



SUPPLY CHAIN TRANSFORMATION: THE STARTER GUIDE

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Why is a comprehensive supply chain transformation needed?

Every transformation project is initiated by a dilemma that permeates the depths of an organization so greatly that minor or superficial changes will not solve it. While identifying the need for change to rectify this dilemma may not be difficult for the organization, the formulation and execution of a thorough plan to completely alter the manner in which the supply chain operates is complex, intense, exhaustive, and fraught with challenges. Companies are often and repeatedly faced with the need to constantly evolve the supply chain to stay ahead of change and adapt to the ever-changing challenges that surface with a supply chain. These challenges can be experienced in the form of labor scarcity, wage inflation, transportation cost escalations, shifting customer demographics and/or buying habits, hyper growth, growth through acquisition, expiring building leases, and so on. With those variable shifts that are beyond or within limited control of the business, the supply chain must go through periodic transformation periods to realign with that shifting landscape. Otherwise, stagnation takes hold and invariably could lead to more significant business sustainability concerns.

The supply chain has become a critical mechanism to creating a cost and service advantage within the market. Companies must place the right amount of attention on the supply chain and continuously search for ways to enhance the operation with the intention of driving out cost, propelling service to the next level, or achieving other organizational objectives. As the company progresses along its defined growth curve, there are critical points where the business must assess the existing network's capacity to enable future growth and not inhibit it. Certain milestones along that curve require a dramatic transformation of the network in order to support the next stage of growth. For example, in today's rapidly evolving retail landscape, the shift to a fulfillment model is challenging companies as they have never been challenged before. Wholesalers and manufacturers are now being asked to interface directly with the customer and support a new order profile with

dramatically different service expectations. Transforming the supply chain becomes a necessity because the infrastructure is not aligned with this new operating concept. Dramatic change is required, but how?

Basics on how to approach and execute a supply chain transformation project

The supply chain transformation process begins with a clear definition of a problem(s) / objective(s) and the subsequent creation of a strategic plan to support resolving the problem(s) or satisfying the established objective(s). This includes defining and gaining alignment on enterprise level objectives that serve as the core impetus for the needed transformation. Examples of questions that must be asked during this process are:

1. How has the business evolved?
2. How is the industry shifting and is my supply chain configured to support the shifting landscape?
3. Are my customer or supplier dynamics changing and is my supply chain structured to support those changes?
4. What is my competition doing and do I risk falling behind without challenging the way the supply chain supports the business?
5. What do we want to achieve as a business and from the supply chain, and what are our principles that drive those intentions?
6. What are the most critical improvements we want to realize? Cost reduction? Service improvements? Reduced network risk? Lower operating expense? Greater labor independence?
7. What level of growth must be supported in the future?
8. What are our current constraints and what are the best mechanisms to create greater independence of those constraints?

These questions must be asked across the various disciplines of the organization to formulate a comprehensive vision that the organization in its entirety can support. Then begins the process of formulating the strategic plan, which requires

SUPPLY CHAIN TRANSFORMATION: THE STARTER GUIDE

WHITEPAPER

a thorough network level analysis that vets, at a minimum, the following components:

1. **Network Capacity** – Assess what capacity you have within the existing network and what capacity you need to solve for in the future, incorporating shifts in operating concept. Assessing network scenario variations that achieve specific objectives.
2. **Technology Justification and Integration** – Determine what technologies are cost justified and support the established business objectives and growth plans.
3. **Full Operating Expense Projections** – Know how the network configuration scenarios will alter the operating expense projections and fully vet the cost impact of a network shift when it comes to operating a facility(s) and the entire network. This includes within the 4-wall expense and the transportation cost impact.
4. **Capital Impact** – Know what level of capital will be required to transform the network from the current state to the future state and when the capital will be required.
5. **Migration / Roadmap Timing Requirements** – Understand and clearly define the roadmap of activities that migrate you from the current state to the future state, with clear alignment between the transformation and strategic objectives (ex. How much disruption will my customer's support at any given time?).
6. **Assessment of Subjective Factors** – Understand those factors that cannot be quantified and what the transformation process means to those factors (ex. How much visibility will you gain/lose in the future network and how complex will it be to manage the network?).

Once the strategic plan has been finalized and approved, you will need to create the right structure and approach to support the successful execution of a transformation project, which, at a minimum, includes the following:

1. Fully **DOCUMENT THE BUSINESS AND TRANSFORMATION PLAN** so that the vision is as clear on day 500 as it is on day 1 of the process. Ambiguity or uncertainty on intent creates instability with the foundation of the

transformation process. Treat the plan as a living document, so it always remains current with clear objectives for the team.

2. An **EXECUTIVE PROJECT CHAMPION AND CROSS-FUNCTIONAL TEAM** needs to be assembled to support the transformation process from end-to-end. These team members must represent their respective organizational discipline, serving as the bridge that connects the transformation project to their respective part of the organization.
3. Incorporate a **PMO STRUCTURE** to support the transformation process, where all workstreams come together to ensure alignment and create consistency throughout the process. Each workstream should have a clearly defined owner.
4. Construct your implementation sequence to create **MEASURABLE MILESTONES**. With each milestone, assess the impact to verify that the transformation project is on target. Do not assume immediate gains on day One. Account for settling periods in this process, where each change must take hold and settle before success can be measured.
5. Agree on and establish **SUCCESS METRICS** for the process (cost per unit, operating expense reduction, fill rate improvement, etc.). These should align with the business' transformation objectives established in the strategic plan construction process. At an agreed to cadence, diligently track the success metrics.
6. Create **REASSESSMENT MILESTONES AND ITERATE** on your plan. Do not set your strategic initiative in year 0 of your plan and not revisit it until the final year of your planning horizon. Business conditions evolve. Create a cadence to review and tweak your plan to account for the shifting dynamics. Typically, a 2-year cadence is recommended.
7. Establish **CLEAR COMMUNICATION CHANNELS** for the project team, which includes incorporating tools to enable that process, like consolidated file sharing and communication tools. Enforce the usage of those tools early to create a habit. Communication gaps can be the greatest inhibitor to success.
8. Develop an execution **PLAN THAT IS ACHIEVABLE**. Do not strive to be world-class on day One, but set the plan with a proper growth sequence that puts you on the path to being world-class. Often, this takes the form of

controlled growth of the network and incremental investment/change to get you there in manageable steps.

What needs to be considered before beginning the process?

- **CULTURAL CHANGE** is just as important as the organizational and physical change within the supply chain. As the supply chain shifts in how it operates, attention must be paid to changing the culture and mentality of the individuals who drive and operate it. Spend time building the proper organizational structure to support the future network, including expanding specific teams (ex. hiring business analysts, increasing IT support, etc.). Educate the organization on the future state, the objectives of the transformation, and how the business needs to shift from how it currently operates. Create a robust training program to continue that education process at all levels of the organization and repeat during the process.
- Create a **SEQUENCE OF EVENTS THAT MITIGATES RISK**. It is easy to get distracted by the savings opportunity or benefits the future network may provide. Still, the need to temper and control disruption is critical to long-term success. Just as important is the need to initiate the transformation process with a first step to serve as a valuable testing ground. Choose to begin the process with a facility or aspect of the supply chain that has the capacity to change without external stresses (limited resources, limited tolerance for disruption, etc.) and has the ability to support the beginning stages of the change process in a forgiving way. The first step is critical since it serves as the pilot or initial measure of success for the remainder of the transformation process.
- Build a transformation plan that focuses on **INCREMENTAL CHANGE**, not sudden upheaval. When the transformation shift required is dramatic, build a plan that helps grow into the long-term plan. That may come in the form of stair-stepping your technology pursuit (layering in the new technology in phases) or creating disruption one facility at a time. Over disruption can create distractions and cause the team to lose perspective or visibility to an important aspect of the business being impacted.

SUPPLY CHAIN TRANSFORMATION: THE STARTER GUIDE

WHITEPAPER

- **GAIN BUY-IN** throughout the entire organization before proceeding. While the benefits of the transformation may be substantial, the change will also be difficult for certain portions of an organization. Work to gain alignment for those portions of the business that will be affected. Proceeding without full buy-in will create friction during the process. It could ultimately affect the realization of the intended gains without full organizational commitment to operating the future state.
- Recognize that **BLOCKERS WILL BE ENCOUNTERED** throughout the transformation, like shifts in leadership, fluctuations in the growth plans, business acquisitions, economic undulation, etc. Create a transformation project structure to absorb the unavoidable blockers and focus attention on how best to absorb them instead of avoiding them. This is enabled by those items already noted, like a clearly documented strategic plan, establishment of success metrics, and continuous reassessment periods.

Summary

Change is never simple, especially the level of change that is experienced throughout a supply chain network transformation project. The key to successfully navigating the process is to build a comprehensive plan that begins with a strategic vision. Continue to expand that plan as you progress through the various phases of the transformation. Make that plan and the respective consequences clearly visible to the entirety of the organization and maintain a continuous dialogue with all functional areas in the organization. In today's economic environment, change is a necessity. Build the right Supply Chain transformation plan, approach, and structure to take on the transformation of your supply chain with vigor and confidence.

Contact us at info@hy-tek.com or call us at 678.842.9114, if you want to learn more about Supply Chain Transformation.