

Driving improved supply chain results

Adapting to a changing
global marketplace

The COO perspective



Building a better
working world

The COO perspective – at a glance

Your time is precious. In order to get you the insights you need, as quickly as possible, we designed *The COO perspective* – a series of short executive briefing papers that provide a quick overview of the main findings of recent EY reports, with a particular emphasis on the relevance for you.

The role of the COO is hugely diverse, changing markedly from one company to another and across varying industries. Accordingly, in compiling *The COO perspective*, we've sought to highlight insights of relevance to one or more of the six fundamental components of the COO role, as illustrated by our wheel model that we believe collectively encompasses the full extent and potential of the COO role.

What is *Driving improved supply chain results: adapting to a changing global marketplace* about?

In a sentence: Supply chains are an increasingly vital source of competitive advantage across both rapid-growth and mature markets, although demands on COOs differ sharply across these.

As COOs are acutely aware, today's business environment for large, global companies is more fluid and complex than ever before. This demands that supply chains are carefully adapted for increasingly competitive market conditions, while also delivering greater value to the business – a process that many COOs are closely involved with.

In the report,¹ EY analyzes the issues businesses face as they position their supply chains to take advantage of the challenges and create new opportunities in the marketplace. To do so, EY and the Economist Intelligence Unit surveyed more than 225 supply chain and corporate executives from global companies with annual revenues exceeding US\$3b. The findings show that companies are responding to these market challenges in two key ways:

- ▶ They are adapting their supply chains to support rapid expansion and capitalize on the growing number of middle-class buyers in rapid-growth markets.
- ▶ They are further developing their existing supply chains to drive cost-efficiencies and boost margins in their mature market operations.

This *COO perspective* paper highlights some of the specific issues that matter for COOs across both sets of markets. It also outlines the growing sustainability considerations that underpin supply chain activities in all markets.

¹ *Driving improved supply chain results: adapting to a changing global market place*, EY, 2011.

Rapid-growth markets: catalyzing growth

As companies continue to expand within rapid-growth markets to uncover new revenue sources, supply chain management is increasingly viewed as a powerful catalyst for securing market share and driving growth. To capitalize on these opportunities, COOs need to support the organization's supply chain leaders across three core areas, while also acting as a proactive sparring partner and challenge them to push further.

1. Setting the right structure

To stay close to these target markets, many global companies are starting to create regional or sub-regional supply chain hubs, aimed at combining local execution with regional and global management. This approach provides several advantages of relevance to supply chain leaders, but which are often also pertinent to COOs:

- ▶ Greater control over managing responsibility for profit and loss, as well as for individual country strategies
- ▶ Improved responsiveness and expertise at the regional supply chain level
- ▶ Significant cost savings through internal shared services, such as marketing, finance and human resources support to individual markets

For any company venturing into new markets, the choice of operating model is a crucial consideration. Some may opt for a joint venture as a lower-risk strategy, while others will choose to penetrate their new territories by acquiring local companies.

Whatever they choose, COOs will need to weigh in on finding the right balance between global, regional and local priorities in such decisions.

2. Tapping new revenue sources

A deep understanding of the demographics, spending habits and preferences of the local market enables companies to create products that are designed for purpose, thereby cutting unnecessary costs. To do so, COOs need to help supply chain managers identify opportunities for co-developing products alongside suppliers, or in acquiring competitors with complementary products.

Getting this right requires an understanding of the particularities of product life cycles within rapid-growth markets, and ensuring the company is geared up to match or beat any competitors' speed to market for new technologies and product innovations. Another essential COO task is to help plot the optimal route to market, while ensuring that the supply chain team properly accounts for tough local conditions, such as the lack of a strong retail network, and rapid regulatory, tax and legislative issues.

3. Securing operational, tax and regulatory risks

When expanding into rapid-growth markets, there are a range of operational issues that COOs need to give close attention to, including tax and regulatory risks. A robust approach to tracking regulatory issues is vital to monitor and anticipate potential tax issues or disputes within the supply chain. Ensuring effective systems and oversight on this may well demand the attentions of the COO.

Furthermore, there is a need to address and mitigate supplier and channel risk. Distressed suppliers can cause serious disruption to the supply chain if problems are allowed to go undetected for any length of time. Risk dashboards can help, while there is a need to ensure that “risk of failure” is a key element in the supplier selection process and contingency strategies are mapped out.

Mature markets: protecting margins

Faced with sluggish revenue growth in mature markets, COOs are working closely with supply chain managers to optimize the operational efficiency and cost-effectiveness of their supply chains and protect profit margins. This involves grappling with three specific actions:

1. Enhancing cost competitiveness

Given the pressures faced, businesses are actively seeking ways to drive value from their supply chains, using procurement and operating efficiencies to enhance profit margins. This journey typically begins with a fresh look at network design: is the business close enough to its customers to understand and service them properly, and is the extended supply chain delivering the required cost advantages needed, while managing geo-political risk and sensitivity to commodity price volatility?

Cutting costs is never easy, but COOs need to help input on how and where further supply chain cuts can be made without damaging service levels and future growth. This may involve more in-depth discussions, such as on how to reconfigure the physical supply chain to achieve sustainable cost reduction, or developing mixed supply chain models to strike the right balance between far-shore, near-shore and onshore sourcing and production.

2. Optimizing global procurement

With resources and budgets under mounting pressure, companies are looking closely at effective ways to optimize their procurement function, a process that COOs can often support thanks to their broader oversight of the business. Gains here can deliver huge results: a 1% reduction in procurement costs can be the equivalent to a 10% increase in sales.

But while low-cost economies are likely to offer cost savings in materials procurement, the calculation involves more than simple geography and price, which is a discussion that COOs can bring a lot of value to. Supply chain managers must determine the net impact of relocating manufacturing facilities, while considering factors such as logistics, taxation and labor costs. Often, the approach is to set up a procurement presence in a location that has easy access to relevant markets as well as legislation conducive to working across borders. Similarly, a decision is needed on whether procurement should be local, centralized, outsourced or a hybrid of these.

3. Bolstering operational agility

More demanding customers and unpredictable shifts in demand put supply chains under significant pressure. This is exacerbated through rising energy and transportation costs, fluctuating commodity prices, changing labor conditions and new environmental regulations. Holding high inventories has traditionally helped, but to stay competitive, today's supply chains must optimize costs, minimize inventories and maintain high service levels. This is all part of delivering a more agile supply chain, encompassing four key elements:

- ▶ Speed of sensing and responding to demand changes
- ▶ Ease of response
- ▶ Predictability
- ▶ Consistent high quality

True agility allows COOs to work with the supply chain to drive down costs and rationalize inventory by anticipating demand as effectively as possible. Building an agile, resilient supply chain is not necessarily the lowest-cost option for a company, but as a truly “lean” option, it delivers a predictable supply chain with the optimum balance between speed, quality and value.

Managing environmental and sustainability issues

With sustainability high on the corporate agenda, companies are under regulatory pressure to develop – and demonstrate – robust policies on issues from the ethical sourcing of raw materials, to carbon reduction measures, human rights and waste management. For businesses, the success of any sustainability program lies in clear visibility of exposure to sustainability and climate change risks – including reputational risks – throughout the supply chain, and effective standards to mitigate them. In particular, three core sets of actions for supply chain leaders stand out, much of which COOs can feed into or support:

- ▶ Take a cradle-to-grave approach to sustainability, gaining clear visibility of exposure to related risks across the supply chain
- ▶ Mitigate the environmental impact of logistics, not least as part of a wider review of the overall sourcing strategy
- ▶ Ensure transparent mechanisms for monitoring, measuring and communicating performance on sustainability issues



The COO's supply chain checklist

- From which region or country do you expect the bulk of your company's revenue to come from in the coming years?
- How well set up is your supply chain to service any planned expansion within rapid-growth markets?
- Is your rapid-growth market supply chain a potential source of competitive advantage?
- Is the company sourcing from the right locations to be cost competitive in these markets?
- How well does the business understand emerging consumer profiles in these new markets?
- What mechanisms are in place to ensure these target profiles fit with the firm's competencies and strategic objectives?
- What controls are in place to deal with any supply chain risks faced within rapid-growth markets?
- Is there an effective forecasting and oversight system for the company's sourcing partners and suppliers?
- Does the business have the right strategic relationships in place?
- How effectively does the supply chain team collaborate with other stakeholders across the product life cycle to identify opportunities outside of the company's "four walls"?
- Is there clear visibility of whether the firm is compliant with current emissions regulations and other environmental rules?
- Are sustainability risks incorporated into the enterprise risk dashboard or internal audit plan?

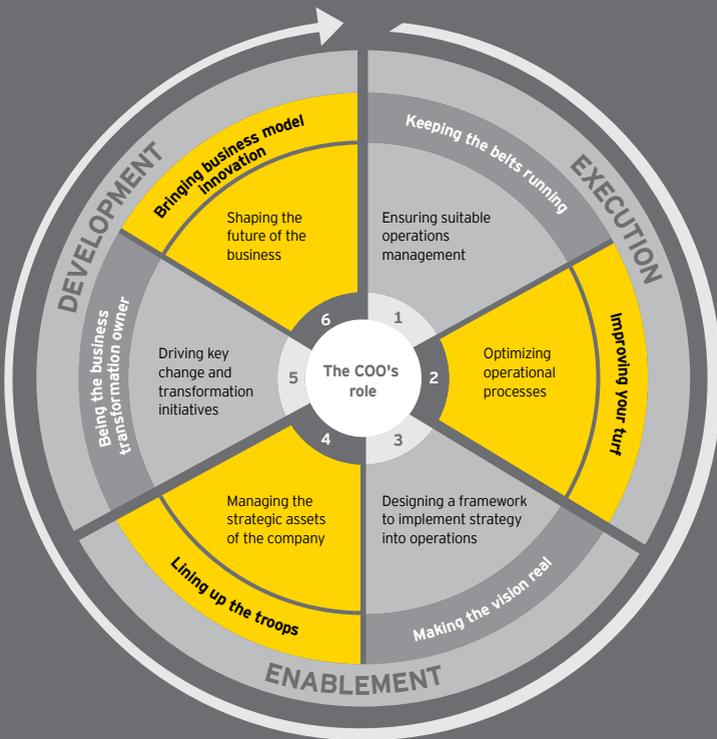
Further reading

- ▶ *5 Insights for executives: Improving business and operations planning*, EY, 2012.
- ▶ *Managing indirect taxes in the supply chain*, EY, 2012.
- ▶ *Trading places: The emergence of new patterns of international trade*, EY, 2011.

For a copy of the full report, please visit ey.com/driving-improved-supply-chain-results.

Alignment to the COO agenda

Driving improved supply chain results: adapting to a changing global marketplace has a strong relevance for the COO's role. The yellow wedges highlight those areas that are influenced most strongly.



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