

Redesigning The Supply Chain Organization for Omnichannels: Why Is This So Challenging?

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INTRODUCTION

As Supply Chain Management (SCM) continues to expand in its understanding, its impacts on stakeholder value, and its role in the business and operational strategies of each company, the question of the most effective organizational design has risen to the executive suite along with the awareness of its growing influence. Surveys and benchmarks continue to reflect the dissatisfactions created by weak or inappropriate SCM organizational models. One thing is clear, the search for the “perfect model” is illusive. Just as no two companies are the same regardless of their similarities within an industry, or even when producing or selling similar product lines, their strategies, people, processes, technologies, and cultures, are all different. Therefore, the organizational models will differ as well. What is also true as pointed out by the quote above is how a company goes about redesigning its SCM organization determines the company’s success. The primary factors (or levers) have been learned, for the most part. The challenges surrounding SCM organizations stems from the complexities inherent to SCM, as well as how it is viewed by the senior leadership of the corporation or company.

Thus, we all too often find not only inadequate SCM models, but also “starts and stops” when these are addressed. These are most often caused by market disruptions for example, the eCommerce revolution, with its new online business models that are disrupting markets and filling needs, and its related “multi-channel” requirements for serving customers. The new aspirations for getting companies to deal effectively with omnichannels are causing confusion, complexities, and mistakes. Many surveys show that 75% of the companies that should be omnichannel are struggling with the right SCM organizations to enable their strategies. Jim Tompkins, CEO, Tompkins International, has pointed out in an earlier writings what omnichannel really is remains misunderstood, and there are several questions to be asked and answered by each and every company to solve this issue.

This paper provides guidelines for SCM organizational redesigns. There are no “perfect SCM models”. We do know the factors (or levers) to be applied and the best process (the right way) for attacking the strategic question, “How should we reorganize our SCM organization to best enable its effectiveness for the success of our enterprise, and especially for enabling our omnichannel strategies?”

WHY IS eCOMMERCE AND OMNICHANNEL CHALLENGING THE TRADITIONAL SUPPLY CHAIN?

The initial task for any company is to understand what today's supply chain encompasses. This simple Mega Process Model should be used.

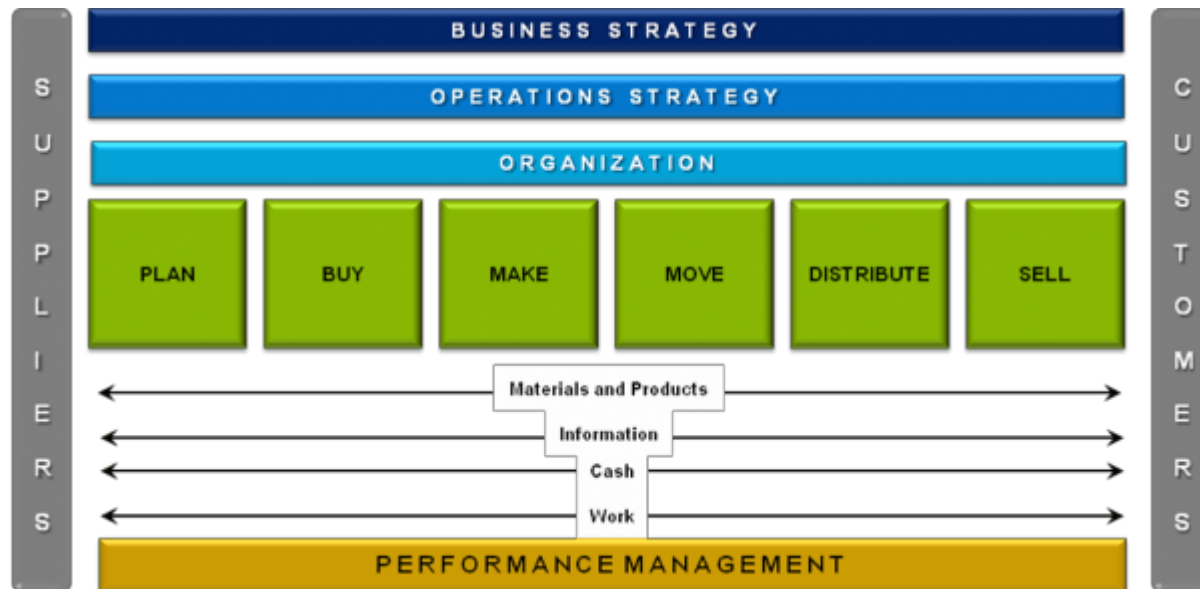


Figure 1: SCM Mega Model

The definition of SCM is the management of the full “end-to-end” processes that guide and execute the transformation of raw materials through the chain of events that lead to finished product sales. This “cash-to-cash” cycle reflects all that must happen from source (suppliers’ suppliers) to consumption (customers’ customers).

This involves many processes, many activities, and many businesses. Few companies have managed to create SCM organizations that have all the authorities to plan, manage, and control all the factors. The SCM organization should have the responsibility for the company to make sure the entire cycle functions as an enabler to the business strategy, and does it with efficiency, speed, effectiveness, and quality, while minimizing all the risks.

Over the 20-year time period for companies to learn these principles, we have seen various SCM models evolve. Over 50% of the larger corporations, for example, now have a Chief Supply Chain Officer (CSCO), if not in title, at least in role. While only a few have the full SCM authority, the movement toward this vision has continued to progress. This evolution has been rapidly disrupted, however, by the digital revolution, or better known as eCommerce, and its need for omnichannel operations. In Jim Tompkins’ thought leadership video *The Titans: Alibaba, Amazon, and Walmart: Game Changing Strategies: Time For You To Respond!* he addresses in detail what companies need to do to counter the Titans, by becoming true “Omnichannel Champions” and working on four topics (“views”): (customer,

retailer / vendor, logistics, and merchandising) and their respective essential attributes.

It should first be understood that getting to an “Omnichannel Champion” requires more than SCM organizational redesigns. Planning, merchandising, marketing, store operations, and information technology are all impacted. Organizational designs follow strategy, and without an effective SCM organization, the other needs will not be met, certainly not in the near-term, which is necessary today.

Starting with the Mega Process Model is necessary, but not sufficient. The Mega Process Model remains the same, but the variations and dynamics change significantly.

These changes create new challenges for all companies, retailers, wholesalers, consumer products, distributors, and even those that are B2B companies. The organizational model affects cost, time, and quality in many ways. Organizational redesigns to date, however, have largely been centered on alternatives such as:

- a. Positioning the dot.com business in a separate department, group, or unit
- b. Creating a dot.com team to work across the operations
- c. Creating separate eCommerce organizations for each channel
- d. Establishing an eCommerce planning position for inventory purposes
- e. Assigning the eCommerce leader to marketing or merchandising
- f. Challenging operations leaders to factor in online ordering
- g. Challenging supply chain leaders to integrate online ordering and e- fulfillment with their current functions
- h. Challenging planners to forecast online sales for S&OP or other reasons

None of these alternatives have solved the problem. At best, they have helped with obtaining “Multichannel Operations”. While some may have solved the “single view of all inventories”, “pick and ship from stores”, or even improvements in stocking policies, none of the organizational models have caused, created, or solved new omnichannel strategies, new business processes, or new talent gaps; nor have they enabled speed, cost, and quality to reach acceptable levels. Moreover, none have influenced effectively new omnichannel

strategies, new operations capabilities, or minimizing channel conflicts.

Thus, all the initiatives that create “Omnichannel Champions” are left to incremental experimentation, over-analysis, unmet gaps, or negative financial impacts and stakeholder value degradation. Even those few companies that have taken on SCM centralization, for example, have either changed their plans or become stuck in what to centralize vs. decentralize. Consequently, we see way too many companies in states of confusion about what to do organizationally for omnichannel, for SCM itself, or for needs in new processes, new systems, or new performance metrics.

While most all companies are thinking about omnichannel, and are in various stages of “trial and error” with their organizational changes to best facilitate it, the challenges and complexities are proving to be significant barriers to getting to the right solutions.

Because SCM is so critical for achieving the four views attributes, we consider this organizational requirement essential above all the others.

WHAT ARE THE SECRETS TO EFFECTIVE SUPPLY CHAIN ORGANIZATIONAL REDESIGNS?

There are no perfect supply chain organizations, especially for omnichannels. There are, however, proven guidelines and principles that should be followed for supply chain redesigns. The seven guidelines detailed below, if applied effectively, will result in a preferred model for a company.

The guidelines are the content for a redesign process that has a company’s eCommerce business strategies at its core. The operational capabilities to enable these strategies, its culture, and its change readiness, are keys. This is, in fact, the first and primary principle of organizational redesign that the model must be adapted to align with the strategies and the company culture.

This is not to suggest that the redesigned model cannot be innovative. It can, provided it is adapted to align with strategies and the culture. A supply chain organization that is “outside the box” will be too difficult to fulfill its primary mission, which is to create value for the enterprise as a whole. Thus the initial principle, or guideline, is fundamental to redesigns. Without this common understanding among senior management, following the other guidelines for the redesign will not be adequate.

1. **Understand the context:** the business and operations strategies, operational capabilities, culture, and change readiness. This is not a simple exercise, in as much as the insights from nuances are just as important as understanding the business and operations plans. Moreover, the answers are in the questions. Without penetrating questions, one gets superficial results or biased perceptions. Further, company managers today are buried in rapid events and activities, moving targets, and

changing requirements. Nonetheless, organizational redesigns only work if the context is clarified, so that the content can succeed.

Admittedly, the “context” for omnichannel is proving elusive, as companies vary in their choices of how to perform it. Retailers especially vary significantly in deciding how to set up fulfillment, whether or not to outsource, store replenishment, and the practices in general. They are mostly all motivated by revenues, market share, and customer loyalties, more than cost concerns. The organizational implication, then, is to focus highly on the customer experience, which requires more collaboration than does cost efficiency.

The emphasis on this first guideline is the fact that people and cultures matter. Strategies, processes, and priorities matter more. All too often boxes and lines are drawn and re-drawn, around specific people in the company or the cultural behaviors. These driving factors typically create SCM organizations that fit, but do not create excellence in supply chain operations, especially for omnichannel capabilities and performance.

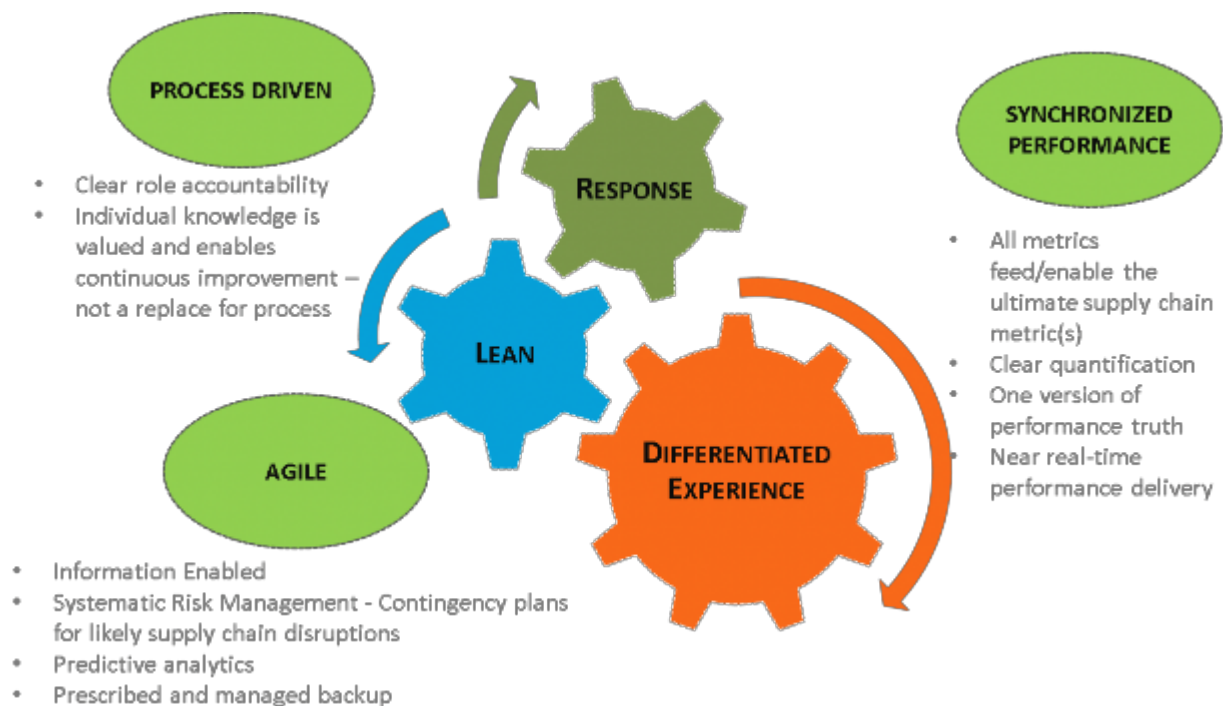


Figure 2: Characteristics of Effective SCM Organizations

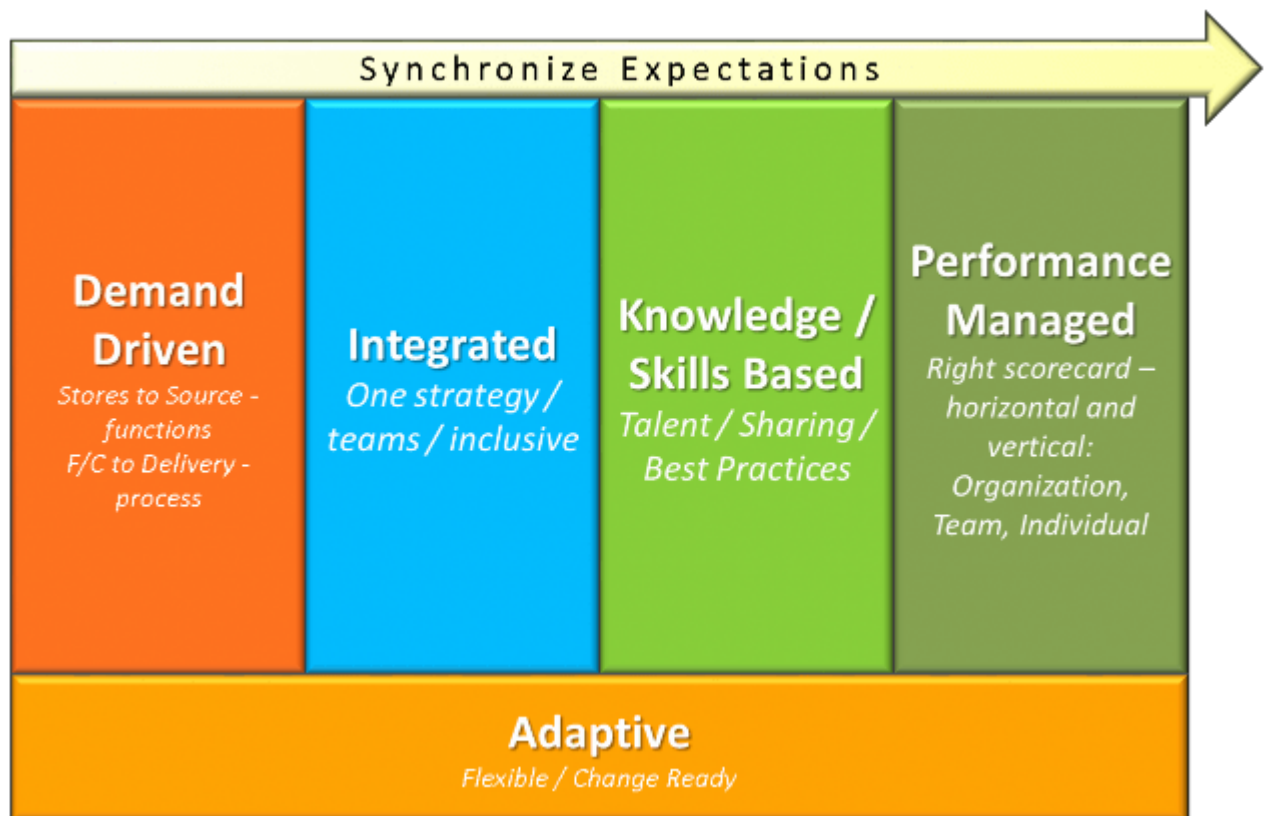


Figure 3: Critical Success Factors for Effective SCM Organizations

2. **Create the vision:** The business requirements emanating from the first guideline should frame the “end-state” for the SCM organization. In other words, what do we “see” as the “design-drivers”? Are they demand-driven? Customer- driven? Cost vs. service? Speed? Efficiency vs. effectiveness? The vision will be shaped by these drivers.

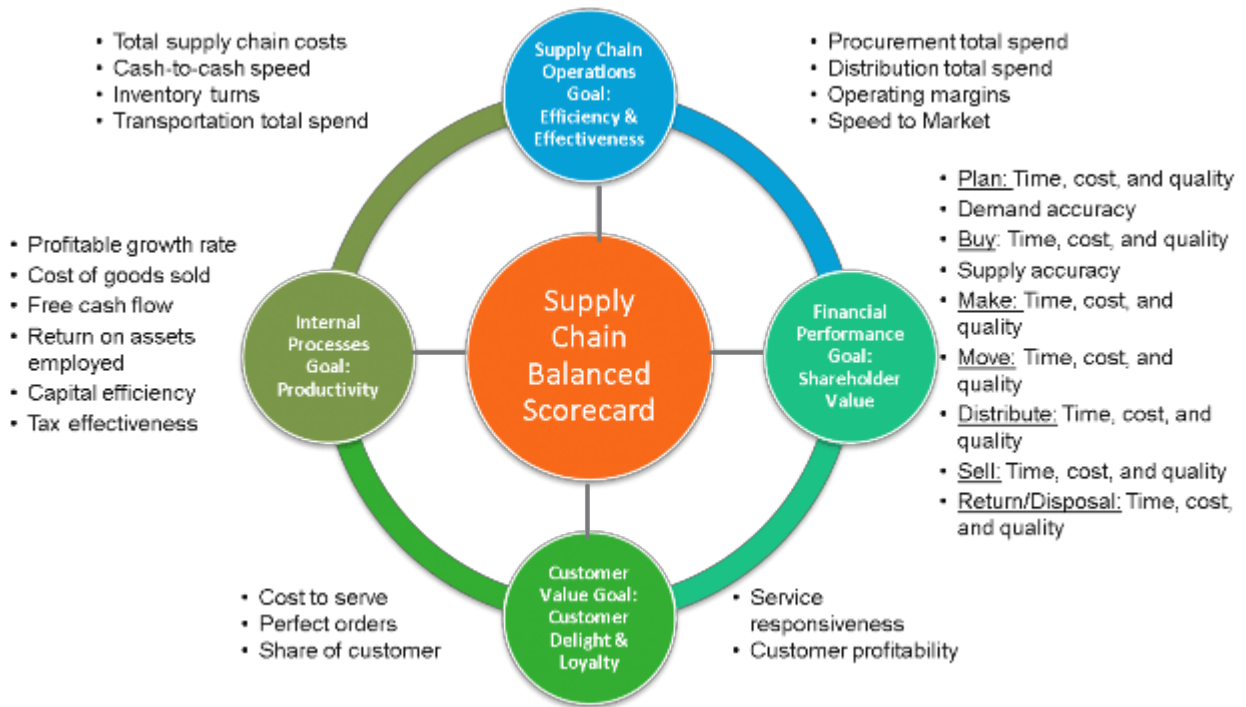


Figure 4: The Supply Chain Balanced Scorecard for the redesign. Alternatives should be formulated using these models as the foundations.

3. **Consider the redesign models:** There are four categories of organizational models: (a) Functional (b) Matrix (c) Process (d) Hybrid.

These may be defined as follows:

- Functional.** The traditional model of organizing and reporting by function. Each function is identified (for example, DC Management) and the model specifies a leader / manager, with hierarchical reporting levels under this position.
- Matrix.** While organizing is by function, reporting roles and relationships cross over functional lines. Typically leaders / managers have more than one direct report; for example, consider S&OP Management, where this manager reports to several leaders. This model has become more popular as companies have grown; however, it introduces complexities for accountabilities.
- Process.** In this model processes take on more importance than do functions — for example, “Order to Delivery”, or “Source to Sell”. This model is somewhat innovative and has become more prevalent as an option with major ERP implementations. It can be complex with roles and responsibilities; however, if designed and executed effectively, it can yield strong

benefits.

- d. Hybrid. This design model is based upon components within two or more of the above. It is found in more mature organizations and often is evaluated when considering issues such as “centralization vs. decentralization”; for example, when planning functions are separated from execution.

The value of understanding and considering these models is in designing alternatives. Simply drawing “boxes and lines” can be avoided, and greatly enhanced when that task does become necessary. By evaluating these models for their applicability during the alternative design processes, more clarity is introduced on the levers.

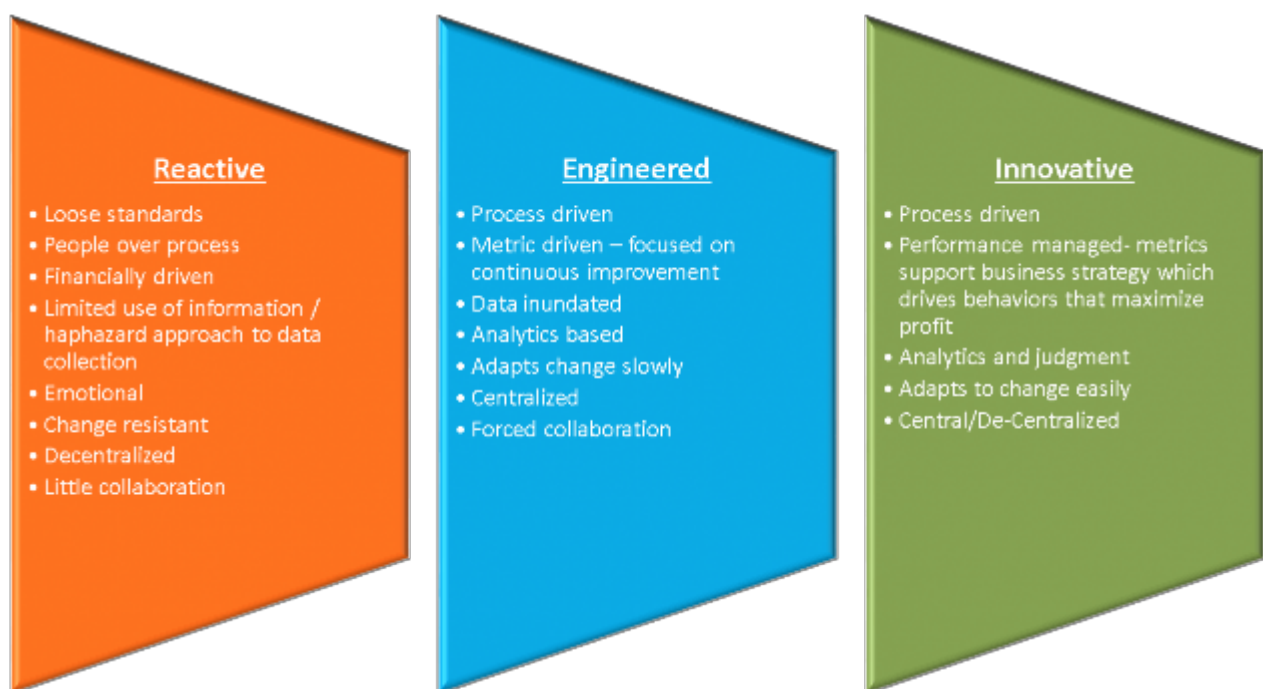


Figure 5: Characteristics of Organizational Culture

4. **Identify the alternatives:** These four models provide the framework for the redesign.

- **Organization follows strategy**
 - Maintain uniformity and clarity
 - Responsibility and authority should not be separated
- **Best practices tell what and why – how we deploy those practices within our own environment determines our success**
 - Adapt the principles to serve us not vice versa
- **Culture, the way in which we work plays a key role in organization design**
 - Play to our strengths
- **Organization must be – as much as possible – independent of personalities**
 - The design must be sustainable even as people change roles
- **Organizations may need to evolve as business realities and goals evolve**
 - The design represents a long-term vision yet we accept that tweaks will be required over time – organizations must adapt

Figure 6: Guiding Principles of the Organization Design

Each of the functions or processes to be considered should be evaluated for: responsibility, authority, collaboration, and roles. For example, at the highest levels, alternatives will exist for roles and responsibilities of:

- SC Planning and Optimization
- Distribution: Network and Facilities
- Transportation: International, Outbound to Stores or Customers, B2B, and B2C, with Final-Mile Deliveries
- S&OP: Demand Planning and Supply Planning and Management
- Inventory Planning and Management
- Risk Management
- Information Technologies: Planning and Execution, Distributed Order Management (DOM) and, also for the Sub-Functions below these.

Each should be identified and debated for designing feasible alternatives.

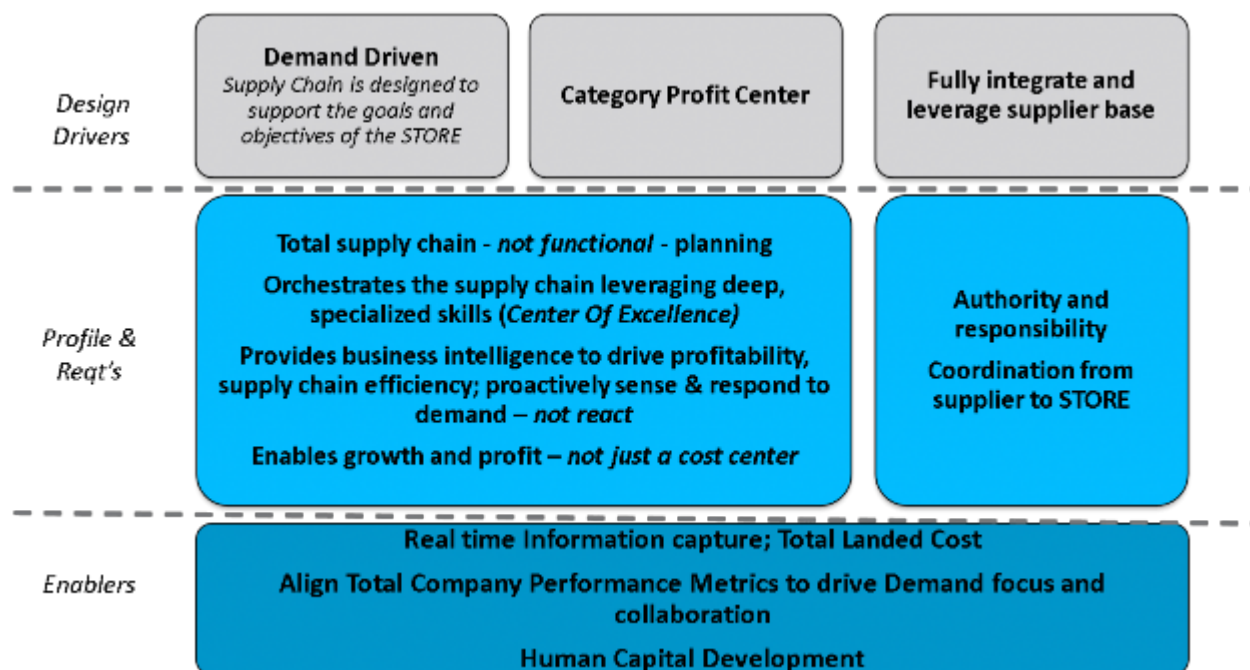


Figure 7: Key Features of the Organizational Design

5. **Conduct workshop(s):** The determination of the best preferred SCM organizational redesign is too important to be left to the SCM leaders alone or even the CEO. It must be collaborative.

The key issues to be resolved for the workshop(s) include:

- Why are workshops necessary?
- What should be the objectives and agenda?
- When should these be held?
- Who should participate?
- How should these be facilitated?

The focus on total omnichannel requires much more than a customer focus, personalization, or other commonly known factors. True omnichannel strategy and

execution involves connecting customers, retailers, vendors, wholesalers, distribution, transportation, and delivery resources. This is a major challenge, but supply chain leaders are in the best position to manage this connectivity and should do just that.

The focus on omnichannel also raises several key questions to be resolved before, during, and even subsequent to the workshops, as the design alternatives are identified and evaluated. For example:

- Should there be one overall supply chain leader for all enterprise supply chains or separate leaders for the traditional operations and for omnichannel?
- Should supply chain operations be centralized or decentralized?
- Where should supply chain planning be positioned? For global?
- For regional? For local?
- What about the supply chain processes, should they be separate or integrated organizationally?
- How should supply chain capabilities be established for tablet POS? Mobile checkouts?
- Should we outsource our eCommerce platform or other services?
- For the four views needed for omnichannel:
 - a. Customer? Consumer vs. Customer? B2C vs. B2B? Direct vs. Stores?
 - b. Retailer / Vendor? The enterprise? Cross-channel inventories?
 - c. Logistics? This is a supply chain key process, but what is the best way to connect this process?
 - d. Merchandising? More tightly connected than ever before?

Then, overall, how to organize the necessities for full connectivity?

- Last but far from least, is the question of performance metrics or dashboards. Should these be integrated or separated for traditional and omnichannel purposes?

Typically we use SWOT analyses or other techniques for considering pros and cons (such as weighted criteria) for comparative assessments of the alternative designs. The ability of several corporate managers, working collectively and collaboratively, is all too often underestimated or simply ignored.

6. **Build out the redesign:** Reaching a consensus in the workshop(s) is necessary for the overall redesign. This needs to be built out for the “go forward” SCO. Roles and responsibilities and “playbooks” are needed for the design to work.

Playbooks are an excellent method to clarify the roles and responsibilities, as well as the collaborative requirements. Just as modern supply chain managers need to “look more left and right” than “up and down”, who and why they need to collaborate with should also be spelled out. If the existing culture is highly collaborative with teams assigned for all key decision then these task can be less rigorous. With redesigns that create new structures and requirements playbooks can be a strong change management tool. The mission, performance metrics, and critical success factors are detailed for each of the key processes. This example illustrates one possible example for an S&OP process, clearly involving multiple units and functions:

Objectives	Key Role Requirements	Organization Changes
• Create and manage an evolving and improving process continuously • Educate the enterprise on the benefits of this investment of resources and time by reporting forecast improvement and impact to top and bottom line performance • Develop and deploy tools and methods to insure consistency with the process across all participants	Coordinate and execute the process leveraging enterprise planning resources: <i>Inventory Management Demand Planners; Supplier Collaboration Supply Planners; STORES - Finance Sales Forecasts/Projections;</i> <i>SC Infrastructure Capability plans jointly developed with Delivery</i> Forecast Analysts • create standard templates for presentation of forecasts • works with all forecast owners to ensure template adoption • Develops and deploys forecast methodology to ensure fact based and accurate (credible) S&OP Planners • conduct the prep meetings and iterations with each of the forecast owner groups to ensure monthly S&OP meetings are productive • Maintain and report on monthly gaps • Manage S&OP process improvement	New Roles

Figure 8: Example from a Playbook for an S&OP Process

The build out then takes on more of the form of “boxes and lines” by detailing the objectives, the role requirements, the organizational change(s), and the points of collaboration across group or department lines.

7. **Create the Roadmap:** There is no proven method for implementing the preferred redesign other than a well-conceived roadmap.

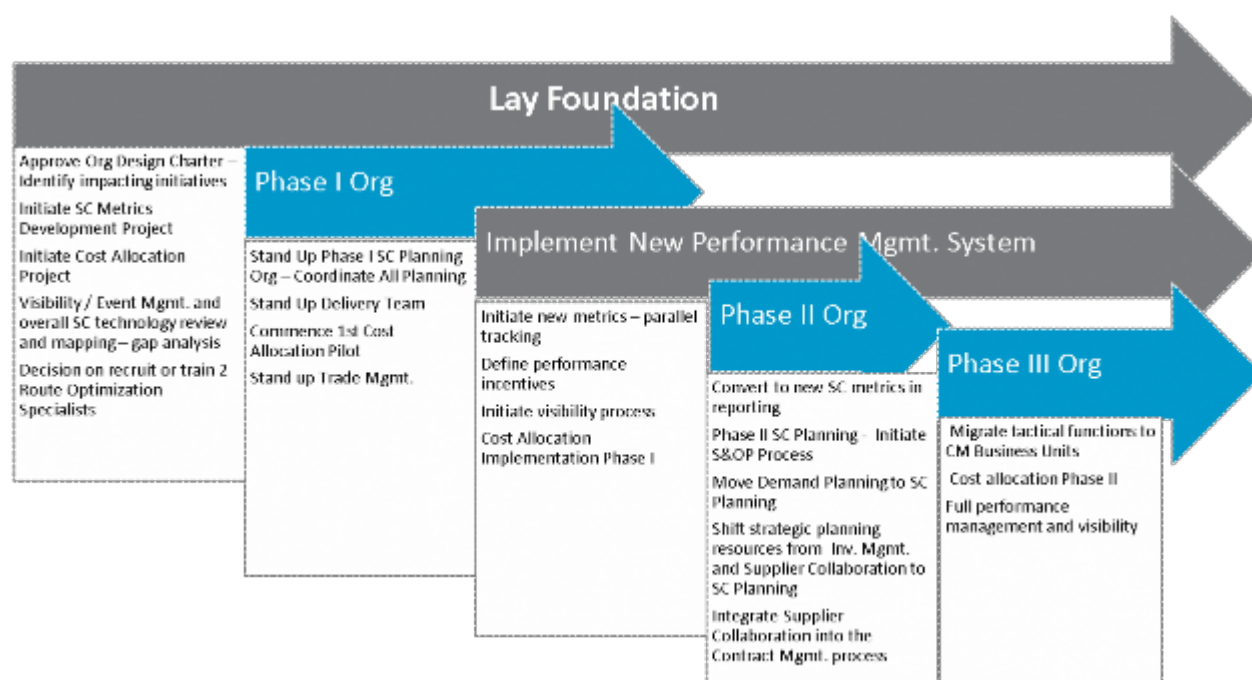


Figure 9: Roadmap for an Organizational Redesign

VIEWS ON SUPPLY CHAIN LEADER TALENT

This paper addresses how to determine the preferred supply chain organization, to include omnichannel, it needs to mention briefly our views on the talent gap, and what criteria are important for today’s supply chain leaders. The digital revolution, with its new omnichannel requirements has “changed the game” with regard to effective leaders. Many traditional supply chain managers have “grown up” solving the complexities, problems, and risks associated with the many traditional issues of supply chain excellence. The solutions for the 90’s and the initial decade of the 2000’s were mostly about global sourcing, increased lead times, higher logistics costs, and mitigating risks.

Since 2010 the digital revolution has introduced new issues, new complexities, and new challenges. The resulting turmoil in leader turnover has been largely driven by the inabilities of many to adapt to the new challenges. Staying current has never been as important as it is today and will be tomorrow, as changes occur more rapidly than ever.

We urge supply chain leaders and senior managers to become more current and to sustain continuous learning and adaptation of new ideas, new methods, and new systems. As omnichannel requirements expand and options are created the best supply chain leaders will be aware of the possibilities and what is best for their companies.

SUMMARY AND CONCLUSION

Following these guidelines for redesigning SCM organizations is imperative. To go beyond boxes and lines requires a thoughtful redesign process that creates An SCM organization that not only has responsibility for effective omnichannel operations, but also for effective supply chain operations for the rest of the business — sourcing, moving, distributing, and selling.

The best redesign process will accommodate both the needs of the enterprise and its omnichannel strategies and capabilities. There should be no conflict among these, as the right process meets the requirements of both. Where companies get into the confusion, or the trials and errors, is trying to do one or the other in isolation.

Omnichannel operations are relatively new for most companies. There are few organizational model examples, as of yet. This fact is not what causes the challenges or uncertainties. Rather, it is the failure to follow and address these seven guidelines effectively that limits the success of companies in SCM organizational redesigns. When a redesign is done correctly, factoring in all pieces of the puzzle and answering the correct questions, an organization can enable change, and in fact, produce greater profitability from all channels.



Figure 10: Completing the Puzzle for the SCM Organization

Sidebar

Omnichannel

Omnichannel strategies are transforming supply chains, along with company organizations. Operations excellence is a critical requirement for omnichannel success. There are key choices to make to assure effective execution, which are found in the video by Jim Tompkins, CEO, Tompkins International.

One of the key choices revolves around organization, how should a company organize its supply chain management to best execute its omnichannel strategies?

