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PROCUREMENT EXECUTIVE INSIGHT

The Digital Supply Chain's Evolving Role in the Enterprise Agenda

By Joshua Nelson and Hanna Hamburger

EXECUTIVE SUMMARY

In 2020, supply chain organizations are expected to add value to the enterprise, not only by reducing costs, but also by supporting enterprise-wide objectives such as growth strategies, customer-centricity and digital transformation. As digital capabilities and other supporting technologies become mainstream, the digital supply chain is assuming a much bigger role in driving enterprise-wide efforts. While cost is still king, 2020's supply-chain objectives reflect this change as the focus incorporates value-added initiatives targeting automation, analytical abilities and risk management. This change must be managed carefully. Our 2020 Key Issues Study findings confirm that the mantra of "doing more with less" is still prevalent, but the top concern of supply chain leadership is that their organizations are in fact overcommitted.
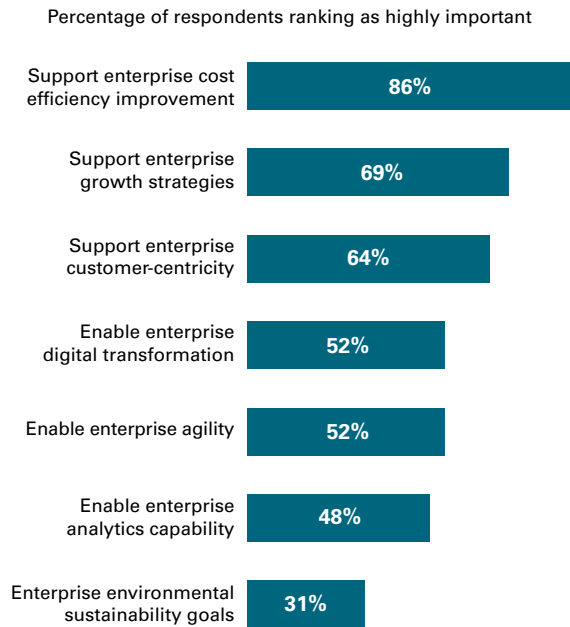
WHAT THE ENTERPRISE NEEDS FROM SUPPLY CHAIN

By a wide margin, the number-one "ask" of supply chain is supporting enterprise cost-efficiency improvement, followed by supporting enterprise growth strategies and customer-centricity (**Fig. 1**). Creating sustainable cost efficiency that supports investment in profitable growth has become a primary strategy for companies seeking to gain a competitive advantage.

The challenge is to avoid the boomerang effect, i.e., when companies see their cost-reduction efforts pay off in the short term, only to have costs creep back up after a few years. The key is using the right approach for attaining sustainable savings. Traditional approaches to performance improvement can miss linkages between the business and operating models, resulting in mismatched structures or unsustainable savings. In contrast, our approach, termed sustainable enterprise cost optimization (SECO) allows cost reduction efforts to be viewed as part of an verarching business transformation, including reinvestment in core capabilities supporting the business strategy.

FIG. 1 Importance ranking of enterprise goals that supply chain must support in 2020

Percentage of respondents ranking as highly important

Goal	%
Support enterprise cost efficiency improvement	86%
Support enterprise growth strategies	69%
Support enterprise customer-centricity	64%
Enable enterprise digital transformation	52%
Enable enterprise agility	52%
Enable enterprise analytics capability	48%
Enterprise environmental sustainability goals	31%

Source: Key Issues Study, The Hackett Group, 2020

FIG. 2 Supply chain key issues in 2020

1 IMPROVE SUPPLY CHAIN COST EFFICIENCY
Improving cost efficiency is the number-one objective for supply chain organizations in 2020, ranked as a high priority by 79% of them.

2 IMPROVE SUPPLY CHAIN BUSINESS PROCESSES
Improving the effectiveness and efficiency of supply chain business processes by leveraging automation is critical for companies to drive value and optimize cost.

3 IMPROVE SUPPLY CHAIN AGILITY
Improving strategic and operational agility has become an imperative for supply chain organizations to thrive and be competitive in the digital era.

4 IMPROVE SUPPLY CHAIN ANALYTICAL CAPABILITY
Cracking the code on how to translate big data into insights and smarter decisions requires supply chain organizations to invest and grow their analytical capabilities through technology and people development.

5 SECURE SUPPLY CHAIN DATA AND SYSTEMS
Managing risks to supply chain cyber/information security is critical for companies to protect both internal and externally shared information.

TOP FIVE SUPPLY CHAIN ISSUES IN 2020

Consistent with the broader enterprise cost focus, improvement of supply chain cost efficiency is the highest-ranked objective for 2020, according to respondents to our Key Issues Study (**Fig. 2**). The renewed emphasis on cost highlights changes not only shifts in supply chain thinking but also of leadership's economic outlook.

Other priorities cited also support cost efficiency: improvements to supply chain business processes, agility, analytic capabilities and secure data/systems, all of which support the digital supply chain.

In light of unanticipated situations like Covid-19, improving supply chain agility has become top of mind and should be thought of in terms of both structural and operational agility. To be structurally agile, organizations need to identify where supply chain volatility will impact medium- to long-term plans. Based on the anticipated level of volatility, the organization may decide to build (or outsource to third parties) flexible supply chain assets or extra capacity.

As a result, it is able to scale production based on market demands or adjust production usage as trends emerge or wane.

On the other hand, to be operationally agile, it needs to rapidly make decisions to adjust the utilization of supply chain assets to meet actual and unexpected demand changes. These decisions often manifest themselves in modifications to production and order lead times, manufacturing cycle times or manufacturing lot sizes. This capability helps supply chain teams react to sudden changes in short-term demand and supply.

Beyond the top five issues identified in **Fig. 2**, other topics considered important by study respondents include aligning skills and talent with changing business needs (6th place); improving supply chain performance measurement capabilities (7); acting as strategic advisor to the business (8); modernizing supply chain application platforms (9); and optimizing deployment of supply chain resources across the organization (e.g., BU, corporate, GBS, COEs) (10).

FIG. 3   Supply chain objectives: Priority vs. capability

	Well-supported		Improvement opportunity		Critical development area	
Enterprise objectives	Enterprise environmental sustainability goals		Support enterprise growth strategies	Enable enterprise agility	Enable enterprise digital transformation	Enable enterprise analytics capability
					Support enterprise cost efficiency improvement	Support enterprise customer-centricity
Supply chain objectives	Act as a strategic advisor to the business	Optimize organizational deployment	Improve supply chain cost efficiency	Secure supply chain data and systems	Improve supply chain business processes	Improve supply chain analytical capability
	Modernize supply chain application platform(s)		Improve supply chain agility	Align skills and talent with business needs		
			Improve supply chain performance measurement capability			

Note: Colors in Fig. 3 are determined based on the relative size of gap between each objective's priority level (importance ranking) and supply chain's current capability to support or achieve the objective. The smallest gaps are in the green section; the largest are in the red section.

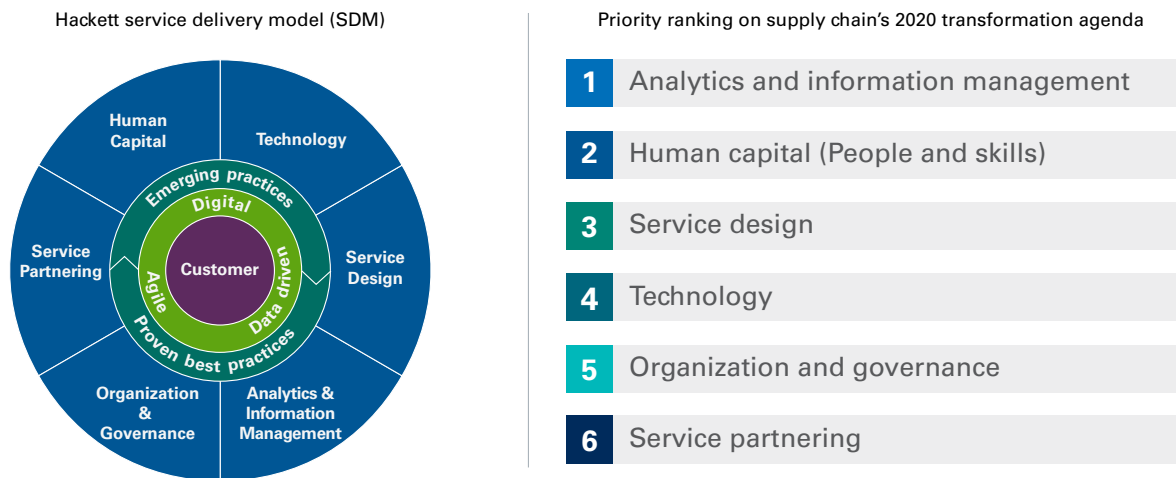Source: Key Issues Study, The Hackett Group, 2020

ADDRESSING CRITICAL GAPS IN 2020

In order to address key issues, it is important to first understand how well these are already supported by the organization. Based on survey responses, there are six areas with gaps that need to be reduced or eliminated for supply chain to meet its 2020 objectives (Fig. 3). Most notably, analytics capabilities were identified as both an enterprise and a supply chain gap, indicating the need is both broad and deep (see Figs. 5 and 6 for additional insights).

LEVERAGING SUPPLY CHAIN'S SERVICE DELIVERY MODEL FOR EFFECTIVE CHANGE

Making lasting changes to the supply chain organization requires a comprehensive evaluation of each component of its service delivery model (SDM). Supply chain respondents to the Key Issues Study consider analytics and information management to be the most important SDM element to enable success, followed by human capital and service design (Fig. 4). While technology and organization and governance

FIG. 4   Transformation priorities across service delivery model

Hackett service delivery model (SDM)

Priority ranking on supply chain's 2020 transformation agenda

1 Analytics and information management

2 Human capital (People and skills)

3 Service design

4 Technology

5 Organization and governance

6 Service partnering

rank lower, they remain critical to implementing any organizational changes. Service partnering, while it should not be overlooked, is not likely to see any significant changes in the near future.
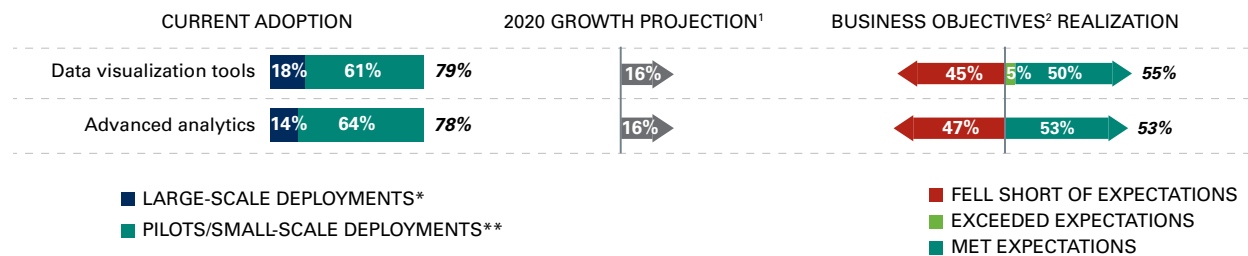
1. Analytics and information management

Study respondents rate analytics and information management as the most important SDM component on their transformation agenda, supporting continued evolution of the digital supply chain. Technologies like data visualization tools and advanced analytics

have reached high levels of adoption and are now considered mainstream (**Fig. 5**). Double-digit growth of these technologies is expected in 2020. Yet, at least 45% of respondents indicate that previous efforts in this area did not meet expectations.

Advanced analytics are being used across the supply chain in a variety of ways (**Fig. 6**). While there are many opportunities for increased adoption, analyzing customer or channel cost to serve stands out due to its very low use in relation to its importance.

FIG. 5   Analytics and information management technology adoption in 2020: Growth and objectives realization

	CURRENT ADOPTION	2020 GROWTH PROJECTION[1]	BUSINESS OBJECTIVES[2] REALIZATION
Data visualization tools	18% 61% 79%	16%	45% 5% 50% 55%
Advanced analytics	14% 64% 78%	16%	47% 53% 53%

■ LARGE-SCALE DEPLOYMENTS*
■ PILOTS/SMALL-SCALE DEPLOYMENTS**

■ FELL SHORT OF EXPECTATIONS
■ EXCEEDED EXPECTATIONS
■ MET EXPECTATIONS

* The technology is used on a limited scale in isolated use cases.   ** The technology is used at scale in applicable use cases.   [1] Year-on-year percentage change in applicable adoption metric for each technology.
E.g., ROI, payback, cycle time improvement, quality of service improvement, customer experience improvement

Source: Key Issues Study, The Hackett Group, 2020

FIG. 6   Adoption of supply chain analytics: Current and projected uses
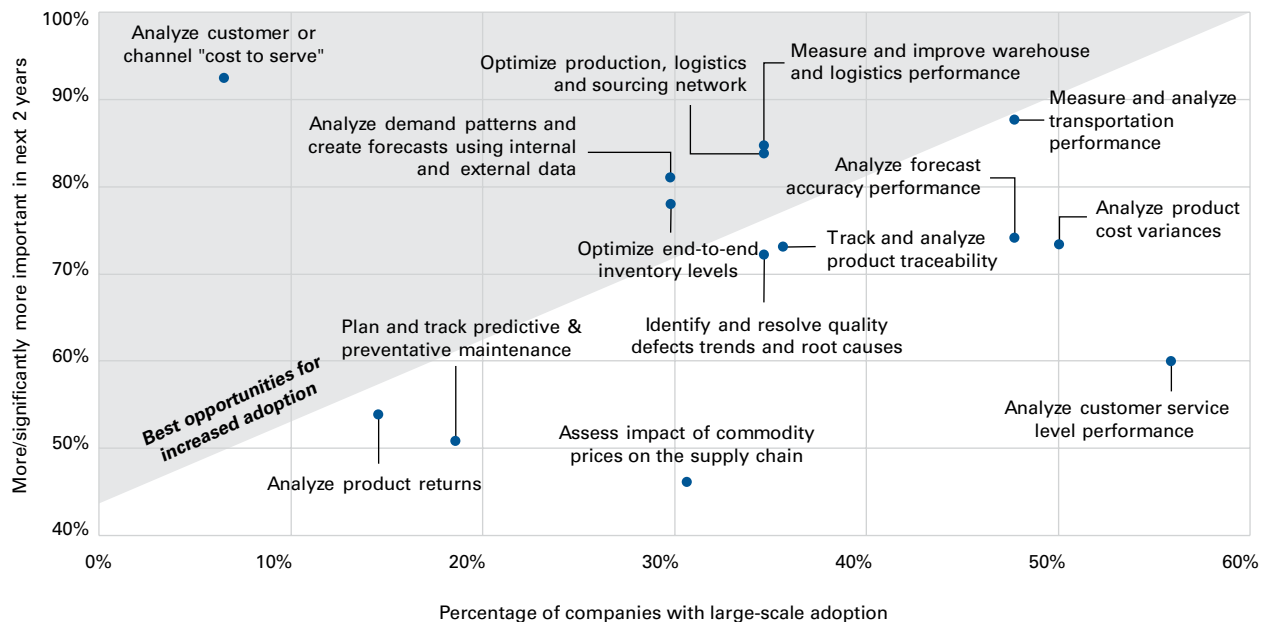
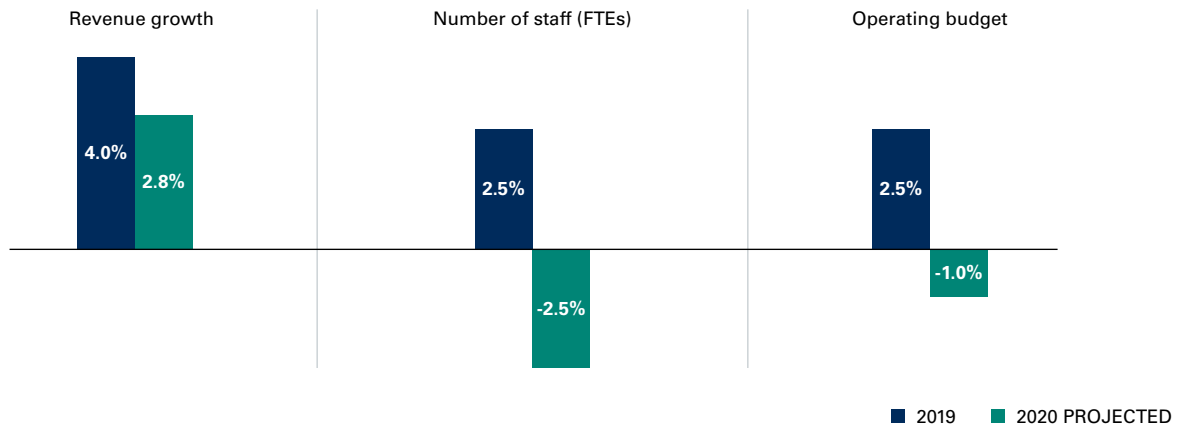Source: Key Issues Study, The Hackett Group, 2020

2. Human capital

Human capital is ranked as the second-highest priority to support the 2020 transformation agenda, but staffing and operating budgets are expected to decline this year (**Fig. 7**). In this scenario, supply chain teams have no choice but to deliver higher output with less staff. To do that, companies have focus on productivity opportunities through process efficiencies and increased automation.
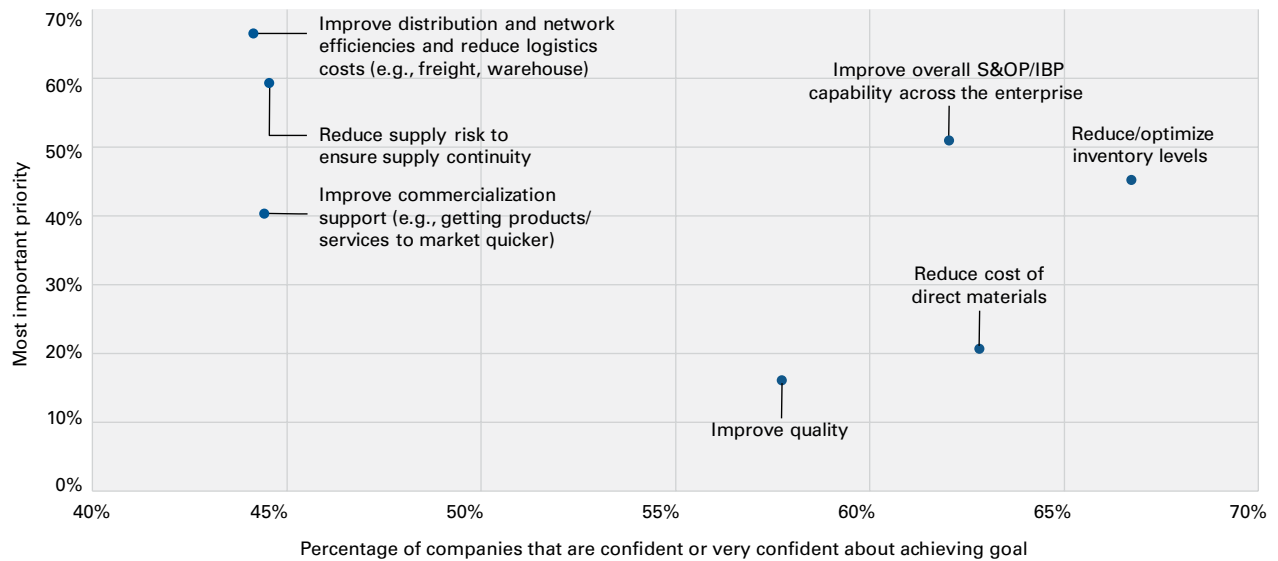
3. Service design

Service design addresses how processes meet customer needs and enterprise goals. According to study participants, improving distribution/logistics costs and S&OP capabilities, along with reducing supply chain risks, top of the priority list this year (**Fig. 8**). Network optimization, agility, process improvement and process automation will be essential to achieving these priorities.

FIG. 7   Supply chain staffing and operating budget

Revenue growth	Number of staff (FTEs)	Operating budget
4.0% / 2.8%	2.5% / -2.5%	2.5% / -1.0%

■ 2019   ■ 2020 PROJECTED

Source: Key Issues Study, The Hackett Group, 2020

FIG. 8   Supply chain's most important functional priorities for 2020

Improve distribution and network efficiencies and reduce logistics costs (e.g., freight, warehouse)

Reduce supply risk to ensure supply continuity

Improve commercialization support (e.g., getting products/ services to market quicker)

Improve overall S&OP/IBP capability across the enterprise

Reduce/optimize inventory levels

Reduce cost of direct materials

Improve quality

Most important priority

Percentage of companies that are confident or very confident about achieving goal

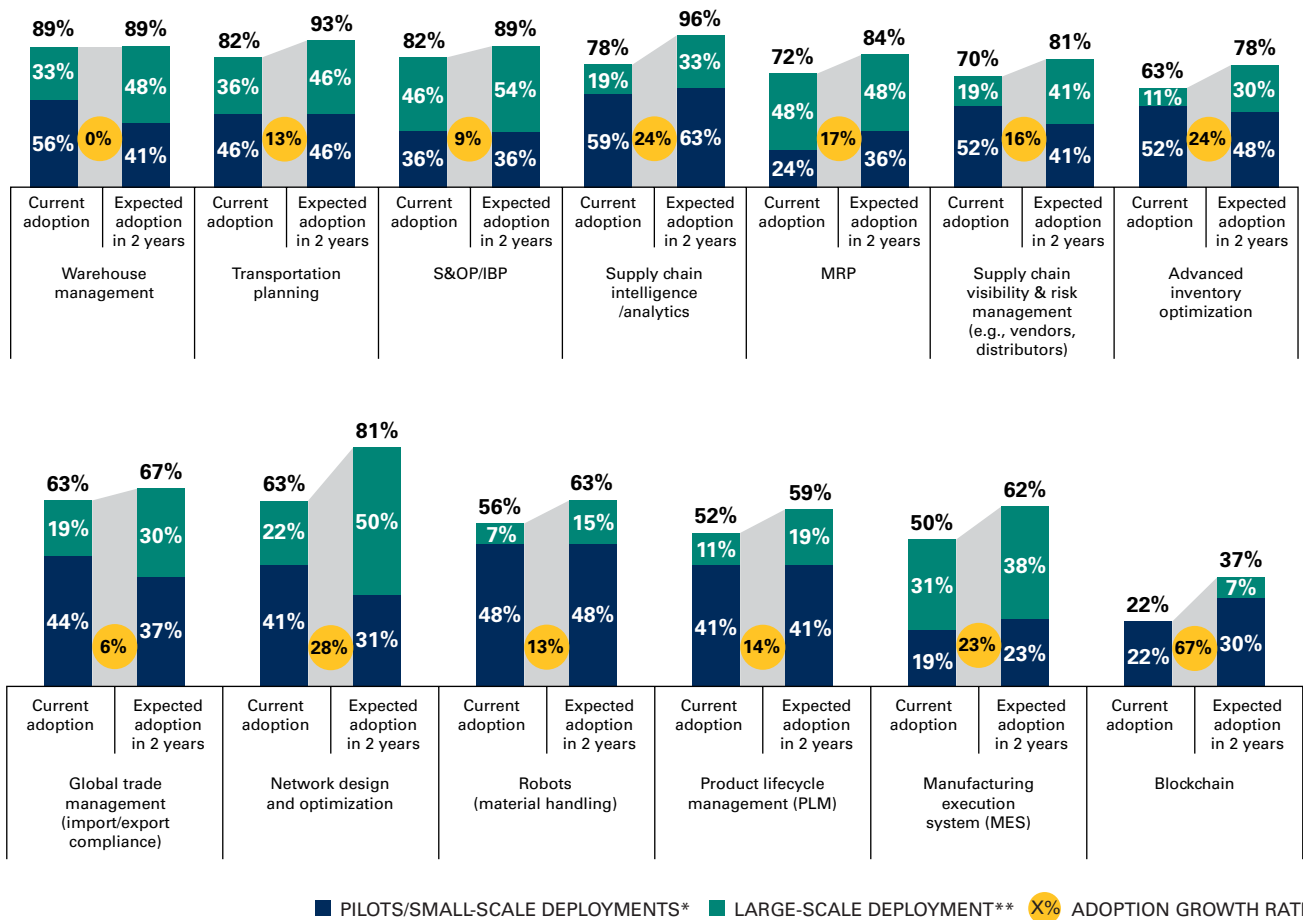Source: Key Issues Study, The Hackett Group, 2020

4. Technology

As the digital supply chain gains in importance technology will become even more essential to process improvement. Supply chain intelligence analytics tools will achieve the greatest gains in adoption over the next two years (**Fig. 9**).

Transportation planning, S&OP/IBP, MRP, supply chain visibility and risk management, and network design

and optimization follow analytics in highest overall adoption, which is consistent with supply chain functional priorities for 2020. Key success factors in meeting business objectives for these technology initiatives are to have a comprehensive digital transformation plan, change management strategy and appropriate skill sets.

FIG. 9   Adoption of supply chain technologies: Current and projected

■ PILOTS/SMALL-SCALE DEPLOYMENTS*   ■ LARGE-SCALE DEPLOYMENT**   X% ADOPTION GROWTH RATE

*The technology is used on a limited scale in isolated supply chain use cases
**The technology is used at scale in applicable supply chain use cases

Source: Key Issues Study, The Hackett Group, 2020

5. Organization and governance

A rise in overall supply chain workload is expected this year. To meet enterprise and supply chain goals, there will also be a shift in responsibilities as more work is offloaded to other parts of the organization. While some activities will migrate to global business service organizations, the biggest workload changes are expected to occur within at corporate and in individual business units (Fig. 10).

FIG. 10 Projected change in workload across different organization groups

- Global business services (GBS) organization — 1.6%
- Corporate supply chain — 4.1%
- Business unit — 4.0%
- Center of excellence — 2.9%
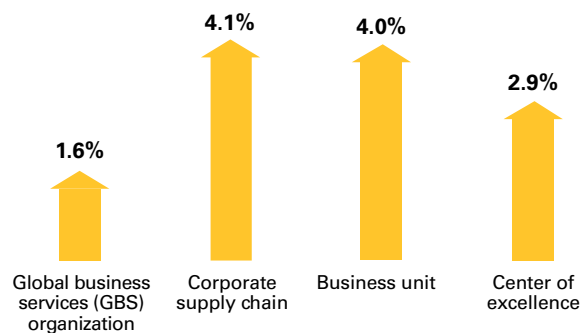
Source: Key Issues Study, The Hackett Group, 2020

6. Service partnering

Service partnering addresses how organizations work with their partners to support their organizational agenda. In supply chain, the greatest change this year will be seen in the amount of work being outsourced, with a concomitant reduction in internal staffing (Fig. 11). Self-service is also expected to rise as more capabilities come online to support such an operating model. To no surprise, these measures are consistent with efforts to reduce costs.

FIG. 11 Projected workload change across different service partnering models 2020

- Outsourced — 2.8%
- In-sourced** — -0.6%
- Offshored (captive only, excl. outsourced) — 0.6%
- Self-service — 1.3%
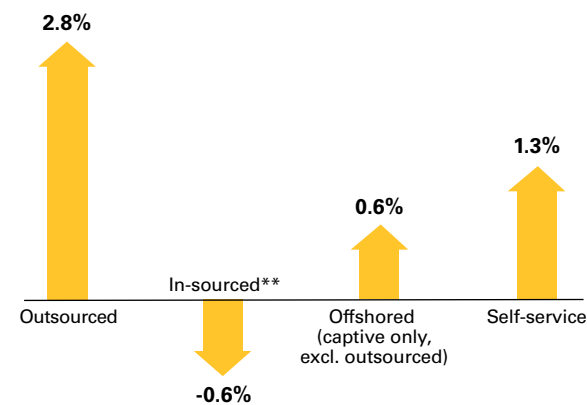
Source: Key Issues Study, The Hackett Group, 2020

HURDLES TO TRANSFORMATION

A large-scale transformation is difficult for any organization. Barriers to success come in many forms, but in particular, supply chain respondents believe that overcommitment is the top hurdle in supply chain, followed by cultural resistance to change (Fig. 12).

The risk of overcommitment requires supply chain leaders to prioritize projects. Focusing on and adequately funding a small number of must-have initiatives will deliver better results than a long list of projects that would simply be "nice to have." To remedy resistance to change, developing a comprehensive change management and communication plan early in the transformation is critical. Change-management and communication plans help stakeholders understand the importance of the project and their own role in its success.

FIG. 12 Hurdles to transformation progress in 2020, ranked

1 Overcommitment

2 Organizational resistance to change

3 Inadequate funding and resource allocation

4 Data-related issues

5 Skills deficiencies and/or capacity constraints of the IT organization

6 Technology and process complexity

7 Supply chain staff lack of or deficiency of critical skills

8 Lack of commitment from enterprise executives

9 Organizational complexity

Source: Key Issues Study, The Hackett Group, 2020

STRATEGIC IMPLICATIONS

In order for supply chain to keep up with increasing business demands, it must quickly expand its value proposition. Providing cost efficiencies is no longer considered an achievement for supply chain; instead, it is table stakes, while supporting growth, customer-centricity, enterprise digital transformation and agility are now viewed by executive management as the most essential objectives.

To understand what steps to take next in their value-delivery evolution, supply chain leaders should look to enterprise business objectives and expectations to determine where to focus. Digital transformation, analytics capabilities, customer-centricity, business processes and cost efficiency improvements are five areas where most supply chain organizations currently fall short. Supply chain must develop a strategic, prioritized approach designed to address each of these areas, and in turn, deliver new value streams to the business.

About the Advisors

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Hanna is a director in the Strategy & Business Transformation practice at The Hackett Group and is based in Chicago. Hanna has over 25 years of industry and consulting experience. She has worked extensively leading sales, marketing, customer service and supply chain transformation programs across a variety of industries, including consumer packaged goods, health and beauty, footwear and apparel, pharmaceuticals, HVAC equipment, medical devices and retail.

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