

# Supply Chain Centers of Excellence: The Quest for Next Practices

White Paper

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## Supply Chain Centers of Excellence: The Quest for Next Practices

Gartner defines a center of excellence as follows:

*“A center of excellence is a physical or virtual center of knowledge concentrating existing expertise and resources in a discipline or capability to attain and sustain world-class performance and value across the supply chain.”<sup>1</sup>*

As global brands look more and more to the performance of their supply chains as a source of competitive advantage, supply chain “centers of excellence” (COE) have been gaining attention as initiatives that can inject innovation into an organization’s culture. More executives are recognizing that to create a long-term strategic view to achieving supply chain excellence, their organizations must look beyond day-to-day issues and outside of their four walls to engage cross-functional key stakeholders who know how the business works and where the real opportunities are hidden.

But, a COE initiative can also be an acknowledgment that an organization’s operational performance needs improvement. Executive teams often commission these initiatives to help identify and begin addressing problems that may be holding the company back or causing it to lag behind competitors. It’s no wonder that executives are taking another look at COE initiatives now: the strategic value of high levels of supply chain performance is gaining more attention, while recent industry research argues for the strong correlation between supply chain performance and COEs.

83 percent of global supply chain executives believe that supply chain excellence contributes high or very high value in terms of enhancing customer service and loyalty—and 75 percent say it enhances business expansion and new product innovation.<sup>2</sup> And according to a recent report by *Spend Matters*, almost a third

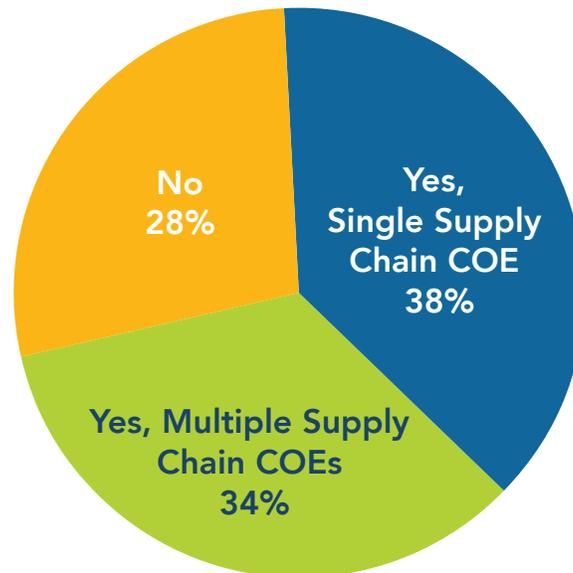


Image 1: Percentage of Organizations Surveyed with COEs. “Centers of Excellence Are Critical Enablers of Success in Supply Chains,” Gartner (April 2014).

<sup>1</sup> “Centers of Excellence Are Critical Enablers of Success in Supply Chains,” Gartner, April 21, 2014:

<http://www.gartner.com/doc/2714418/centers-excellence-critical-enablers-success>.

<sup>2</sup> “SCM World Survey Finds Supply Chain Managers Still Under Pressure to Deliver,” by Patrick Burnson, *Supply Chain Management Review*, October 1, 2013: [http://www.scmr.com/article/scm\\_survey\\_finds\\_supply\\_chain\\_managers\\_still\\_under\\_pressure\\_to\\_deliver](http://www.scmr.com/article/scm_survey_finds_supply_chain_managers_still_under_pressure_to_deliver).

of “top capability” firms rely on a supply chain strategy/COE group to help drive improvements across procurement, operations, logistics, quality, engineering, and more—compared with only 6 percent of other firms surveyed.<sup>3</sup>

One organization particularly committed to COEs is global cosmetics brand L’Oréal, an E2open customer recently recognized by Gartner for its supply chain expertise. As L’Oréal’s Corporate Supply Chain Standards and Audits Director Richard Markoff told *Supply Chain Management Review*, “COEs are part of our DNA ... They’ve helped position L’Oréal as an industry leader and ensure that our role is well understood.”<sup>4</sup>

E2open has assembled a number of resources for executive teams that are exploring the potential of a COE for supply chain transformation, or are looking for ways to resuscitate a failing COE initiative. This white paper looks at common challenges that E2open customers and other global brands have faced in launching and sustaining COE initiatives, the foundational role of technology in enabling collaboration and cross-functional alignment, and the best practices that E2open has developed with its customers to drive supply chain COE success.

## Challenges to COE Success

Despite initial momentum and high expectations, many COE initiatives fail to deliver tangible business results and eventually flounder. Or they play out like an old movie: familiar, stiff, a bit boring, and sometimes too predictable. Those rallying for COEs may face resistance, and struggle to obtain the data needed to understand and take action to address the challenges supply chain organizations are facing.

Some of the factors that can impact the success of a supply chain COE initiative include:

- **Governance.** Stakeholders need to be empowered to advocate change and influence others to change deep-rooted behaviors and business practices.
- **Change management.** Seeding a COE with respected subject-matter experts is the best way to gain credibility within an organization. However, doing so can place COE members “outside of” the common interests of their respective functions. COE stakeholders need continuous executive-level support through constant communication about needed reforms to the organization. Otherwise, they must shoulder the difficult task of persuading coworkers to expose their problems, leave their comfort zones, and risk new ways of working.

<sup>3</sup> “Re-Inventing Direct Procurement Study Report,” *Spend Matters*, October 2013: <http://spendmatters.com/research-library/premium-research/re-inventing-direct-procurement/>.

<sup>4</sup> “L’Oréal: Cultivating Operational Excellence Across the Supply Chain,” by Bridget McCrea, *Supply Chain Management Review*, April 2014: [http://www.scmr.com/article/special-report\\_centers\\_of\\_excellence](http://www.scmr.com/article/special-report_centers_of_excellence).

- **Metrics based on the right data.** The hallmark of a successful supply chain COE is a focus on fact-based, data-driven measurements of business performance. But those who are driving COE initiatives often race to measure things for which they have data, without understanding whether that data represents a symptom or cause of poor performance. The result: They document bad processes and fail to identify root causes.
- **Collaboration vs. communication.** Many organizations confuse collaboration with information-sharing. Churning out PowerPoint presentations about problems without engaging the organization to reflect on how their processes affect customers can cause an organization to “tune out” COE recommendations. They simply assume that something is wrong upstream. Without all parties helping to identify the source of the problem, stakeholder buy-in is eventually diluted.
- **Misalignment of rewards and incentives.** While functional goals and objectives may be aligned, measurement systems usually are not. Enterprise processes are strung across the globe with each function seeking to optimize its own performance metrics—often in conflict with each other.



Image 2: “Chartered Mandates; Top Priorities. Four Ways to Establish Credibility for Supply Chain Centers of Excellence,” Gartner (May 2014).

The levels of collaboration and cross-functional alignment that are key to COE success are difficult to build without real-time information that creates a single source of truth. It is the technology layer that makes this information visible and actionable, and makes technology enablement a top 5 priority for COEs, as seen in Image 2, above.

## Technology: A Stimulus for COE Change

Technology is a foundational layer of supply chain transformation, but it is often overlooked. So, too, is the level of data quality that is needed to conduct complex predictive planning and improve supply chain performance.

Successful COE initiatives are built on cross-functional alignment around real problems using real-time information that is visible and actionable. The underlying technology is what brings it all together, whether it's getting all internal and external partners on the same page or serving as the highly sought-after "single version of the truth" that helps stakeholders to orchestrate their end-to-end supply chain processes.

### Choosing a COE Strategy

*Building a COE begins with a supply chain strategy. According to a recent study by Gartner,<sup>5</sup> there are three primary ways that global supply chain COEs are aligned:*

- *Functionally-focused: 37 percent of global supply chain organizations establish functional COEs, which are often organized around Supply Chain Operations Reference (SCOR) disciplines such as sourcing and procurement.*
- *Capability-focused: These COEs are oriented toward broader enabling capabilities that drive supply chain integration. 33 percent of global supply chain organizations employ this strategy, according to Gartner.*
- *Process-focused: More than one-quarter (27 percent) of global supply chain organizations surveyed by Gartner develop process-focused COEs, which are targeted toward business processes that link the supply chain together on a regional or global scale.*

*Gartner also reports that some organizations will opt for "hybrid" COEs, developing large-scale COEs that serve as "umbrella" organizations for various supply chain improvement activities.*

<sup>5</sup> "Centers of Excellence Are Critical Enablers of Success in Supply Chains," Gartner, April 21, 2014: <http://www.gartner.com/doc/2714418/centers-excellence-critical-enablers-success>.

It is often said that “substituting information for inventory” is what makes a supply chain lean and responsive; this thinking also becomes a driving factor behind operational excellence. Accurate information supports timely communication and collaboration, which in turn helps to drive innovation and cross-functional alignment.

Sometimes, however, new technology is wrapped around bad processes, or the wrong technology is misapplied to a good process. Knowing how one affects the other is paramount to COE success. Applying the right technology goes a long way to ensure the integrity and relevance of data isn’t “lost in translation” as data collection is pushed rapidly from one entity to the next throughout the supply chain.

Based on E2open’s experience with customers, the following technology capabilities are tied to effective transformation programs for successful supply chain COEs:

- Enabling partner connectivity, including smaller players who can’t afford B2B connections
- Focusing on relevant data, validating it for accuracy, enforcing business rules, and sequencing it properly within a business process
- Ensuring visibility into a process that is driven by events so that stakeholders are alerted to exceptions before customers are affected
- Enabling proactive recommendations and changes on either side of a transaction to address disruptions and improve responsiveness

Having the multi-tier visibility necessary to “trust but verify,” COEs can drive accountability throughout the supply chain and improve customer fulfillment performance. This allows stakeholders to uncover opportunities in the supply chain and realize the full potential of their COE initiative. A well-designed set of best practices, from organization to process to KPIs, will help make this potential a reality.

## Six Best Practices for Supply Chain Excellence

Collaborative technology solutions incorporated into the supply chain help to simplify processes, cleanse and organize disparate data, and create an environment of trust for all supply chain partners. The following best practices, which E2open has developed with its customers, can also help to drive supply chain COE success:

1. **Commit to serve your customers above all else.** Be humble and helpful and listen to your stakeholders first. Before developing a hypothesis about what’s wrong, find out what’s right about how your company competes. Get a C-level sponsor, if at all possible.

2. **Recruit your skeptics as advisers.** Communicate your challenges in terms of your customers' expectations. Be accountable for results not activities.
3. **Don't chase key performance indicators (KPIs) just for show.** KPIs cost money to collect. Only collect data that tells you something about your core performance to your customers—things like stockouts, line downs, inventory turns by product, returns, and perfect order fill rates. Measure transaction-level data to identify root causes of process exceptions. Don't over-summarize, generalize, or speculate without the facts.
4. **Collaboration is a conversation—not a command.** If a supplier or coworker can't do something, ask why. How much can they do? When? How could they respond faster next time? How can you help them help you?
5. **Think globally about processes, but execute locally.** Realize that data degrades every time you touch it. Stop "touching" (i.e., judging) the data, let the problems surface, and fix the root causes. Encourage performance metrics to be more holistic and focused on customer success—not just your department.
6. **Rewire global processes with Collaborative Planning & Execution.** Collaborative Planning & Execution helps enterprises procure, manufacture, sell, and distribute products more efficiently through more profitable decision-making. Tapping into business networks with existing data connections and best practice-driven processes, such as E2open's, can save COEs significant time and help reduce risk.



Image 3: Example of a Center-Led Supply Chain COE. "Best Practices in Organizing Supply Chain Centers of Excellence," Gartner (August 2014).

## Next Steps

Supply chain transformations require change management across people, process, and technology. A solid technology foundation combined with leading COE best practices enables organizations to establish effective business-to-business connectivity between the customers and suppliers with whom they conduct high-value transactions or rely on for critical supply. To learn more about how E2open can put your organization on the path to COE success, visit [www.E2open.com/COE](http://www.E2open.com/COE), or give us a call at 1.866.4E2open.

## About E2open

E2open (NASDAQ: EOPN) is the leading provider of cloud-based, on-demand software solutions enabling enterprises to procure, manufacture, sell, and distribute products more efficiently through collaborative planning and execution across global trading networks. Enterprises use E2open solutions to gain visibility into and control over their trading networks through the real-time information, integrated business processes, and advanced analytics that E2open provides. E2open customers include Avnet, Celestica, Cisco, IBM, Lenovo, L'Oréal, Motorola Solutions, NVIDIA, Seagate, and Vodafone. E2open is headquartered in Foster City, California, with operations worldwide. For more information, visit [www.E2open.com](http://www.E2open.com).

