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## A real-world look at SCM

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## A real-world look at SCM

### Abstract

Supply chain management (SCM) promises to become even more challenging in the months and years ahead. How are professionals in this field coping with the stresses of performing in a tough economy? And what do they see as the keys to success for the future? For the answers, the authors went to the front lines—the logistics and supply chain managers who do the job every day

### Disciplines

Business Administration, Management, and Operations | Management Information Systems | Operations and Supply Chain Management | Strategic Management Policy

### Comments

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**By Patricia J. Daugherty, Scott J. Grawe and John A. Caltagirone**

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**Supply chain management (SCM) promises to become even more challenging in the months and years ahead. How are professionals in this field coping with the stresses of performing in a tough economy? And what do they see as the keys to success for the future? For the answers, the authors went to the front lines—the logistics and supply chain managers who do the job every day.**

**W**hat's ahead for supply chain professionals? What are the challenges and opportunities that will confront them in the next few years? To answer these questions, we interviewed a select group of supply chain and logistics executives. We wanted to know their opinions on the current business climate and their expectations for the future. The accompanying sidebar to this article describes the research design and provides details about the participants. While we realize that generalizations should be made with caution, the participants represent a broad range of businesses in a variety of industries and perform a range of job assignments. They also collectively represent a considerable number of years of experience directly relating to the



# A REAL-WORLD LOOK AT SCM

impact areas we wanted to study. Approximately one-half hold positions of senior managers or directors with the balance at the vice president level or higher. They know what they are talking about!

Two general themes were voiced consistently in the interviews. First, there seemed to be an overall feeling of uncertainty as to what will happen next. The managers we interviewed realize they can't just take a "wait and see" approach, but they were somewhat hesitant about making big changes. It's not so much that they were negative; rather, they were unsure. Second, and not unexpectedly, the economy represented a major concern. Recent economic conditions have influenced everything from pulling back on collaborations with trading partners to re-thinking sourcing decisions and general resource allocations. In many instances, proposed initiatives haven't received the necessary support internally. Therefore, the survey participants said, many of their companies have resorted to "band-aid" approaches to problem solving as opposed to really fixing things.

The interviews were organized around three specific high profile, high impact areas: technology, talent, and sourcing. The three areas were identified as high priority during earlier discussions with supply chain leaders. Although there's overlap and connections among the three areas, each will be discussed separately.

## **Technology: Cautious Enthusiasm**

Respondents uniformly considered technology to be a high visibility/high priority regardless of their type of business or industry. All are focused on trying to figure out what's going to happen next in this space. At the same time, they are definitely proceeding with caution on their technology plans. One tough question they are wrestling with is, What's the next big technological breakthrough that's worth our investment and commitment in such uncertain times? The sense among our respondents seemed to be that we're at a point of inflection . . . but which way is the curve going?

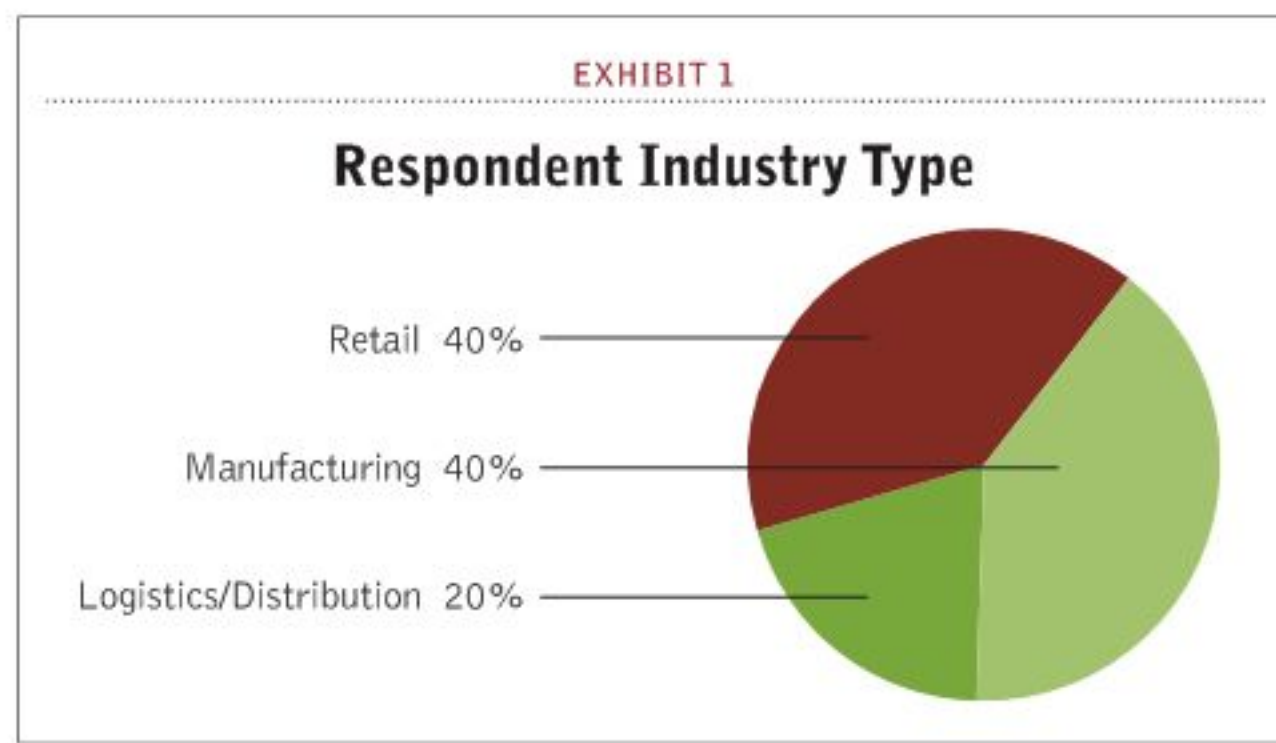
Many of the companies represented have, in fact, introduced new technologies in recent years. Their current emphasis, however, is not just about introducing the next step in RFID or WMS (warehouse management systems). Instead, they are making commitments—or at least planning commitments—to technology that coordinates and integrates the supply chain processes. They are striving for integration across the entire supply chain—what was referred to as "one global platform." As one supply chain manager told us, "We are slaves to technology. We are still looking for the elusive 'translator' that communicates between all programs." In the meantime, the companies are focusing on integrating segments. Visibility and responsiveness also are priorities.

When asked about specific areas of projected technology spending, many of the respondents pointed to streamlining communications, increasing flexibility, and generally accelerating information flow. To cite a few examples, they want truck drivers to be able to directly interface with shippers and receivers; they want to be able to provide automatic service alerts for customers similar to shipment tracking notices; and those operating globally want to automate the customs process including advance customs clearance. Many respondents also cited the need for greater flexibility in their operations, and wanted to know how technology will make it happen. As a leading retailer we interviewed noted, "We are rolling out new systems in our warehouses. We also have a new demand planning system and we need a new TMS (transportation management system). These tools will give us much needed flexibility. We can put processes in place to improve our flexibility, but right now we just don't have the tools to make it work."

Security-related technology is another important issue for the companies. Security, of course, is a critical issue with international shipments. Several of the firms mentioned an increased emphasis on the security of those shipments and effectively dealing with customs mandates. As customs requirements are expected to be more



rigorously enforced in the future, companies are taking steps to insure that they will be in compliance. The retailers we talked to also expressed concern about dealing with consumer protection laws. They noted that the U.S. government has become more involved in enforcing consumer protection laws in the wake of problems with imported products such as the toys from China with lead-based paint. Retailer preparedness also extends to developing a proactive game plan for handling recalls when necessary. The respondents are looking to technology to help make their supply chains more secure and compliant with regulations.



The companies also are looking for more tools to increase supply chain efficiency. Among the most popular solutions in place are S&OP (sales and operations planning), ERP, demand planning, pricing, and WMS. Others mentioned included transportation-related technologies such as on-board computers and logs to help make drivers more efficient. Commenting on technology with a current and future potential for improving efficiency, one of the respondents at a transportation company commented: "Internal scales will have a nice impact in terms of efficiency. These scales allow trucks to bypass the roadside scales. Also, trailer tracking technology has been around, but the price is coming down and we are starting to see more of it in use. This technology allows us to see how full the trailers are, assess their utilization, and identify where seals are broken."

Notably, technology involvement extends to non-traditional areas. A prominent retailer in our study group talked about how social networking (such as facebook, twitter, and blogs) is affecting the business. "We need to move faster because we are getting feedback immediately from our customers," this supply chain manager said. "All of this is happening very quickly and impacting the supply chain from sourcing to manufacturing to transportation. Social networking is driving customer behavior and making my organization (SCM) become

more reactive. The cycle time is happening a lot faster."

In spite of the differences in type of business and industries represented, we noted that where technology usage and "wish lists" were concerned, the responding companies are more alike than different. As one of the interviewees noted, "All of our customers are facing the same challenges and looking at similar solutions." There's a common need for technology support. However, the capabilities for meeting that need differ from company to company. Many of the respondents think they are doing a good job, reflected by comments such as "We're on top of everything." Others, however, admit that when it comes to supply chain technology implementation and support, they have a lot of catching up to do.

### Talent: Generalists Wanted

In recent years, there's been a significant shortage of qualified logistics and supply chain people. While the problem has moderated lately with the economic downturn, it hasn't gone away. We wanted to find out more about projected hiring needs and what skills are most in demand.

When asked if hiring has been a challenge recently, many of the supply chain managers answered yes. When some of the companies had difficulty hiring experienced applicants, they were forced to take on less experienced individuals and rely upon on-the-job training to get the new hires up to speed. Another frequently mentioned concern was the lack of generalists with solid and broad-based skill sets. Candidates with a narrow functional background, by contrast, were relatively plentiful. One respondent confirmed that the biggest weakness among the existing new-hire pool is that they are too specialized. What his company really needed, he said, were candidates with more broadly applicable business acumen. Consistent with this, another respondent talked about finding people who could execute basic distribution tasks, or what he called "floor generals."

A number of respondents, however, asserted that the need for true logistics specialists remained strong in many cases. As an executive at a logistics service provider explained, "Shippers have been dismantling their transportation departments and have come to lean on carriers and 3PLs...these firms need to get experts back in house."

Access to potential employees with the right profile will likely continue to be problematic over the next few years because of the challenges mentioned above coupled with the retirements of Baby Boomers. As one respondent noted, "The Baby Boomer succession plan is critical to our industry (trucking). The retirements are



going to hit us and we need to have people get ready to step in.”

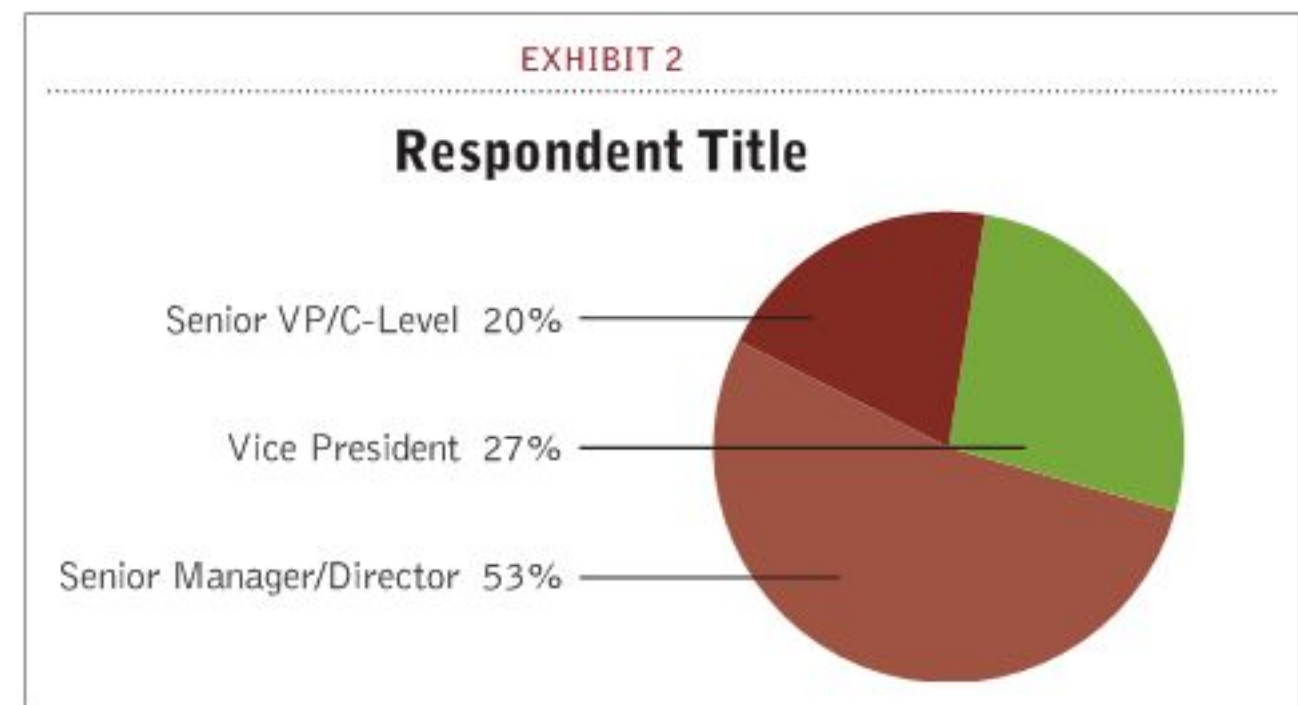
Others say they haven’t experienced problems in hiring because they have developed regular channels for bringing qualified people on board. Some hire from their supplier and service partners—for example, “We hire from our forwarding community.” This gives them the advantage of hiring people who already know about their business while avoiding the time and expense of extensive training. Many of the companies have established strong linkages with colleges and universities to help recruit new graduates.

### Five Years from Now?

When asked to project areas of need five years out, many respondents mentioned purchasing- and sourcing-related capabilities. Global sourcing and vendor compliance, in particular, are hot issues. And it’s clear that individuals trained in these areas will have good prospects. The companies we spoke with also want to ratchet up the qualifications and abilities of new hires. Specifically, they want people who can perform true “strategic sourcing” not just buying as usual. International knowledge—from logistics to compliance—is expected to be another competency in high demand.

What other skills are these potential employers looking for? At the entry level, they stressed the importance of a positive attitude. They are looking for people with a good work ethic, who are reliable, and prepared to learn and invest time in building their careers. That may seem like a standard profile for any job seeker...and maybe it was a few years ago. But today’s new hires are not just a new generation, they’re a different breed altogether as many employers are finding out. Several of the interviewees noted that the Gen Y mentality is that the company “owes them” something. They want to move up quickly, and if that does not happen or if something else looks better on the outside, they will have no hesitancy jumping ship. Management and motivation for this new breed of employee thus become critical. (We offer suggestions for dealing with generational-related issues later.)

Even when hiring new college grads, the companies want at least some work experience. Time-honored ways of gaining this experience are through summer jobs or internships. Internships are particularly popular right now because they give employers an opportunity to screen for potential full-time hires. “We build our own employees this way,” one manager told us. Project experience is desirable, too. Many college grads gain this through “experiential learning” in which their graduate or undergraduate classes require a real-life project and



interaction with the business community.

Other skills and abilities mentioned with respect to entry-level hires are similar to those you would expect for mid-level and higher positions. These include adaptability, prioritization skills, and technological competence. Regarding prioritization, one survey participant noted, “The employees can’t do everything, they can’t keep up at all times. So they need to be able to figure out what to do first.”

Asked about requirements for mid-level hires, respondents often mentioned job-specific experience (work in the transportation or 3PL industry, for example). Someone with a proven track record of effective interfacing, problem solving, and communication—especially if it is in the hiring company’s industry—is highly desirable. Another interviewee noted that while experience is important, personality traits are the crucial thing. Elaborating on this assertion, the manager said that she looked for people who “can make things happen.” Persistence is a prized trait, too. This manager wants individuals who “have the ability to ‘dog’ people—and not give up until they get what they need.” At the mid-level, our respondents looked for leadership skills and the ability to build relationships, both internally and externally.

### Sourcing: Still Mainly Tactical

The third impact area we investigated was sourcing and vendor relationships. As we mentioned earlier, the general perception is that strategic sourcing has become a commonplace practice in companies. In fact, the conventional wisdom seems to be that yes, strategic sourcing is the norm today. Our survey findings tell us, however, that this may not be the case. Some companies have never made the shift from transactional to strategic sourcing; others that had made the shift are reverting back to the old ways because of recent economic conditions. Put another way, their emphasis is on short-term survival.



Over and over again we heard that respondents' current sourcing operations are transaction focused—even among those companies that have been trying to build strategic sourcing relationship. One retailer told us, "We don't take time to have dinner with carriers or vendors or to play golf because it will only mean more work later as we make-up the time 'wasted' on the course. Firms are becoming more transactional for efficiency reasons." The following comments from the logistics and supply chain managers interviewed underscore the point.

- *We tend to be more transactional in nature. We're trying to move toward strategic relationships.*

- *We do strategic sourcing, but our whole thrust is cheapest cost. We're under tremendous pressure to get the lowest cost—we leverage purchasing power across all of our companies.*

- *We have failed in treating key vendors as "partners." We've been too cost-driven. Our current initiative is to be more collaborative and less about price-price-price.*

- *We've begun the process, but for now most focus is on cost reduction.*

Several of the companies are trying to identify long-term providers and work more closely with them. Others mentioned "partnering" and working with vendors to reduce complexity and gain efficiencies. An interviewee at a leading manufacturing firm detailed his company's biggest change with respect to sourcing practices. The company used 600 carriers in 2001 when this individual arrived. He immediately decreased that to 480 and now uses just 167 carriers. The company today is "very carrier friendly," he noted, and it is able to work more strategically with the smaller group.

Finally, one manager we interviewed offered a comprehensive picture of the company's strategic sourcing practices. These include partnering with component suppliers on technological solutions, taking advantage of preferred pricing and delivery terms, sourcing components and material closer to the manufacturing sites, implementing a component-complexity reduction project in order to leverage spend and commonality, and using Total Lowest Landed Cost (TLLC) to determine where products should be built. In addition, the company's supply chain group closely coordinates with its quality team to ensure that low price does not translate to low quality.

Looking ahead, respondents said that over the next three to five years, they will be working to reduce uncertainty in the supply base. To accomplish this, they plan a number of actions. These include: more closely assessing the long-term viability of business partners; formally certifying suppliers; and rationalizing the supply base by

minimizing the number of partners and locations where products are built. Reflecting this strongly voiced desire for assuring supplier continuity, one interviewee made this comment: "Financials are important. We didn't ask for earnings statements in the past, but we do now." This same person characterized his company's sourcing practices as a "healthy mix of both strategic and transactional sourcing."

Environmental policies are likely to take on elevated importance going forward as more companies embrace sustainability as an ongoing commitment. Yet as one manager noted, when push comes to shove, cost is still the key and will override "green" concerns. Desires to reduce costs have also resulted in more use of private label products and shifts in sourcing locations. Based on what we learned in the interviews, it is unlikely that the trend towards more private label products will be reversed in the immediate future. Also, the companies are putting processes in place through which they can routinely evaluate sourcing locations and make changes as more attractive options are identified.

Some companies are considering more localized sourcing because of the complexities involved in moving product over long distances, coupled with the related risks and costs. No clear trend emerged with regard to global vs. local sourcing. Some respondents said they will focus less on Asia-Pacific and start looking to South America, Mexico, and even the domestic U.S. market for sourcing options. Others will concentrate expansion into China and Southeast Asia including emerging markets such as Vietnam. As one study participant noted, "Our manufacturing has shifted back to Mexico based on cost concerns. But we still feel (longer term) Asia is a better overall solution."

## **What Have We Learned?**

Following is a summary of what we think the interviews have told us—and our reaction to those messages.

### ***1. Cost is the primary driver.***

To a degree, that's always the case. However, our findings are certainly reflective of the current national and global economy. The business executives' responses were understandably influenced by the dismal economy. The situation will improve in time, but cost is always going to be a primary influence on business decisions—and at least temporarily, cost is having a tremendous impact. Reflecting the general mood, one survey participant asserted, "I don't really want to collaborate!" We think that she was really saying, "I don't have to collaborate."



However, times will change; collaboration and the “buddy system” are not gone for good.

**2. New employees have great expectations... too great?**

Even those companies that indicated few if any problems in finding new hires said they have encountered problems subsequent to hiring. As discussed earlier, this may reflect generational differences. New graduates and people in the early stages in their career often go through a job hopping phase. “We train them and they leave,” one manager noted. “They become frustrated if they don’t move up fast.” Too often the expectations of the young hires are inconsistent with company policies and traditional career paths. It’s tempting to say that the newcomers have unrealistic expectations. But that may just be our bias. Regardless, supply chain managers will have to deal with it.

**3. Our management styles may be outdated.**

We not only need more flexibility in our operations (see Item 5 below), but also in the way in which we manage our people. As one supply chain executive we interviewed said, “We don’t seem to have the ability to communicate with the younger generation. They (the younger workers) don’t have the same work ethic. So we are asking ourselves how we can be more flexible. For example, we’re experimenting with flexible hours to keep them satisfied and motivated.”

More emphasis needs to be placed on employee retention. Old leadership styles may not be the best for today’s environment and workforce. Technologies have a lifespan. The same may be true for management styles and organizational structuring.

**4. Does our profession need an image makeover?**

While those of us who have worked for years in logistics and supply chain-related jobs think it’s a great career, we would probably not characterize it as glamorous. How do prospective employers counteract this perception and succeed in attracting and keeping professional, polished people? A big part of the answer may relate to internal changes that make the jobs more desirable and more rewarding for talented young people.

**5. Flexibility and responsiveness are critical capabilities.**

Companies will always have to deal with the economy, product innovations and market demand shifts, technological breakthroughs, and generally unstable environments. How quickly and effectively they respond is

the key to meeting these challenges and opportunities. As noted by a retailer interviewed, “We have to count on volatility. We don’t like it, but fuel and volumes will always be volatile. We will also see wide swings for both and we need to embrace it and handle it more effectively.” Operational flexibility and will remain high priority; however, flexibility and responsiveness must extend throughout the organization. Every aspect of the business—from operations to hiring practices to management styles—must be regularly assessed for possible changes, updates, or even elimination.

**6. The C-level knows we’re here.**

When we asked about C-level (CEO, CFO, COO, CIO) involvement with the logistics and supply chain operations, almost everyone characterized it as very involved. Only one person indicated otherwise, stating, “Very little involvement. Zero percent input into our operations.” The more typical comments were, “Supply chain is a premier initiative in the company” and “Our president is in our meetings every morning at 8 A.M.” One of the managers interviewed noted, “All C-level folks, if not involved, are very aware of supply chain issues. They know that there have been incredible efficiencies involved (relating to supply chain-related changes).”

Most of the interviewees indicated that the top logistics or supply chain executive reports directly to the CEO; some indicated their top person has a seat on the company’s executive committee. Further, one executive said that his firm places so much importance on supply chain management that it has given him the title of EVP and Chief Executive Officer. Another respondent noted: “We place much greater emphasis on supply chain management today. SCM can drive cash, be a competitive advantage, and generate excellent service and quality.” Another said, “Even though the C-level people are not involved in the details, we definitely have a high level of visibility.” We consistently heard that SCM will be the deciding factor in giving an organization a competitive advantage.

**How to Build a Great Supply Chain Team**

As evidenced by their thoughtful comments, the executives we interviewed are very much focused on developing internal competencies that will allow them to successfully compete in the years ahead. If an organization doesn’t have a top-rate team of supply chain professionals, they can’t expect to survive much less succeed. We re-examined the interview material in order to develop a composite profile of what companies are looking for in their hiring process. HR people often use the “KSAB”



framework to help select employees with the right competencies—defined as those competencies considered predictive of successful long-term job performance. KSAB stands for Knowledge, Skills and Abilities, and Behaviors. Knowledge-related competencies refer to a practical or theoretical understanding of subjects. Skill and ability competencies relate to natural or learned capacities to perform. Behavioral competencies involve patterns of action or conduct. Each will be discussed separately.

### **Knowledge Competencies**

Logistics and supply chain-specific knowledge as well as general business knowledge are the minimum requirement for getting a job in this field. At the entry-level, today more companies seek people with supply chain (or similar) degrees. While more universities now offer logistics and supply chain majors than ever before, the supply of graduates doesn't seem to be keeping pace with the demand. Efforts are needed to attract more students to these majors.

Moving beyond entry-level jobs, companies look for a combination of education and job experience. The greatest emphasis is usually placed on experience and previous responsibility level as people move up. Also, more and more, graduate-level degrees are seen as a prerequisite to advancing in an organization.

### **Skills and Abilities**

While a range of needed skills and abilities were mentioned by the study participants, a few emerged as top priorities. These included interpersonal skills, problem-

solving skills, and communication skills. Interpersonal skills—the capability to build internal and external relationships—are high on the wish list. Job candidates with a fresh perspective and a success-orientation are often selected because of the expectation that they will be good problem solvers. As one manager for a logistics services provider noted, the best employees “do problem solving, planning, and they look for ways to improve operational efficiency not just for us, but for the shipper, too.” Articulate individuals with good verbal and written communication skills are highly prized.

### **Behavior**

One interviewee told us that “willingness to learn is the key.” This really comes down to attitude. People must want to learn and then apply that learning in ways that are meaningful for the organization. The most highly desirable behaviors cited are perseverance, commitment, and leadership. Work ethic and discipline are considered essential manifestations of these traits. One sturdy participant pointed to problems encountered with “employees who expect to sit down and do something easily and quickly—and give up if it doesn't happen.” This individual and others underscored the importance of perseverance. These managers want people who are willing to concentrate and work at finding solutions to problems. Another noted the importance of avoiding hiring people who “melt” when the going gets tough. Bottom line, companies are really looking for a catalyst. In a supply chain context, that is someone who makes things happen and can lead others.

Our study was not intended to chronicle every single challenge facing supply chain and logistics professionals in 2010. Nor was it a scientific attempt to predict the supply chain future. Rather the objective of our research was to give a real-world look into what's on the minds of working supply chain and logistics professionals today—and what they view as the key elements to a successful future. We hope that their insights and information will help you in your supply chain activities, both now and in the years to come. ☺☺

**Authors' Note:** We would like to thank each of the executives who helped us with the research. Their insights added greatly to our project. The University of Oklahoma Logistics/Supply Chain Executive Panel periodically conducts short surveys. If you are interested in joining the panel, please contact Pat Daugherty at [pdaugh@ou.edu](mailto:pdaugh@ou.edu) or 405-325-5899.

## **About the Research**

The study team conducted personal interviews with logistics and supply chain leaders regarding the current and future state of the industry. Executives from 15 firms offered their insights in telephone interviews that ranged from 30 minutes to two hours in length. The participants hold senior-level positions at retailers, manufacturers, distributors, and logistics service providers. They represented a variety of organizations from medium-sized private firms to Fortune 100 corporations. (Exhibit 1 on page 14 shows types of industries; exhibit 2, page 16, gives title breakout.) The executives discussed trends related to sourcing, technology, talent, and other issues impacting their supply chains.