

# The Next Frontier of Value Creation

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The Economic and Strategic Impact of  
Supply Chain Management in Canada



**EXECUTIVE BRIEFING**

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## What is Supply Chain Management?



Supply chains affect people and businesses across Canada every day. Walmart, Amazon, McDonald's, Toyota, Apple and Proctor and Gamble are global super-brands, largely on the strength of their supply chains and the influence of the function in the C-suite. At Apple and General Motors, the CEOs themselves are former supply chain leaders.

Once thought of as a tactical support function, largely focused on cost cutting, supply chain management (SCM) has emerged as a key strategic and competitive advantage that can vault organizations to new levels of success. Present day SCM is the process of strategically managing the flows of goods, services, finance, and knowledge, as well as relationships within and among different organizations to realize greater economic value.

SCM is central to virtually every organization's operations, yet it is relatively new terminology for the end-to-end activities that encompass three core functions which

used to be seen as separate: purchasing/procurement; transportation; and logistics and inventory management. When seen as separate functions, they have been viewed as very tactical and have worked in silos.

But top tier organizations are leveraging the power of an integrated supply chain for customer and shareholder satisfaction. They have recognized that **SCM can be the single greatest unifying factor across all functions. It increases revenue, extends asset life, protects brand and reputation, increases productivity, reduces costs, and manages risks.**<sup>1</sup>

Despite the growing importance of SCM—from the creation of goods and services to consumption—the role and importance of the professionals who manage today's complex supply chains is often misunderstood. This briefing highlights the economic significance and strategic importance of supply chain management for private and public sector entities alike.

# Why Does it Matter?



Organizations are increasingly dependent on complex global supply chains and worldwide business partners. As one of the few functions focused externally on both suppliers and customers, SCM is uniquely positioned to access information about markets, economic indicators, competitors and potential customers. This strategic intelligence can be an early warning system on shifting demand trends, supply shocks, cost factors and enterprise risks.

Getting it right has significant upsides. Best-in-class supply chains with effective risk management and quality control strategies have a 14% higher delivery capability compared with those that don't.<sup>2</sup> **According to PWC research, "companies that acknowledge supply chain as a strategic asset achieve 70% higher performance."**<sup>3</sup> **They also have nearly 50% higher sales growth and are 20% more profitable.**<sup>4</sup> In fact, PWC's 2013 global survey found supply chain leaders achieve average earnings before interest and taxes (EBIT) margins of 15.6%, versus the laggards at 7.3%.<sup>5</sup>

## Impact of supply chain disruptions



Source: ROI of Supply Chain Risk Management, Dr. Hugo Eckseler & Riskmethods.

Getting it wrong can be disastrous. The 2012 fire at a Bangladesh clothing factory that killed 112 people made headlines around the world and sullied the brand equity of the companies whose clothes were made there. Horse meat sold as beef in the United Kingdom shone a light on the lack of transparency and oversight that enabled the food fraud. Labour disputes at the Port of Vancouver stalled the flow of goods and impacted Canada's reputation as a reliable trade route. **Supply chain disruptions have significant consequences including ethical, financial, operational and reputational risks.** Being able to respond to a disruption in a manner that supports internal and/or external customer needs illustrates the flexibility and resilience of a strong supply chain. Using SCM as a strategic lever offers the potential for significant financial rewards and ongoing, deep customer loyalty.

# The Economic Impact of SCM



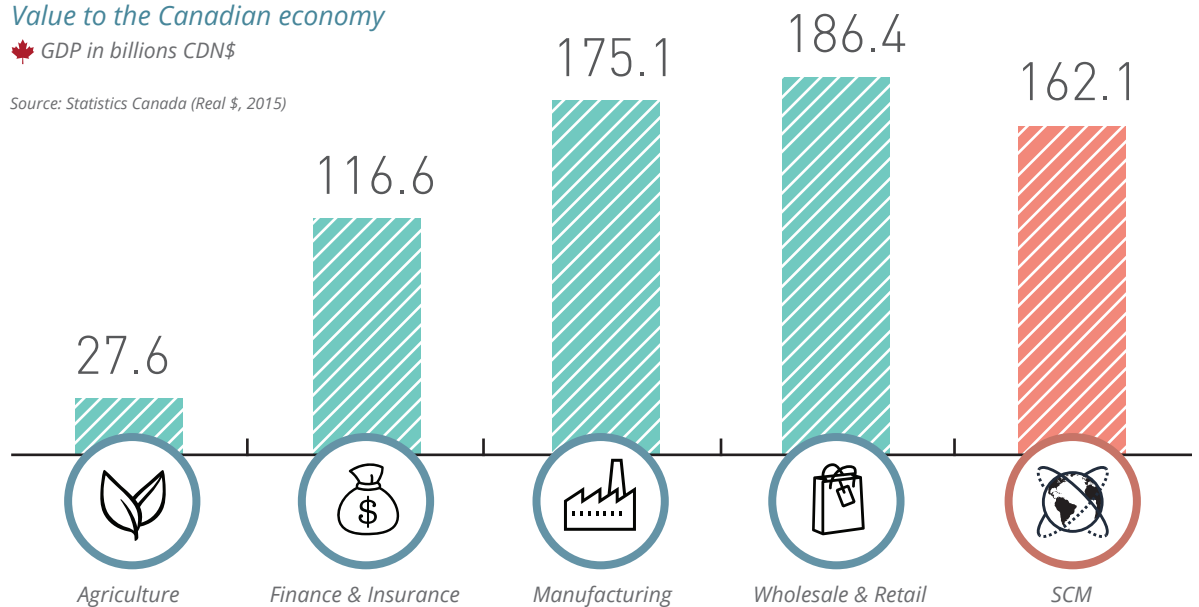
Supply chains deliver more than 4 million tonnes of goods across Canada's vast geography every day. The supply chain management sector has an estimated value of \$162.1 billion. It enables goods and service-producing industries that generate annual GDP of \$490 billion and \$1.2 trillion, respectively. SCM also underpins \$186.4 billion in wholesale and retail trade-related GDP.<sup>6</sup> **The SCM sector is nearly six times the size of agriculture and almost equal in size with the entire manufacturing sector.**

Supply chains directly affect Canada's international competitiveness, economic growth and prosperity. **As a trade-dependent nation, supply chains are the foundation of Canada's economy supporting about \$1 trillion in import and export trade** and millions of tonnes of shipments by air, road, rail and marine each year. For northern and remote communities, the supply chain is a lifeline to the rest of the world.

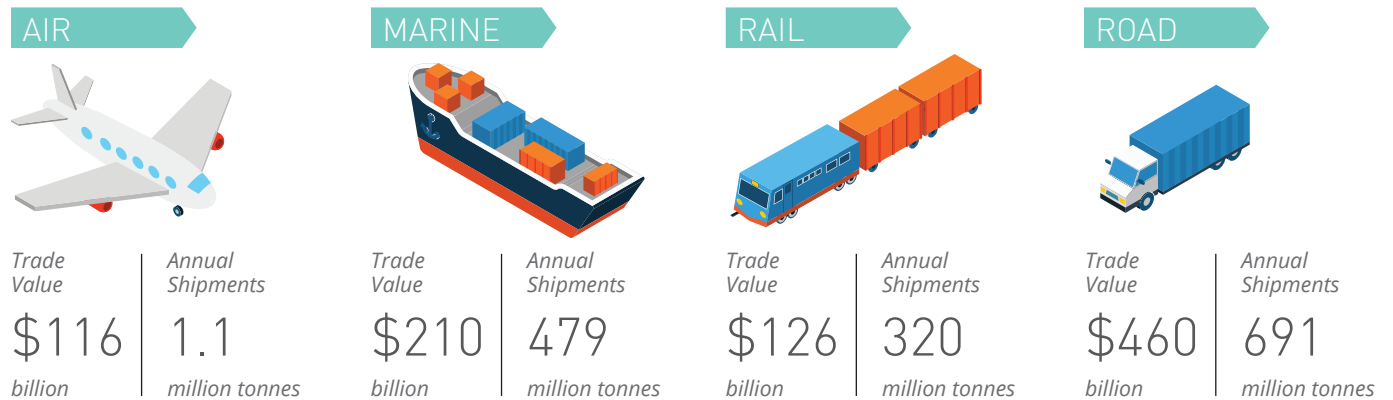
## Value to the Canadian economy

🇨🇦 GDP in billions CDN\$

Source: Statistics Canada (Real \$, 2015)



## Economic impact and shipping volumes by mode (2014)



Source: Transportation in Canada 2014, Transport Canada.

# Strategic Benefits of SCM

In the past, SCM was narrowly viewed as transactional with only a cost-cutting focus. Next generation SCM is broader and much more strategic. It now supports enterprise objectives and is a key factor in meeting ever-increasing customer and stakeholder expectations. SCM has a recognized role in value creation for organizations by contributing to innovation and product development, customer satisfaction, corporate social responsibility, productivity, top- and bottom-line growth and risk management.<sup>7</sup>

Many supply chains are simply not set up to respond to broader organizational objectives that often call for speed and convenience in a cost-effective manner. Yet, the success or failure of both public and private sector enterprises is increasingly determined by their supply chain capabilities, in large part because the supply chain plays a leading role in creating and distributing an organization's product or service. **SCM often determines the performance and quality of the product in the eye of the customer.**<sup>8</sup>

A common strategy led by SCM to provide service excellence and shareholder value is Sales and Operations Planning. S&OP balances the market needs of customers as determined by forecasts, and the separate financial needs from commitments made to shareholders, with the supply side capacity of the business in terms of outsourcing and capital investment requirements.

## Benefits from increasing supply chain visibility

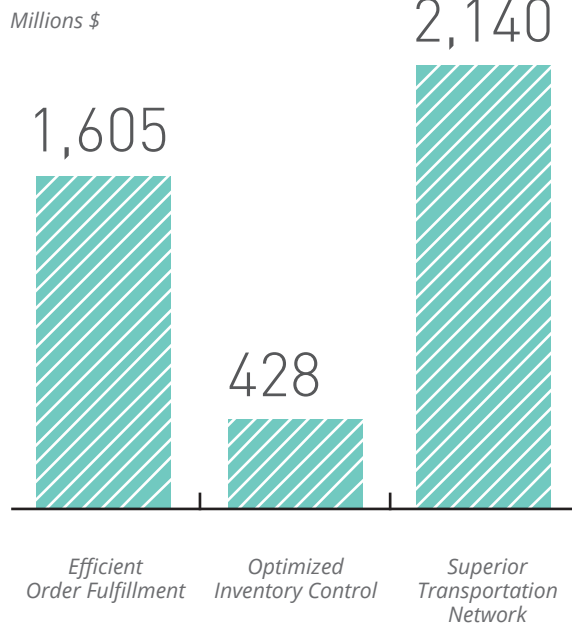


Source: KPMG.

# The Next Frontier of Value Creation

Contemporary supply chain professionals are called upon to be “financial experts, internal consultants, intelligence agents, relationship brokers, risk advisors, environmental stewards, legal experts, and supplier coaches.”<sup>9</sup> However, to achieve success, deep integration of the supply chain across all aspects of an organization is required. Amazon is a shining example. The company has integrated its software and cloud computing with its fulfillment capabilities. Supply chain agility and a commitment to operational excellence save the company more than \$4 billion a year while fostering customer loyalty.

*Supply chain agility saves Amazon  
\$4.2 Billion a year*



Source: Derived from “The Future of Retail Supply Chains”, McKinsey & Company.

In almost every sector—from retail to financial services, travel services and health care—organizations now have to develop finely-tuned supply chain strategies to address ever-changing virtual and physical environments, or be left behind. Complex global trade agreements require new compliance regimes in procurement, transportation, exporting, and importing—all within the domain of supply chain professionals. The public sector is also looking to the supply chain to advance strategic objectives. At all levels of government, transportation and infrastructure are leading areas of investment as politicians become increasingly aware that the efficient flow of goods and services is critical to vibrant communities and regional competitive advantage.

In sophisticated organizations, SCM has evolved from a back-office function focused primarily on cost reduction to a strategic role that contributes to customer satisfaction, better demand planning, increased efficiency, and risk and reputation management. Many more SCM professionals are needed from entry level positions to seasoned senior executives. Given the evolution of the function, the need for supply chain management professionals has never been higher, with the demand for strategic SCM staff exceeding supply by as much as four-to-one.<sup>10</sup>

The supply shortage and the competition for talent means that education, training, and ongoing professional development are more essential than ever to instill the technical skills, keep pace with current trends, and hone business and leadership abilities to harness this next frontier of value creation.

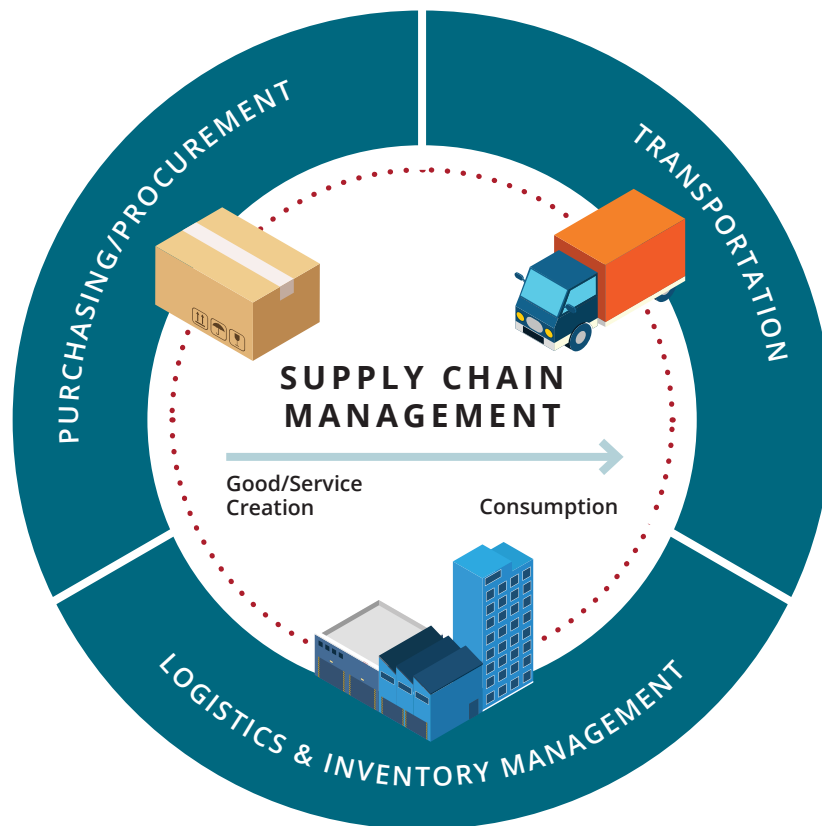
# SCM Core Functions and Their Significance



## Purchasing and Procurement

**An organization's procurement team may manage as much as 70% or more of overall expenses.** On a per employee basis, a 2015 U.S. study showed that procurement employees each managed an average of \$19.5 million in spend, though spend by industry varied widely, with \$6.6 million managed spend per employee in engineering, \$18.7 million in utilities, and a high of \$25.4 million in financial services.<sup>11</sup>

In managing that spend, procurement teams deal with hundreds or even thousands of vendors, though 80% of the associated spend may only be with 5-7% of vendors. With those key suppliers it is important to develop truly collaborative and strategic partnerships for product innovation, optimal financial results and effective risk management. **Organizations that collaborate with suppliers in the early stages of product/service innovation are able to increase end customer satisfaction and substantially outperform their peers.**<sup>12</sup>

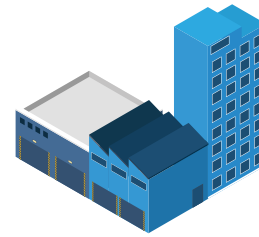




## Transportation

In some industrial sectors, **transportation is the largest component of the delivered price of goods and services.** The sector accounts for 3.7% of GDP and employs some 896,000 people, representing 5% of total Canadian employment. Spending on all modes of transportation in Canada amounts to \$400 million a day.<sup>13</sup> Governments, too, spend large sums. The combined federal, provincial and territorial government expenditures on transportation totaled \$20.8 billion in 2013-14.<sup>14</sup>

**The quality and performance of transportation can be the single greatest contributor to a country's economic well-being.** In fact, transportation logistics and supply chain efficiency is now viewed by research organizations as one of the most important factors for a country's overall economic performance and global competitiveness.<sup>15</sup>



## Logistics and Inventory Management

High-performing organizations in logistics and inventory management deliver on time in full (OTIF) on 95.7% of occasions and have an impressive inventory turn rate of 15.3, versus 3.8 turns in organizations less focused on SCM excellence. "That means greater efficiency and customer satisfaction without driving up working capital—essentially, having it all."<sup>16</sup>

Amazon is leading dramatic innovations in this area. They average more distribution centres than states in the U.S. and have augmented their capacity with thousands of trailers that are strategically positioned to be "transient warehouses," serving dense urban areas to meet ever-faster order fulfillment expectations.<sup>17</sup> They combine this with evolving transportation paradigms, which envision drones as standard practice and the "uberization" of local deliveries.

Good SCM is about balance. This means balancing demand and supply through effective planning and execution, as well as balancing the economic, ecological and ethical values of stakeholders. The core functions outlined below need to be supported by an integrated knowledge management system that incorporates demand and contingency planning across each functional area. Sharing information and reacting to change in an integrated fashion allows for improved productivity, greater customer satisfaction and better profit margins.





## Sources

- <sup>1</sup> "Supply Chain Management: Getting a Seat at the Table" by Stephen C. Rogers and Robert Porter Lynch, 2015.
- <sup>2</sup> "The Chief Supply Chain Officer's View of Supply Chain Disruptions – How the Best-in-Class Respond", Dr. Hugo Eckesler, 2015.
- <sup>3</sup> "Next Generation Supply Chains: Fast, Efficient and Tailored", PWC Global Supply Chain Survey, 2013.
- <sup>4</sup> "Supply Chain Benchmark" PWC Performance Measurement Group, 2013.
- <sup>5</sup> "Next Generation Supply Chains: Fast, Efficient and Tailored", PWC Global Supply Chain Survey, 2013.
- <sup>6</sup> Analysis of "Logistics and the Competitiveness of Canadian Supply Chains", HEC, Montréal and Statistics Canada, [www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/gdps04a-eng.htm](http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/gdps04a-eng.htm).
- <sup>7</sup> "Supply Chain Management: Getting a Seat at the Table, by Stephen C. Rogers and Robert Porter Lynch, 2015.
- <sup>8</sup> "Supply Chain as a Strategic Asset" by Stephen C. Rogers and Robert Porter Lynch, 2015.
- <sup>9</sup> "FutureBuy: The Future of Procurement", Rob Handfield, PhD, KPMG, 2013.
- <sup>10</sup> "Close Procurement Staff Skill Gaps," CEB, 2015.
- <sup>11</sup> "Cross Industry Metric Report", CAPS Research, July 2015.
- <sup>12</sup> "Innovation in Procurement", World Café research project by Capgemini Consulting, 2012.
- <sup>13</sup> Analysis of Industry Canada data from [www.ic.gc.ca/eic/site/dsib-logi.nsf/eng/h\\_pj00541.html](http://www.ic.gc.ca/eic/site/dsib-logi.nsf/eng/h_pj00541.html).
- <sup>14</sup> Transportation in Canada 2014, Transport Canada.
- <sup>15</sup> 2014-15 Canada Transportation Act Review chaired by the Hon. David Emerson; "Pathways: Connecting Canada's Transportation System to the World", February 2016.
- <sup>16</sup> "Next Generation Supply Chains: Fast, Efficient and Tailored", PWC Global Supply Chain Survey, 2013.
- <sup>17</sup> Journal of Commerce, April 2016.

This report prepared by:



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## SCMA

As the premier Canadian association for supply chain management professionals, the Supply Chain Management Association (SCMA) is the national voice for advancing and promoting the profession. SCMA sets the standard of excellence for professional skills, knowledge and integrity, and it was the first supply chain association in the world to require that all members adhere to a Code of Ethics. With nearly 7,500 members working across the private and public sectors, SCMA is the principal source of supply chain training, education, and professional development in the country. Through its ten Provincial and Territorial Institutes, SCMA grants the Supply Chain Management Professional (SCMP) designation, the highest achievement in the field and the mark of strategic supply chain leadership. For more information on how to make your supply chain smarter, faster, stronger, please visit [www.scma.com](http://www.scma.com).



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