Aligning Supply Chain function with a company's broader Corporate Strategy

eBook

By: Amit Mendiratta

Introduction

For supply chain objectives to reflect and be aligned to corporate objectives, it is critical that corporate objectives and strategies are well defined, and then used to derive the supply chain objectives and strategy. However, this is just the beginning and to be truly successful, careful due diligence during the planning phase as well as disciplined execution are the keys to overall supply chain success.

Utilizing the following steps, supply chain executive will find success aligning their purchasing organization to the overall corporate strategy.

Developing a Supply Chain Strategy

Understand the Current Corporate Strategy

The supply chain executive needs to make sure he/she fully understands the overall corporate strategy. This is important not only for the obvious reason of working off the “same play book,” but also because it forces the supply chain operation to see itself as a customer facing entity serving the competitive goals of the enterprise - not merely an operational department.

Assess Organizations Operating Environment and Existing Supply Chain

The supply chain executive should assess the organization’s operating environment including company’s culture, organizational structure, people and organizational maturity together with knowledge of the key stakeholders and their current credibility with them. In the assessment phase, it is crucial to establish where the procurement organization is at in terms of its maturity – don’t attempt to run before you have proven you can stand tall and walk with your head held high.

A formal supply chain assessment by a non-biased outside party may assist in better understanding the operational strengths and opportunities for improvement. Most procurement professionals make the mistakes of focusing on piece price savings and miss out on larger process savings.

Make sure to identify the opportunities for savings through process improvements.

Develop your Supply Chain Strategy

Next, a draft strategy should be developed based on the assessment ensuring it aligns with the overall corporate strategy and stakeholder needs. Here are five primary strategies that allow a procurement organization to move from a focus on cost containment to one of value generation. These strategies are:

1. **Cooperate and Collaborate with Your Strategic Partners** – Identify strategic supply chain partners and throughout the development process remember to include them. While it's not necessary to provide them the full details of the strategy, certainly communicate how you would like to do business.

2. **Create value through partnership with Source To Pay Provider** – Part of developing a supply chain strategy includes evaluating opportunities to build partnership and collaborate with an Aggregator who can add value in sourcing, drive down technology enablement costs and provide payment settlement services. Source To Pay providers like DSSI help drive down the cost and improve end to end process efficiency.

3. **Enhance and integrate supply chain automation infrastructure** – Make sure the organization has the right technology and tools to help manage and execute the strategy. The tools should allow for tracking and analyzing spend information, controlling requisitioning and providing comprehensive tracking and performance reporting. Once you have chosen the technology, make sure to reskill and upskill your team.

4. **Increase the amount of spend under management while improving spend compliance -** Focus on increasing the proportion of spend under management and contract. Negotiation skills and other tools should be developed. Risk avoidance and surety of supply together with financial control frameworks should then follow. Place a greater emphasis on innovation and strategies which support the overall company growth.

5

Transition to a centralized procurement organization – Moving to centralized purchasing can help an organization leverage annual spend with suppliers, reduce costs by eliminating duplication of common activities and cycle times with bidding, and improved supplier collaboration. Extract maximum value from contracts through better compliance and execution. The goal is to leverage the efficiencies from central resources while supporting the unique and specific requirements of each business unit or geographic location.

6

Corporate Sustainability Directive – Select an appropriate ESG framework such as TFCD, GRI or UN SDG. Use a ratings certification agency like EcoVadis to establish a mathematical approach that can be applied throughout your organization including all suppliers for gathering and reporting progress against identified objectives. Validate and evaluate your supplier sustainability scores by pulling from third party services.

Develop a draft of the overall strategy and build buy-in with senior company leaders through workshops and presentations. Document the plan, circulate for final revisions and gain demonstrable commitment. Often Procurement fails to deliver value and rise to expectations because supply chain aspects are not represented at the executive committee level during strategic sessions or appear at the end of the agenda and are not given due attention. The consequence is that organizations will not realize the full potential of cost-savings and experience strategic drift. Procurement is then pressured to negotiate for price discounts and once-off, unsustainable discounts instead of negotiating for the lowest total cost of ownership.

For more than two decades DSSI has helped several companies develop a comprehensive Supply Chain Strategy for their Indirect Materials Procurement.

Risk Analysis and Management

Identify risks that may affect the strategy and document their characteristics. This is an iterative process as new risks may evolve or become known as you implement your strategy. Make a risk register by listing the identified risks, prioritizing them for further analysis and combining their probability of occurrence and impact.

Risk Categories

Risks may appear out of many different sources. An effective manner to enable a more proactive approach to managing risks can be achieved by explicitly identifying the categories under which risks can originate from. This allows for a greater level of understanding of the main reasons which could impact the program objectives. This will be achieved by classifying the identified risks using the following categories:

Risk	Examples
Strategic	Stemming from strategic and business decisions
Financial	Linked to financial efficiency, compliance and reporting
Governance	Related to the management of decision-making structures
Operational	Arising from execution of decision, resource allocation and the business environment, including the safeguards of employees and legal matters (linked to people, processes, technology)
Technology	Related to existing systems and processes, development of new solutions and capabilities, timely completion of projects and ability to collaborate on developing necessary infrastructure to support growth.
Culture	Related to corporate culture within the organization.
Emerging	Risks where there is insufficient information available at the moment

Assessing and Prioritizing Risks

Since the number of risks can turn out to be high, best practices of risk management suggest that approaches for prioritizing risks are taken so that resources can be optimally allocated. The DSSI Risk Management Process establishes a pre-determined scale for assessing the risk's probability of occurrence and impact to the program objectives, as described below.

Scale for Assessing Probability and Impact

The probability of occurrence (risk probability) looks at the identified risk under the perspective of whether it may or not happen, and how certain can we be of the possibility that it will happen. Identified risks should be assessed using the following scale for probability of occurrence:

Risk probability	Definition	Probability level
Low	Very rare, the risk may occur in exceptional circumstances	1
Low to medium	Rare, the risk may occur in few circumstances	2
Medium	Possible, the risk may occur half the time	3
Medium to high	Likely, the risk is likely to occur	4
High	Quite likely, reasonably certain to occur	5

Risk Matrix

The determination of the importance of the risk is calculated multiplying the *Risk Probability* by the *Risk Impact*, resulting in the *Risk Exposure*, which indicates how impactful each risk is to the program's objectives, and anyone must be responsible for taking any mitigating actions towards it or not.

You can use the following matrix as an example for assessing risk exposures:

Probability	High	5	10	15	20	25
	Medium to high	4	8	12	16	20
	Medium	3	6	9	12	15
	Low to medium	2	4	6	8	10
	Low	1	2	3	4	5
		Low	Low to medium	Medium	Medium to high	High
		Impact				

	Risk exposure	Risk score	Control Expectations
	Low exposure	1 - 5	Actions within the objectives will control the risk
	Moderate exposure	6 - 10	Management attention may be required to control the risk
	Significant exposure	12 - 16	Management attention may be required to control the risk
	Severe exposure	20 - 25	Specific action identified and management attention is required to control the risk

Execute the Supply Chain Strategy

Make an Impact: Communicate the strategy and progress widely. Execute the plan and apply the strategy in real projects and use it to capture real value for the organization ensuring that you can gain some quick wins. Measure the progress and share credit with the business and keep marketing internally.

Good Communication – It is extremely important to communicate the strategy and its progress to stakeholders and partners. The speed at which you execute the strategy must align with other supply chain entities to realize all the common goals. Good communication can keep the extended supply chain in sync.

Periodic Evaluation and Iteration – Periodically evaluate that the strategy is working and meeting the overall organization strategic goals. Re-assess to see if business needs have changed, industry or market has changed, or stakeholder needs have changed. If the changes are significant and warrant changing the strategy, then make the necessary changes and communicate them to stakeholders, partners and executive committee. Also, use this effort to look for new opportunities to further strengthen the supply chain strategy and position your organization for success.

Manage Performance, Recognition and Rewards – Track and manage performance by applying good project governance. Tracking performance allows an organization to measure how successful it is in realizing the goals of a strategy. It also makes people understand their contribution and responsibilities, creating a more cohesive, in tune, organization. Performance management works best when people are recognized and rewarded for their performance.

Procurement leaders should upskill their teams to improve the team's performance and reskill their teams to move away from old habits. Many procurement risk-management solutions rely heavily on in-depth analysis. Teams should be comfortable using modern digital technologies to create more accurate forecasts and scenario-based pricing models while improving the procurement transparency to boost cash flow.

Conclusion

Aligning supply chain strategy with the corporate strategy and goals is the key to the successful implementation of a supply chain. If Procurement fully understands its role and mandate, performs its due diligence, and is disciplined in its implementation, the supply chain strategy can be aligned to the business strategy.

Are you ready to develop and execute your Supply Chain Strategy for Indirect Materials?

Contact DSSI to help you build and execute your Supply Chain Management Strategy.