISE OF THE GLOBAL
SUPPLY CHAIN LEADER

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In recent years, the supply chain function has assumed an increasingly prominent role in multinational corporations, a progression that has been hastened by the global recession. As companies focus on efficiency, reducing costs and managing cash, they are increasingly recognizing the function's value as a key operational and strategic player.

To further investigate this trend, Spencer Stuart's Supply Chain Practice recently conducted in-depth interviews with 18 supply chain leaders of multinational corporations. The interviews, which form the basis of this article, confirmed that the supply chain role is becoming more crucial, influential and multifaceted in world-class organizations across a wide range of industries and geographies.

The Supply Chain in Uncertain Times

As companies have turned increasingly to supply chain management to help weather the downturn, supply chain leaders have seen a clear change in a function that once concentrated largely on long-term planning. "Our focus has shifted to the short term — to managing cash, inventories and customer service, with more frequent and updated forecast and demand processes to manage costs," said Jeff Morrod, vice president of supply chain for specialty chemicals company Hexion.

In an environment where cash is king, contingency planning has become a growing part of the equation. "Maximizing cash reserves is key," said Alan Walker, vice president of supply chain operations for EMEA for Black & Decker. "We need to build business structures where 40 percent of the cost base is variable." Even supply chain leaders in industries accustomed to change have recognized a need for greater supply chain agility. "Our team has always had to adapt to fluctuations in demand, and has always been under pressure to optimize performance and service levels while reducing

costs," said Wim van Aalst, head of business solutions for adidas International. "What has changed is the extent of the fluctuations."

This unpredictability has necessitated a greater focus on risk management relating to continuous supply. "In the past months, we have been redoubling our efforts on buyer training and contractual protection against supplier bankruptcy," said Josephine Su, vice president of procurement for Asia for Honeywell. "Now even some suppliers in China are having bankruptcy issues." As a result, many of the supply chain leaders we spoke with now monitor their suppliers closely and avoid exposure to unstable companies.

Despite the current short-term focus, most supply chain executives said that their organizations understand the importance of continuing to invest in the supply chain. "Our leadership understands the supply chain's need to invest appropriately for the long term," said Beth Ford, executive vice president and head of supply chain for International Flavors & Fragrances (IFF). "We have the benefit of creating a lot of cash, and there's opportunity for us to

produce even more as we focus on our working capital. So the current economy supports the path forward that's going to be important for this supply chain. We haven't pulled back our investments. In fact, we're still looking to fill competency gaps."

For supply chains that previously focused on supporting rapid growth, the slowing economy has provided an opportunity to make needed changes. "This economic situation, while not advantageous for our company, has been fortuitous in helping us focus on supply chain transformation," said Mark Holifield, senior vice president of supply chain management for Home Depot. The leading home retailer is taking advantage of the slowdown to go from an 80 percent direct-to-store distribution strategy to a more efficient supply chain comprising 75 percent central distribution.

"We have evolved to a new phase at Starbucks," said Peter Gibbons, executive vice president of global supply chain operations for Starbucks. "It's a phase where we absolutely have to optimize distribution and get the supply chain fundamentals of cost to serve, service levels and talent base right so we are ready for our next phase of growth."

The Expanding Role

As the supply chain function assumes a more prominent and integrated role in many organizations, supply chain leaders are getting more and more involved in areas that were once the province of other functions. In many cases, this means being included earlier in the decision-making process as a true strategic partner.

"Historically, it was 'tell me what you want and I'll buy it for you,'" said Honeywell's Su. "Now we consider whether we should make something or purchase it; what's best for the short, medium and long term; and the strategic intent behind it."

The supply chain leaders we interviewed stated that they are getting more involved in areas such as customer development and integration, R&D, bond finance and cash conversion and management, compliance and labor laws. Others are consulted more frequently on M&A decisions.

Today's supply chain leaders need the business acumen to understand these big-picture issues — and to get invited to the strategic discussion. "You need to be part of the thought process early on," said Su. "If they try to design or produce something that's going to be very inefficient in terms of delivery strategy, you need to be there to tell them. Otherwise, the overall strategy will be ineffective."

Perspectives on Globalization

In a world where supply chains can extend for thousands of miles, a global understanding is an important part of this big-picture perspective — particularly since many supply chain leaders expect supply chains to become even more globalized. "In the electronics world, no large-scale manufacturing capability or capacity exists in the home countries anymore, so a reversal of the trend would be very difficult," said Su.

But as supply chains grow more complex, some supply chain leaders see companies questioning the wisdom of over-globalization. "Companies that have initially globalized their supply bases [in China] using cost perspectives only have started to consider a total cost of ownership perspective in their supply chain and sourcing strategies," said Amit Chakraborty, vice president and chief purchasing officer for Philips Consumer Electronics. "The swing of the pendulum back toward a more regional supply base in some industries and products is also seen as more sustainable from a business and an environmental standpoint." Chakraborty believes that though China

THE GROWING ROLE OF KEY PERFORMANCE INDICATORS

According to most of the supply chain leaders we interviewed, key performance indicators (KPIs) are becoming more important in their work, and in their efforts to demonstrate the value of the supply chain in their organizations. Here are a few of their observations on the topic:

“In the cash crunch, our job goes from ‘Can we get the goods on time?’ to ‘If we deliver the goods, can we also make sure we get our money on time?’ So there’s a different focus and different KPIs play more of a role.”

— *Wim van Aalst, adidas*

“KPIs are important, but it’s also important not to get lost in them. Choose two or three that have the maximum impact on the business over the short and long term, and ruthlessly close the loop on them. If you have too many, you don’t focus on key improvements and managing KPI data becomes a job by itself.”

— *Amit Chakraborty, Phillips*

“Customer satisfaction is our most important KPI. Until recently, we were focused on measuring supply chain costs. Now, we’re focused on, ‘Did we get the customer the right thing at the right time as he wanted it?’”

— *Lars Syberg, Molnlycke Healthcare*

“I’m a great believer in managing a couple of real-time metrics that can get people’s attention on a weekly if not a daily basis. Customer service data is a great one. You can get data every day, get the organization aligned very quickly and let them see you driving improvement in a hands-on manner.”

— *Peter Gibbons, Starbucks*

“We have built up more consistency in our use of KPIs and now publish a set of 13 key metrics monthly that are reviewed by the operations council and CEO. They enable us to measure across direct and indirect purchases and demonstrate that we are adding value to the bottom line.”

— *Josephine Su, Honeywell*

and India will remain global supply and services centers, regional supply hubs — such as Eastern Europe for Europe and Mexico for the U.S. — will become increasingly relevant.

The general view is that China and India will continue to be increasingly important players in the global supply chain. But even there, supply chain leaders note that some companies have reconsidered their strategies. “There was this huge push with everybody moving their support services operations to India — and I see a retraction there,” said

IFF’s Ford. “I see the same thing for some of the manufacturing in China.”

In fact, China’s very success is eroding some of the supply chain advantages that have made it attractive. “The cost structure in China is increasing very quickly,” said adidas’ van Aalst, “so we are getting more involved in how we can get our dedicated supplier base there to the next level of productivity. In the past, you could throw bodies at it to make it work, but now you have to throw some smart bodies at it to be leaner and more efficient.”

Some see the most potential for continued growth in Northern and Western China, where there is a strong supplier base and much more competitive labor rates. Others view India as an area that will also grow in importance for supply chains, but at a slower pace because of infrastructure and governance challenges.

Still others feel that the global recession is leveling the field somewhat. “I see continued growth in China, India and Eastern Europe, but I think it will be more difficult for those areas to take over the business, since local vendors will be more aggressive to keep or win back business in the current environment,” said Henri Vander Stichele, chief procurement and supply chain officer for Millicom International Cellular.

Some leaders expect to see a mix between large-scale global and smaller-scale regional operations, depending on the product. “We are going to end up with more polarization,” said David Gosnell, managing director of global supply for beverages producer Diageo. “There will be low-cost, high-volume products and a number of low-volume, highly responsive and flexible units. For example, we produce Smirnoff using large bulk runs, whereas our new Johnnie Walker King George V product will be produced in smaller volumes, packed on slower, dedicated equipment that is able to respond rapidly to customer needs.”

This increasing customer focus for different markets may be one factor working against further supply chain globalization. “I’m leaning toward the notion that we cannot have a global supply chain,” said Lars Syberg, global logistics director for Molnlycke Healthcare. “We will have different supply chains due to geography or because different regions are in different stages of development. You

can have a global supply chain overview, but you need different regional strategies. You can’t optimize it any other way.”

As companies devise these regional strategies as part of their global supply chain, the location of the future customer base is a major consideration. “If we look at our financials, 70 to 75 percent of our revenue is outside the U.S., and the biggest growth opportunities are in Latin America, South America and Asia,” said Ford. “A lot of the work we’ve been doing in terms of resources and looking at networking capacities are in those areas to make sure we’re aligned with our market position and potential growth opportunities.”

Developing Tomorrow’s Supply Chain Leaders

As supply chain organizations prepare for growth both in their companies and in the function, leaders are recognizing the need to attract and develop more talented executives. “We need to recruit more first-class talent,” said Hexion’s Morrod. “The good news is that supply chain is on the agenda of the universities, so our focus will be on early talent recruitment.”

To develop fresh talent with the broad supply chain knowledge and business acumen today’s supply chain leaders require, some feel that more graduate-level, business-focused programs in the discipline are needed. “Those with flexible skills, not fixed specialists, will be in demand,” said Black & Decker’s Walker. “We need to develop graduates that understand the complete scope of supply chain management through a master of SCM course that’s like an M.B.A. to develop people who understand accounting, manufacturing, distribution and logistics, and supply chain management.” Internally, supply chain leaders are making an effort to develop these competencies by exposing

SUSTAINABILITY AND THE SUPPLY CHAIN

Supply chain sustainability is becoming a greater concern for today's supply chain leaders. Here are some of their thoughts on the issue:

“We ship thousands of containers per year, and we try to ship into harbors where there is a good mainland connection where we can use barges or rail, which are more environmentally friendly ways of shipping large quantities overland.”

— *Wim van Aalst, adidas*

“Sustainability can mean environmental impact, but it can include labor practices and governance. Some of our partners ask us, ‘Where did you get this?’ If you have four or five thousand suppliers and 9,000 raw materials, doing that chart is a challenge. But that's the way things are going. You have to make sure your suppliers have practices that align with your organization.”

— *Beth Ford, International Flavors & Fragrances*

“Supply chain sustainability hasn't been a standalone initiative for us, but it's a clear outcome of our supply chain transformation. Transportation is one of the key drivers of the business case around our central distribution initiative. We're taking hundreds of trucks off the road, and reducing our carbon footprint in the process.”

— *Mark Holifield, Home Depot*

“Products need to be designed in the earlier production stages with sustainability and environmental impact at the end of the lifecycle in mind. With plastics, electronics and batteries, the key is end-of-life disposal.”

— *Alan Walker, Black & Decker*

“Customers are demanding it, the world is demanding it and it's the right thing to do. We're focused on the sustainable practices that can help our costs, our quality, and the consumer at the same time.”

— *David White, The Campbell Soup Company*

“Environmental sustainability is in our corporate DNA. If suppliers cannot meet our commitments, they won't be our supplier. Telecoms as an industry needs to do more; we need to share networks — and we are eager to enter into these discussions.”

— *Detlef Schultz, Vodafone*

their high-potential talent to a variety of experiences. In some organizations, this means rotating them through different roles in the function. “It would be very difficult to come up through a single supply chain column and fill the top supply chain

role,” said Home Depot's Holifield. “An executive moving up through transportation roles, for instance, wouldn't know what they need to know about distribution, supply chain planning and inventory management. So we're consciously trying

to rotate people at the director and senior manager level through the various columns to get a wide range of experiences.”

At Starbucks, Peter Gibbons and his team have mapped out the individual supply chain roles, as well as the skills that each role requires. They started by separating the more technical supply chain roles from the more generalist roles to ensure that their people understand that some roles, by nature, require a more technical background. “We want to create as much transparency as possible about the kinds of roles we have and the competencies you need to get into that role,” said Gibbons.

To be ready to run a global supply chain, it is also important for promising supply chain executives to acquire international experience, especially in Asia and particularly in China, because so much sourcing happens there.

Given the increasing profile of the supply chain function in global organizations, and increased general business knowledge required of supply chain leaders, many organizations are additionally exposing their top talent to roles outside of the function. “I believe in cross-fertilization in and out of the function — moving people from supply chain into technical areas, commercial areas and to marketing and other functions,” said Millicom’s Vander Stichele.

Chakraborty agrees that supply chain executives need to understand the business and should be systematically exposed to a variety of functions as part of their management development before elevation to the chief supply chain officer position. He considers exposure to supply chain technologies essential too. “Supply chain is a function where you need to understand the strengths and limita-

tions of enabling technologies to be completely successful,” he said. “This calls for continuous upgrading of skill sets. As supply chains become globalized and complex, one of the keys to good decision making is to have the relevant information among the maze of data in the most user-friendly manner. Knowledge of technology greatly assists in setting up an information infrastructure that is simple and complete in user interface and practical in usage with the underlying ability to compute complexity of enabling information.”

Detlef Schultz, group supply chain management director for Vodafone and CEO of the Vodafone Procurement Company, argues that customer contact should be a prerequisite for any future chief supply chain officer. “It adds a new level of understanding to the business you are in,” he said. “Other things like spending time in the marketing department to understand what makes customers tick, and having an understanding of the company’s financial and commercial issues, are vital. The future chief supply chain officer will be a general manager because, in effect, you run a small standalone company.”

A Place for Outside Talent

Some companies may not have the ability to internally develop every competency the organization’s future supply chain requires — particularly if those aptitudes and experiences don’t exist in the organization already. In these cases, companies may find it beneficial to look outside the company for supply chain executives who can contribute a fresh perspective and specialized knowledge.

The Campbell Soup Company has made this a priority as they build their supply chain organization. “When you think about world-class supply chains, very few food companies come to mind,” said David White, senior vice president of global supply

chain for The Campbell Soup Company. “We’ve made a deliberate effort over the past five years to upgrade the skills on my team, and not all of the additions are from the food industry.” White estimates that one-third of his reports are Campbell’s veterans; one-third are industry veterans from other food companies; and one-third are from companies outside the industry that are best-in-class in other areas. “We select them for their leadership skills and their best-in-class knowledge in pieces of the supply chain, and expect them to bring those attributes to Campbell’s,” said White.

At Starbucks, the supply chain has been engineered from the start to support ongoing growth, and is now turning to supply chain veterans from outside the company to help the function thrive in its next phase. “We’re working to improve our cost base and work with fewer, more strategic suppliers,” said Gibbons. “There’s a certain percentage of employees you want to bring in, particularly in logistics and procurement, who can save you time because they’ve been through this before in similar environments.”

The Future of the Function

As they build their organizations for the future with both internal and outside talent, supply chain leaders are preparing for what they consider to be the biggest trend for supply chain management: the continuing increase in the influence and status of the function within organizations. As part of this evolution, leaders expect supply chain to be involved in more and more aspects of the strategic decision-making process, from R&D and sales to operations, delivery, safety, quality and the portfolio management of new products and services.

To succeed in the ever-more multifaceted role, tomorrow’s supply chain leaders will need to be great leaders with business acumen, superior

communications skills and strong analytical capabilities. According to today’s supply chain leaders, they will also have to be CEO material. Supply chain leaders see and touch every function, think on a global basis, and know how and where to run businesses in the most cost-competitive way — giving them the makings of executives who can move on to do bigger things.

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Supply Chain Practice

Spencer Stuart's Supply Chain Practice has a global team of experienced consultants who conduct over 250 searches a year for companies ranging from industry-leading multinationals to medium-size and venture-backed firms, across all major industries. Our areas of expertise include:

- > Enterprise supply chain leaders
- > Planning (demand/forecast and production)
- > Sourcing and procurement
- > Manufacturing and operations
- > Inventory management
- > Warehousing
- > Distribution
- > Customer service

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