



William W. Rutherford
Chairman and CEO

Supply Chain Management An Initiative or a Competitive Advantage?

Supply Chain Management as a business practice has been around since the '60s. Beginning in the manufacturing and distribution disciplines and with a somewhat narrow focus on logistics and procurement processes, supply chain management has evolved from a cost cutting business practice to a value creation program that can drive and sustain improved business performance across an organization. In fact, leading universities like Michigan State University, MIT, Arizona State University and others offer integrated supply chain management in their

performance management in addition to knowledge and understanding of the enterprise's value chain. As depicted in the graphic below, using an upstream Oil & Gas value chain as example, the application of supply chain principles and practices can span both the external and internal value chain – from raw material supplies to the end-user consumer. It is because of the holistic, cross-functional application to the business enterprise that SCM is becoming fundamental to “the way we do business” in many corporations.

atives and programs, as you might suspect, there have been failures too – most of them traced to poor planning, unclear objectives, lack of organization commitment and perhaps most importantly, lack of executive stewardship – any one of which will doom the effort!

There are many ways to implement supply chain management initiatives for a sustainable program. Supply chain management implementation must be tailored to an organization's needs, culture and ability to engage. In corporations with global reach or multi-regional operations internalizing supply chain management can take a full year to a multi-year commitment. Again, the key is an up-front understanding of desired impact and level of commitment.

Implementation of supply chain management might be categorized in one of three ways:

- **Strategic Mobilization** (transformation)
- **Phased Evolution** (crawl, walk, run)
- **Continuous Improvement** (incremental)

Each of the above has its pros and cons, but none is a guarantee of success without leadership commitment and stewardship, clear understanding by the organization of expectations, performance goals and measures and rewards.

“Strategic Mobilization” is driven by a profound sense of urgency and the need for significant organizational change to

“The difference between what we do and what we can do would solve most of our world problems.”

Ghandi

achieve corporate goals. It requires mobilization of the corporate will, substantial planning, training, resource commitment and external support by subject matter experts. It is a very visible and topical effort within the organization and as such the downside risk here is failure to meet unrealistic goals and/or schedules. (over)

Integrated Supply Chain Management

(Example: End-to-End Oil & Gas Supply Chain)

Raw Materials	OEMs	Services	Core Business	Distribution	Intermediate	End Users
- Acreage	- Pumps	- Service Companies	- Lease	- Gatherers	- Refiners	- Residential
- Steel	- Tools	- Rental Companies	- Exploration	- Brokers	- Power Plants	- Commercial
- Chemicals	- Pipe	- Fabricators	- Development	- Processors	- Local	- Industrial
- Mud	- Equipment	- Contractors	- Production	- Storage	Distribution	
			- Marketing	- Pipelines	Companies	
			- Support Services			
Reduce total-cost-of-ownership Leverage supplier capabilities Build win:win relationships			Reduce internal cost Improve process efficiency Avoid cost, add value Improve resource utilization		Reduce transportation costs Seek best markets for products Maximize margins and netbacks	

core curricula for undergraduate and graduate degree programs.

While some leaders still consider supply chain management an ad hoc initiative to put in play when supply costs are rising – and, certainly these efforts can produce effective near-term results – a growing number of leaders of corporations with global reach or multi-regional operations have recognized the disciplines of an integrated supply chain management business model as a competitive necessity. They have implemented integrated programs and organizational stewardship to imbue their organization's culture with “supply chain thinking”.

Value Creation: Today's integrated supply chain management requires competencies in change leadership, project management, relationship management and

In the past five years there have been a number of research studies and articles published that confirm that implementation of supply chain management programs do correlate to improved financial performance and competitive advantage. While it is far more difficult to correlate supply chain performance with increased shareholder value, the implication appears reasonable to most leaders who have instituted and steward strong supply chain programs. To further support this suggestion, the graphic on the back depicts the affinities of selected SCM competencies to corporate performance objectives.

Implementing Supply Chain Management: Implementing a successful SCM initiative or sustainable program is complex. While there have been notable successes in planning and implementing effective supply chain management initia-

The “Phased Evolution” approach is no less of a well planned and executed effort than the Strategic Mobilization approach. However, it is based on a step-wise progression that allows the organization to see and confirm the interim results and provides the intellectual confirmation to take on the next level. This is the “success breeds success” model. The downside risk here is to take on supply chain management initiatives that are providing near-term benefits but that may conflict with enterprise value add. For example, functional optimization may conflict with enterprise value creation.

The “Continuous Improvement” approach, even though launched with fanfare and leadership approval, will typically find its way

ment is dispersed and most continuous improvement programs deal in incremental rather than step-change improvements. The

How Supply Chain Management Influences Strategic Elements

Strategic Focus	Supply Chain Management Competencies
<ul style="list-style-type: none"> • Capital and Operating Expense Control • Asset Optimization • Working Capital Management • Process Excellence • Performance Stewardship • Return-on-Capital-Employed 	<ul style="list-style-type: none"> • Financial and Spend Analysis • Inventory Management • Relationship Management • Life-Cycle Cost Management • Total Cost of Ownership • Strategic Sourcing • Asset Monetization • Cycle Time Reduction • Performance Management • Cash-to-Cash Improvement • Standardization of Parts, Equipment and Services • Change Leadership • Project Management

downside risk here is that visibility and stewardship of the continuous improvement approach tend to lose out to other corporate priorities.

In summary, supply chain management can yield significant financial results, create value for the enterprise and in turn, impact shareholder value. However, the planning and execution of successful SCM initiatives or programs re-

quires leadership commitment and engagement and, in almost all cases, external expertise, perspective and facilitation.

quires leadership commitment and engagement and, in almost all cases, external expertise, perspective and facilitation.

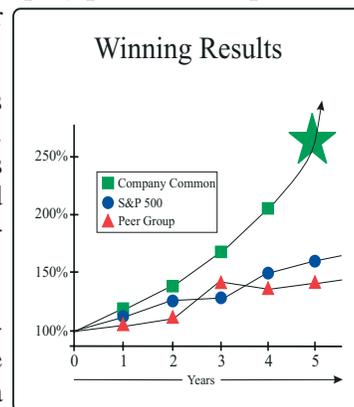
William W. Rutherford and Associates

www.WWRutherford.com

William W. Rutherford and Associates believes in helping successful leaders of well-managed companies achieve improvements in their competitive position. We understand the many factors that make improvements increasingly difficult in today’s world: global competition, maturing products and services, organizational complexity, rapidly changing marketplace dynamics and sourcing options and the growing impact of technology. Company performance options that many organizations have begun to consider are fast becoming basic a basic requirement for their on-going viability.

Today’s leaders typically know those areas critical to their success. They want to do what is required to significantly improve their organization’s performance and affect cultural change. Past efforts to design and implement strategies to realize this vision have often been less successful than expected. Internal organizational issues, personal agendas and inadequate skills and capabilities have been problematic. In some cases employees lack of varied industry and “outside-their-function” experience further contribute to the challenge of making meaningful progress.

Our Approach: At *William W. Rutherford and Associates* we start with the leader’s desired improvement and build a customized approach to achieve it. “Measurable, sustainable results and improved competitive position are a must” is a frequent comment. “We need a new, more robust approach” is another. Leaders tell us that with our assistance they make faster, more significant progress in today’s increasingly competitive world. They say that we have “energized their organizations for achievement” and “substantially reduced the time required to successfully attain these results” and “created the environment for accelerated growth and learning.” Significant improvement initiatives are a lasting and rewarding hallmark of successful leaders.



For more information, please contact:

Ms. Barbara Hill
William W. Rutherford and Associates
 3102 Maple Avenue, Suite 450
 Dallas, Texas 75201

Barbara.Hill@WWRutherford.com
 214.953.4788 phone
 214.953.4789 fax

Helping Leaders Improve Their Company’s Performance