The Surprising Challenge of Integrating Purchasing and Logistics

Impact of SCM

- 50-80% of total organizational costs
- Up to 80% of working capital through inventory and payables
- Significant impact on customer satisfaction through delivery service thereby significantly impacting ROA.
INTEGRATION ACROSS THE SUPPLY CHAIN

Addressed by S&OP, SIOP, IBP

SUPPLY SIDE DISCONNECTS

And sometimes there are disconnects on the supply side.
Traditional Strategic Alignment

Assumed Decision Flow

Plan Source Make Deliver
Actual Decision Flow

Desired Alignment

STRATEGIC ALIGNMENT

High-performing companies are able to bend the chain of plan, source, make, and deliver to enable alignment between purchasing and logistics.

Business Strategy

Source — Make — Deliver

Bend the Chain
The Research

- A mail survey was sent to purchasing and logistics managers from the University of Tennessee Global Supply Chain Institute and Forums mailing list, resulting in over 180 responses from managers ranging from CEO’s and Presidents to analysts.
- The respondent firms ranged in size from over $20BB to under $100MM, and came from a wide variety of industries including:
  - Aerospace/defense
  - Apparel/textile
  - Automotive
  - Building materials
  - Chemical, oil and gas
  - Commercial printing
  - Components and Systems
  - Conglomerate
  - Construction
  - Consumer electronics
  - Engineering
  - Environmental services
  - Facilities management services
  - Financial Institutions – Banking
  - Financial institutions - Insurance
  - Food, Beverage and Nutrition
  - Food service
  - Government – National & Local
  - Healthcare delivery services
  - Heavy Machinery
  - High-tech Network Infrastructure
  - Hotel/hospitality
  - Household, Personal Care and Cosmetics
  - Industrial equipment
  - Media/Entertainment
  - Medical equipment
  - Metals/Glass Processing
  - Mining
  - Office equipment
  - Packaging
  - Pharmaceuticals
  - Plastics processing
  - Professional/Information Services
  - Pulp and Paper
  - Retail
  - Telecommunications Services
  - Transportation Services
  - Utilities
  - White Goods

Making Alignment Work

- Champion an end-to-end and integrated supply chain organization
- Align purchasing, manufacturing, and logistics through common metrics to ensure singularity of objectives.
- Focus metrics on creating total value of ownership (TVO) – including perspectives on supply chain impact on revenue, cost, and assets
- Get TVO-related metrics on business leader scorecards. Change the business reward system and culture from “sub-optimal functional goals to total value creation for the enterprise.”
- Build linkages to non-supply chain functions:
  - Make R&D and supply chain best friends by creating a seamless technical community that is aligned on total business value creation
  - Work with finance leadership to align on how multi-discipline teams quantify value for quality, customer service, environmental, sustainability, delivery, cost, and inventory.
  - Develop a supply chain human resources talent development model that includes plans for and incentivizes end-to-end supply chain mastery.
  - Set clear expectations for the use of multi-discipline teams in analysis and decision-making.
### TABLE 1

<table>
<thead>
<tr>
<th>Which of the following best describes the organizational structure for purchasing and logistics?</th>
<th>Percent Responding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement and logistics are separate functions and are not part of a common supply chain organization</td>
<td>14.0%</td>
</tr>
<tr>
<td>Procurement and logistics are separate functions but are part of a common supply chain organization</td>
<td>45.5%</td>
</tr>
<tr>
<td>Procurement and logistics are part of the same function and are part of a common supply chain organization</td>
<td>12.2%</td>
</tr>
<tr>
<td>Other/not applicable</td>
<td>28.4%</td>
</tr>
</tbody>
</table>

### TABLE 7

<table>
<thead>
<tr>
<th>My Firm’s Performance in Comparison With My Competitors</th>
<th>Purchasing and Logistics Alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Firms in top 25% of PLI scores</td>
</tr>
<tr>
<td>Growth in sales</td>
<td>3.42*</td>
</tr>
<tr>
<td>Profit margin</td>
<td>3.51*</td>
</tr>
<tr>
<td>Growth in market share</td>
<td>3.39*</td>
</tr>
<tr>
<td>Return on investment (ROI)</td>
<td>3.58*</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>3.56*</td>
</tr>
</tbody>
</table>

*Means are statistically different.