



**SupplyVelocity®**

# Supply Chain Strategic Planning

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### The Strategic Planning Process

Creating a supply chain strategy is very similar to strategic planning. The difference is we start with an “operational” mindset and finish with a supply chain framework.

### Case Study Company

Our case study company is a successful and profitable broker, working with providers (suppliers) to provide a specialty transportation service. They did not view themselves as a supply chain company but when the new Chief Operating Officer (COO) came on board, he saw them as an integral part of a larger supply chain. He identified the need to align the company’s operations/logistics functions to the larger supply chain, which includes their suppliers and customers.

### Just What is Strategy?

I saw a quote from a technology CEO that helps me think about strategy:

“I may be wrong, but I won’t be confused.”

Strategy is a plan based on facts, qualitative and quantitative data. But it should not pretend to always be correct. Steve Jobs once said, you never connect the dots going forward, you can only do that when looking backwards. Strategy tries to look forward but more than anything seeks to align the organization to a plan. When the COO joined, he saw a lot of energy and passion, but also confusion and lack of alignment.

### Problem Statement

As operations / supply chain people we are always thinking about solving problems. That is how we are built. To start the process, therefore, we asked the team to define the problem, in as few words as possible, to create clarity and focus.

*COMPANY-X doesn’t consistently partner with transportation providers in ways that meet the needs of our network or goals. We have a reactive culture with conflicting and out of balance objectives.*

### Key Performance Measures

We then asked the team to give us three performance measures that will improve if the strategy works. This quantification is often left out of strategic plans, or comes at the end, but we wanted it understood upfront.

- Successful Customer Trips = trips with no defects / total trips
- Profitability = gross margin / revenue
- Logistics employee productivity = # of trips / direct labor hours worked



Interestingly, the idea of measuring “defects” was foreign to the organization because they considered themselves a service provider. In addition, because of the service provider mindset, no one tried to measure labor productivity.

Headline and Obituary

We use the headline and obituary exercise to get the team thinking about the future; their greatest potential and biggest risks. For the headline; we asked the team to write the headline and byline of when they are written up in the Wall Street Journal for revolutionizing their industry.

**Transportation with purpose! Costs at an all-time low!**

Company-X revolutionizes access through innovation and partnership in transportation

After the excitement from the headline exercise, we shift to the obituary. If you want a difficult conversation, ask a team to write their company’s obituary... when they close the doors. It was emotional but galvanized the team to make sure it never happens.

**Unable to adapt or innovate Company-X falls victim to industry transformation**

Company-X leaves their last customer stranded with a legacy network after years of stagnation and lack of focus. Unable to deliver on their promises they fell far behind the market and failed partners, members, clients, and suppliers.

Note that the obituary is longer. To quote the COO, after we created the headline and obituary, “there are relatively few ways to succeed, but lots of ways to die.”

Strengths, Weaknesses, Opportunities, Threats (SWOT)

Perhaps the most well-known strategic planning tool is the SWOT matrix. Strengths and weaknesses are internal; opportunities and threats are external. Strengths and opportunities should be exploited; weaknesses and threats should be mitigated. The SWOT helped the team build facts and knowledge about the company and its market. Below is an abbreviated version of the SWOT.

Strengths

Purpose	Winning Attitude	Experience
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Weaknesses

Reactive	Poor Collaboration	Few Partnerships
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Opportunities

External Facing technology	Mentorships for Suppliers	Network research
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Threats

Competitors	Broken Relationships	Regulation and Legislation
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### Porter's 5 Competitive Forces

Another popular strategic planning tool is Porter's 5 Forces. Michael Porter, a professor at Harvard University, wrote the book on competitive strategy and made people think about competition more broadly. Below is a summary:

#### Competition

- Have made customers and suppliers believe they have simplified processes
- One competitor has a strong technology platform
- No competitor has good supplier relationships
- Some competitors have had ownership changes, causing internal disruption

#### Suppliers

- Also work for competitors
- Influence compliance, profitability
- Influence end-customers' decisions of who to award contracts

#### New Entrant Threat

- Potential entrants (Uber) have scalable technology and have demonstrated an ability to influence legislation
- But they lack regulatory compliance experience in this industry
- And lack industry experience (this is a niche of the transportation business)

#### Customers

- Control contracts
- Decide on transportation mode required, influencing supplier selection

#### Substitutes

- Details withheld due to confidentiality

### The Supply Chain Framework and Pillars

The supply chain framework comes from the Supply Chain Operations Reference (SCOR) model. This provides a simple basis for creating supply chain processes:

- Plan – Processes that balance demand and supply to develop a course of action that best meets requirements
- Source – Processes that procure goods or services, and manage suppliers, to meet planned or actual demand
- Make – Processes that transform inputs to a finished good or service to meet planned or actual demand
- Store – Processes that manage inventory for use in manufacturing or to support downstream demand
- Deliver – Processes that provide finished goods and services to customers



- Return – Processes associated with returning, or receiving returned products, for any reason

Our Supply Chain Strategic Planning process is designed to gather facts and data and then build on the supply chain framework and pillars. The team considered each six supply chain pillars to create supply chain pillars specific to their business. **Plan** became “Develop solutions that just work” and “Build a culture that leverages data”, **Source** became “Build strategic partnerships”, **Store** became “Build a complete and flexible transportation network”, **Deliver** and **Return** became “Deliver a high quality experience.”

Supply Chain Strategy Map – Level 0 and 1

A useful way to create a plan is to think hierarchically. Strategy supports the mission, so documenting the mission statement is the first step... if it doesn't already exist.

This company's supply chain mission (also called Level 0 Purpose) is:

To Drive Value While Connecting Members

The way to achieve the mission is documented in the Level 1 Purposes, which are the pillars of the supply chain strategy. The Level 1 Pillars enable the mission.

Level 0: To Drive Value While Connecting Members				
Develop solutions that just work	Build strategic partnerships	Build a culture that leverages data	Build a complete & flexible transportation network	Deliver a high quality experience

Supply Chain Strategy Map – Level 2 and 3

With the pillars defined, the team created detailed processes to enable the strategy. We continue to use the Strategy Map to hierarchically create these process definitions. An example of our deep dive on “building strategic partnerships” is shown below.

Level 1 and 2:

Level 1: Build Strategic Partnerships					
Define a strategic partner	Categorize stakeholders	Understand partner needs	Create win-win solutions	Build a partnership program	Market and communicate partnership program



Level 2 and 3:

Level 2: Define a Strategic Partner

Define and scale the attributes of a partner	Research strategic partnerships	Measure suppliers against attributes	Define partnership tiers (partner, supplier, vendor)
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What to Work on First – Gap Analysis

The last step before implementation is to decide what to work on first. We used a gap analysis to help understand where the biggest need is, when implementing the strategy.

The gap analysis requires prioritizing the pillars from most to least important. Even though there are only 5 pillars, there is still a most and least important. Each team member votes anonymously, and re-voting occurs until there is a consensus. Then we decide for each pillar how the company is doing: Very Strong, Satisfied, Needs Improvement, or Lacking.

This is put in a grid (shown below). The areas worked on first are those that have the largest gap. For this company it was “developing solutions that just work” and “building strategic partnerships.”

Strategic Supply Chain Pillar	Rank	1	2	3	4
Develop Solutions that Just Work	1	x, x, x, x, x, x, x, x	x		x, x
Build Strategic Partnerships	1	x, x, x, x, x, x, x	x, x	x	x
Build a Complete and Flexible Transportation Network	2	x, x, x, x	x, x	x, x, x, x	x
Deliver a High Quality Experience	3	x, x	x, x, x	x, x	x, x, x, x
Build a Culture that Leverages Data	4	x	x, x, x	x, x, x, x	x, x, x

Implementing the Supply Chain Strategy

The next step is the most important, and honestly, the least exciting. The organization must build processes and realign initiatives around the first two focal pillars. The work of building out these processes took six months.