Supply Chain Strategy and Financial Metrics

The Supply Chain Triangle of service, cost and cash

Bram DeSmet



CONTENTS

List of figures xi List of tables xix About the author xxi Foreword – Frank Vorrath, Johnson Controls xxiii Foreword – Johan Heyman, Barco xxv Preface xvii Acknowledgements xxix

Introduction 1

O1 The Supply Chain Triangle of service, cost and cash 9

What is supply chain management? 9
The Supply Chain Triangle 12
Companies struggle with balance in the triangle 16
Traditional organizations cause tension in the triangle 18
Increased tension in the triangle as growth stalls 20
Expanding the triangle from cash to capital employed 22
Aligning the triangle is about optimizing ROCE 25
Accounting basics: inventory, working capital, and cash generation 27
Conclusion 41

02 Strategy in the Supply Chain Triangle 43

Treacy and Wiersema's three strategic options 43 Mapping Treacy and Wiersema to the Supply Chain Triangle 48 Linking the three strategies back to ROCE 54

Case study: Barco 55 Case study: Casio 60

Strategies: to change or not to change? 63 *Case study*: Food retail companies 64

Conclusion 71

References 41

Case study: Owens Corning 71

Notes 74 References 74

03 Financial benchmarking in two dimensions 77

Benchmarking in two dimensions 78

Which KPIs to include in a benchmark 81

Conclusion 92

Reference 93

O4 Financial target setting in two dimensions 95

Adding 'indifference' or 'bang-for-the-buck' lines to the EBIT/ inventory graph 96

Conclusion 111

The impact of strategy on financial benchmarking and target setting 113

Mapping Treacy and Wiersema to the EBIT% vs inventory turns graphs 114

Mapping Treacy and Wiersema to the EBIT% vs CCC graphs 124

Mapping Treacy and Wiersema to the EBIT% vs fixed asset turns graph 128

Conclusion 135

Case study: Henkel 136

Case study: Bekaert 140

References 145

06 Redefining the service corner as a value corner 147

Redefining the service corner as a value corner using Treacy and Wiersema 148

Redefining the service corner as a value corner using Crawford and Mathews 150

Defining metrics for each of our value drivers 161

Conclusion 166

References 172

O7 Building a strategy-driven KPI dashboard 173

Defining financial metrics for the cost side and the capital employed side of the triangle 173

Building our strategy-driven KPI dashboard 177

Understanding the impact of strategy on the dashboard 190

Comparison with the SCOR model 197

Conclusion 207

Case study: Johnson Controls 208

References 212

08 Implementing the strategy-driven supply chain 213

Strategy and supply chain in the 1990s 214
A shift in thinking: from agile to strategy-driven supply chains 218
Defining your strategy-driven supply chain 228
Implementing your strategy-driven supply chain 242
Conclusion 243
Case study: The Strategy Compass 244

References 248

Index 249