



Supply Chain Performance Management for Operational Excellence

Companies must align goals and deploy software to
serve the entire enterprise

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Summary

Supply chain performance management consists of doing three things: aligning plans with goals, optimizing future activities to reach goals, and understanding business results and their impact on the supply chain and, through it, the organization. Stated somewhat differently, supply chain performance management answers three key questions about business: What should we be doing? How are we doing? And what can we do to make it better? Ventana Research believes getting the answers to these questions requires the use of appropriate technology and an organization-wide effort that ties operational goals to the financial goals of the business.

View

Supply chain performance management is the practice of managing the effectiveness and value of your supply chain by aligning trading partners, service providers, employees, processes and systems to a common set of goals and objectives. When this practice is applied at the three key levels – strategic, tactical and operational – of an organization, it provides not only a framework but a toolset with which to address and resolve the uncertainties and risks of the supply chain, and thus to improve business outcomes. That may sound challenging at first, but addressed systematically it is easier to understand and do than it may seem.

Supply chain performance management analyzes supply chain process requirements to produce objective metrics, it uses technology to track processes according to those metrics and it provides managers with reliable information they can use to make accurate assessments of and better decisions about operations and personnel. It does this by applying a performance management methodology such as Ventana Research's PerformanceCycle™. This is a closed-loop process that involves three steps: Align, Optimize and Understand.

The first step, Align, answers the question "What should we be doing?" Performance alignment links strategy with corporate goals and objectives in a way that makes best use of the company's resources by coordinating the efforts of every member of the extended enterprise. This step is focused on ensuring that the recommended actions and plans are in the direct path for reaching the goals and objectives and executing the initiatives set out by executives and management. Applied to supply chain operations, it is the alignment of departments, employees and trading partners with the company's strategic priorities and plans. Those priorities and plans typically are stated financially, and thus operational goals – for example, supplier quality – must be connected to financial goals such as operating costs. To do this management first must establish clear metrics and targets associated with those strategic goals. Then executive management must communicate those targets effectively to middle management, to front-line supervisors and finally to the individual performers, so that everyone comprehends what must be done and why. Once those targets are coordinated, performance can be scored and rewards and incentives offered where required.

The second step of supply chain performance management, Optimize, answers the question "What can we do to make it better?" It involves making operations and processes as effective as possible through modeling, planning, forecasting, collaborating, integrating and decision-making. This step not only identifies constraints and root causes of problems but goes one step further by modeling the impact of corrective actions. Among other things, optimizing includes integrated business planning (such as consensus demand planning and forecasting) across multiple lines of business or brands, multiple factories or regional operational facilities, and formal, executive-level sales and operations planning (S&OP) review meetings. These formal reviews are important because they assure that key trade-off decisions about demand, supply, capacity and products are visible to those at the top of the organization.

The third step, Understand, answers the question “How are we doing?” To determine how efficient and productive processes and people are, their performance must be measured. Thus, this step involves examining the company’s operational process, which includes such activities as plan, source, make, deliver and return, to determine how well it works and what results it delivers. To do this requires good supply chain business intelligence that identifies the root causes of problems so they can be resolved. Understanding supply chain performance management also requires that executives roll up results to be able to see how performance at the job level – for instance, order-picking accuracy – contributes to performance at the process level – in this case, customer order accuracy – and how that in turn contributes to performance at the top level of business, such as growth in revenue or market share.

Assessment

Ventana Research believes that managing supply chain performance effectively requires the right use of software to align your people, resources and business process activities. But it’s not enough to have just software that helps you align, a dedicated S&OP package that helps you optimize or business intelligence software that helps you understand. Nor is it sufficient just to have scorecards, dashboards or performance alerts. Rather, you must deploy both systems and processes. Moreover, applications should support not only an overall enterprise view but departmental views as needed. Above all, supply chain performance management must fit into an enterprise-wide approach to performance management that ties operational goals to the financial goals of the business. And it should be done systematically, step by step, with measurements and reviews along the way, as in Ventana Research’s PerformanceCycle™.

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