Seven Steps to the Optimal Supply-Chain Organization

Discussions Should Focus Less on Processes and More on How Business and Operations Interact

Look at the Big Picture - Supply-chain management is a widely discussed topic, and the chemicals industry is no exception.

At some companies, this is because supply-chain costs - especially the expense of transport and storage - make up a significant share of total costs. At other companies, it's because differentiated market access and efficient delivery performance are key competitive factors. In both cases, however, process-related questions tend to be in the foreground: How can process flows be improved? How can costs be saved? How can service be made better?

This concentration on process-related topics means that, usually, too little thought is given to the organization of all activities associated with supply-chain management. At many companies, these activities are spread over various units with no coordinated management. Many companies in the chemicals industry, too, are far from having an integrated value chain.

Seven steps are needed for companies to optimally organize their supply chains. This is the only way the desired process improvements can be realized. Not infrequently, efforts in this regard fail because they have not been sufficiently anchored in the organization.

Step 1: Define the Scope of Supply-Chain Activities

In the first step, the activities to be included in the future supply-chain organization must be defined, whereby the handling of the purchasing and production functions is particularly important.

Chemicals companies often do not view these functions as parts of their end-to-end supply-chain activities, believing that the relevant special mechanisms and tasks, such as commodities trading in procurement or safety instructions in production,
are better off situated in their own departments. But there are also many activities that should be included in an independent supply-chain organization - see Figure 1 below for an overview.

**Step 2: Clarify the Role of the Supply-Chain Organization**

In the next step, the fundamental role of the supply-chain organization must be clarified. For instance, the role of a centralized supply-chain organization can be limited to the formulation of guidelines and monitoring of adherence to standards for defined supply-chain activities.

Execution is then up to the business units.

In a contrasting model, guideline authority and execution are bundled in one org unit. This model - in which all operative activities are combined under one person, usually the COO - is called "one operations."

**Step 3: Determine the Degree of Centralization**

The degree of supply-chain centralization proceeds largely, if not completely, from the two steps described above. If a centralized supply-chain organization is only to specify guidelines, certain activities will be difficult to centralize. The question of which individual supply-chain activities should be centrally performed, and which should not, must be answered based on three key criteria: synergies, efficiencies, and know-how.

For example, synergies in global product transport by ship can be achieved only when managed globally, while transport by truck is better suited to regional or national management. Centralization brings efficiency when an activity has the potential for considerable scale effects, making it worthwhile to situate employees in one region for higher productivity. The criterion of know-how can work either for or against centralization. On the one hand, bundling crucial know-how facilitates the transfer of knowledge. But on the other, know-how can also include regional or national particularities, in which case strong centralization is not advisable.

**Step 4: Define the Organizational Model**
After the tasks, mission and scope of the supply-chain organization have been decided, the basic organizational model can be defined. The question here is whether the organization should be oriented on regions, functions, or products/customers/technology segments. This should be decided based on careful analyses, the aim being a solid understanding of the market requirements that the supply-chain organization must fulfill.

A rule of thumb is that each decision-maker in the business needs to have a counterpart in the new supply-chain organization. These pairings form the backbone of the future working relationship between the supply-chain organization and the business.

**Step 5: Detail the Makeup and Personnel of the Organizational Units**

As soon as the basic organizational model is set, its various units can be detailed, such as in regard to concrete regional boundaries. Just as important as the discussion of these units is the timely appointment or recruiting of the people who will comprise them. These people will have the critical job of bringing to life the structures created on the drawing table.

**Step 6: Set Up Reporting Structures**

The question of who will report to whom can inflame passions like few others. If only for this reason, it should not be given too much weight. Many of the decisions associated with reporting structures are predetermined by the steps described above.

In considering all the details of reporting, the underlying success factor, namely a common understanding shared by the supply-chain organization and the business, must not be forgotten. If the supply-chain organization starts to become an end in itself within the company, including due to its reporting structure, the achievement of real competitive advantage in the supply chain is out of the question.

**Step 7: Shape Physical Interfaces**

Last but not least is another question that tends to inspire heated debate: Who will sit where - not only in the office, but also globally speaking. A supply-chain organization needs good interfaces for collaboration. The better an organization communicates - and communication is still best in physical proximity - the more effective its work will be.
Summary

An optimally structured supply-chain organization is a crucial component of a competitive value chain. It can decide whether customers perceive a company as a service-oriented partner or not. It is therefore surprising that the managers responsible for this topic devote considerably less attention to the supply chain than to process-related questions. The seven steps outlined here - from the basic definition of supply-chain activities; to the clarifications of supply-chain organization's role; to the questions of personnel recruiting, reporting and physical interfaces - form the basis for successful supply-chain management that enables business and operations to work toward their shared goals - pulling together, not just side by side, or in the worst case, in different directions.

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