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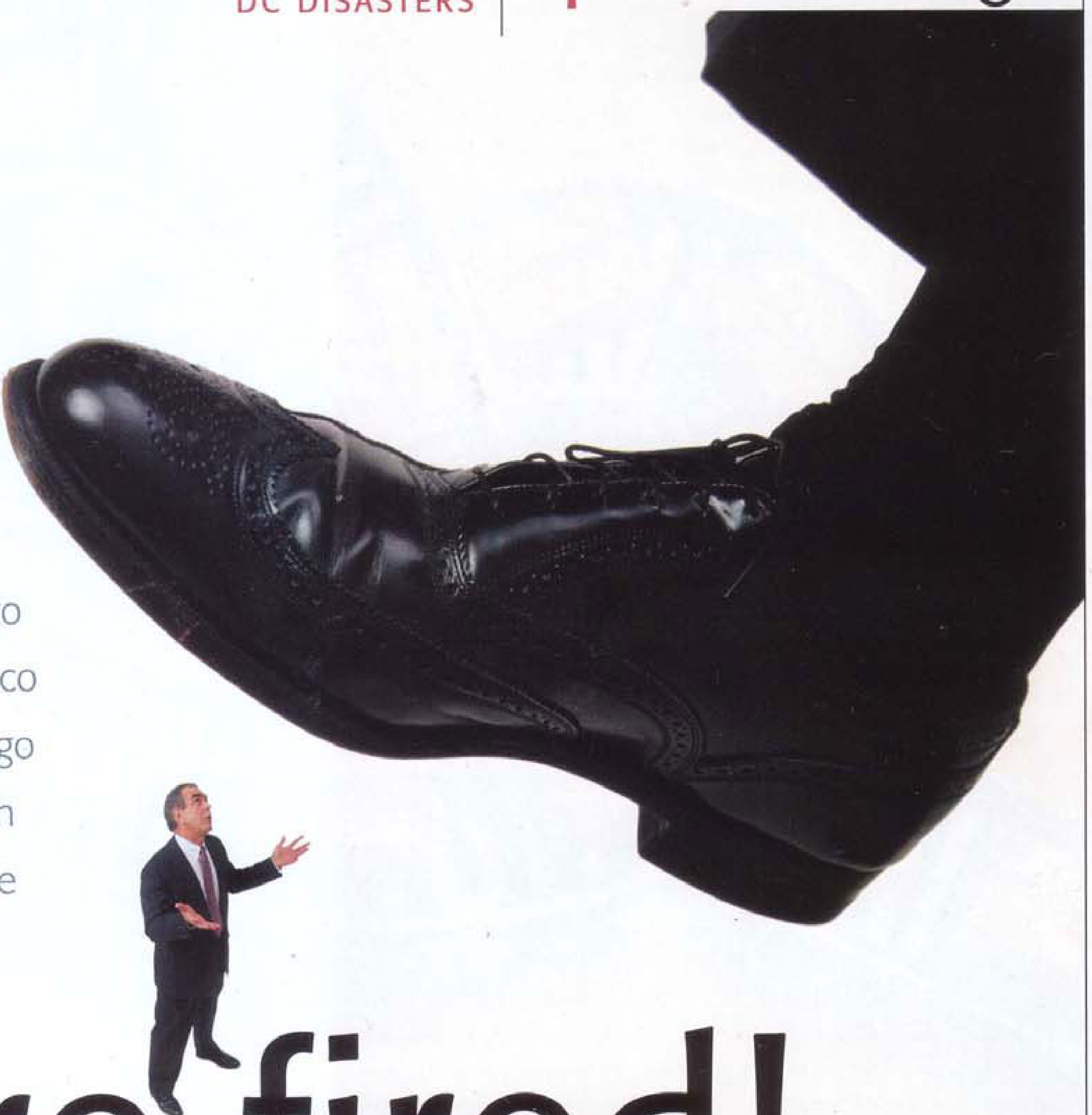

The days when it was easy to gloss over a supply chain fiasco are over. Today when things go horribly wrong, the person in charge can expect to pay the ultimate career price.

you're fired!

FOR YEARS, AMERICA'S SUPPLY CHAIN MANAGERS TOILED IN OBSCURITY. NO MATTER HOW many millions of dollars they saved or how many days they cut out of the order cycle, they knew they could expect little in the way of acknowledgment from on high.

It certainly wasn't for lack of trying. "We fought for years to get the supply chain noticed in the board room," says Rick Blasgen, senior vice president of integrated logistics at ConAgra Foods. Yet those efforts went largely unrewarded. Most CEOs and board members knew little about what went on in the distribution center or on the loading dock and cared even less.

Not any more. Today it's easy to make out the path worn into the carpet between the CEO's suite and the office that is the supply chain manager's command central. Not only does the CEO know who leads the supply chain team and where to find him or her, but that CEO won't hesitate to seek that person out if supply chain performance starts to stumble. The job security these managers once took for granted is a thing of the past. Today's CEOs and CFOs have no trouble connecting the dots between a supply chain disaster and the financial hit the company takes, and they're holding the supply chain leader accountable.

Which is really just a genteel way of saying that if you screw up, heads will roll. And if that sounds like an empty threat, consider this: When the UK-based retailer MFI Furniture Group traced financial losses suffered last summer to a supply chain glitch, its director of supply chain operations was promptly fired (see sidebar). And just last month, another UK company, grocery retailer Sainsbury, gave its supply chain management team the sack after they botched a $714 million DC automation initiative.

Closer to home, executives at Hewlett-Packard were luckier. When HP announced that its third-quarter earnings had suffered because of order fulfillment problems in its enterprise storage and server division, the company's sales director got the ax. Management in the supply chain sector survived, but they might not be so fortunate next time around. Halloween may have passed, but those in the know say HP Chairman and CEO Carly Fiorina is still wielding her hatchet and won't hesitate to use it should the supply chain falter again.

It's not personal, it's just business

It's hard to tell if supply chain miscues are more common now, or whether the slipups just receive more attention when they do occur. What is clear is that chief executives are no longer willing to simply dismiss a supply chain problem as a temporary blip in their operations.

Even if they were, dismissing the problem is no longer an option. "If the problem is bad enough to spill over into the press, then the company has to demonstrate to the shareholders that it's taking action," says Alan Taliaferro, president and chief executive officer at KOM International, a supply chain consulting firm. Giving the supply chain executive the pink slip "is an acceptable and almost expected way to take action and show your shareholders that you've dealt with the problem."

Some theorize that more is expected from supply chain execs these days. Years ago, a vice president of distribution at a grocery store chain might have started out as a bag boy and worked his way up. If he screwed up, it could be written off as a lack of training and development. But what was forgiveable in a former bag boy is intolerable in a highly compensated executive with an MBA. "Today, the person filling those shoes will be much more of a professional with lots of front-line experience and a considerably higher level of education," says Taliaferro. "With that comes a higher pay scale—and higher expectations."

And make no mistake, the expectations are all about delivering financial results. "More often than not it's the chief financial officer who is now monitoring the [supply chain]," says Patti Satterfield, business development manager with Q4 Logistics, a systems integrator and consulting firm. "The CFO is taking a more hands-on approach than in the past and is much more [visible] now."

The CFO's interest in all things related to the supply chain is no surprise. The financial benefits of a smoothly running supply chain are well documented. According to *From Visibility to Action,* an annual report on logistics and transportation trends, a well-managed supply chain that provides visibility of products and materials at every stage vastly outperforms its more loosely run counterparts. The report—sponsored by Oracle and produced jointly by Capgemini U.S. LLC and Dr. Karl Manrodt of Georgia Southern—showed that high-performing companies averaged 14.6 inventory turns, 22.1 days' sales worth of inventory and 26.1 average days' sales outstanding compared to 9.8, 38.2 and 39.4, respectively, for their less well-managed counterparts. No wonder the CFO gets hot under the collar when the supply chain team fails to deliver.

Ironically, the profession's unrelenting push for recognition over the years is at least partially responsible for that newfound scrutiny. "The education we have provided as an industry to senior-level executives has allowed them to focus on parts of the supply chain they didn't focus on

the best laid plans ...

There was nothing in the early days that hinted of a disaster in the making. MFI, the UK's largest furniture retailer, announced plans to replace its 20-year-old legacy supply chain systems with a fully integrated enterprise resource planning system from SAP. True, the upgrade would cost $100 million, but in five years' time MFI would be running a reliable, state-of-the-art system that would put its competitors to shame.

Still, the company didn't want to rush headlong into anything. The new system would be implemented in phases—starting with financials and indirect procurement, moving on to inventory and scheduling, and finishing off with the human resources and retail components. By converting over to the new software in stages, the company could use the lessons it learned early on to prevent mishaps down the road. What could go wrong?

Unfortunately for MFI, just about everything. Just two years into the second phase, the company last summer was forced to issue a warning of an expected earnings shortfall. The problem? Software implementation problems had led to botched orders.

For an operation of MFI's scale—the company builds, distributes and sells household furniture across 192 stores in the UK—even a small bug could mean big problems. And that appears to be exactly what was responsible. According to one analyst, MFI belatedly discovered that a glitch in the system had resulted in its making only partial deliveries. In fact, the company ended up making three deliveries on average to fill a single order. Transportation expenses soared and productivity plummeted as the pickers' workload tripled. As word got out, sales began to slip.

Shortly after issuing the earnings warning, the company announced that Gordon MacDonald, group categories and manufacturing director with responsibility for the supply chain, and Martin Clifford-King, the chief financial officer, were leaving the company. "I'm not surprised," says Richard Ratner, an analyst at London brokerage firm Seymour Pierce. "MFI issued a profit warning and in this case the chief executive had to take some responsibility for things gone wrong."

Though things may have gone terribly wrong in the past, the company is now confident that things are about to go right. It says its delivery problems will be ironed out by the holiday ordering rush.

before," says Blasgen. He sees that as a mixed blessing: "It's great to have the organization understand the supply chain, but you have to deliver because upper management is able to see when the supply chain doesn't perform up to its standards."

When projects go bad

Though you might get a different impression from corporate statements, technology is rarely to blame for supply chain fiascos. The problem is far more likely to be poor planning. According to research firm Gartner Group, almost three-quarters of large supply chain projects crash because of a lack of solid supply chain strategy or problems with underlying processes.

Some projects are doomed from the outset by a lack of communication between senior supply chain executives and the operations personnel who run the software in the distribution center. Consultants say that many times senior managers simply don't conduct adequate research into the exact functionalities needed in a new system.

Other times, the problem turns out to be miscommunication between the vendor and the customer. One manufacturer Satterfield's familiar with recently purchased a warehouse management system fully expecting it to arrive ready for integration into its enterprise resource planning (ERP) system. "They were assured the integration would be there and it would be a simple drop in," says Satterfield. "But lo and behold, when they started doing the testing, they discovered the system didn't interface to specific modules. They ended up having to hire someone to write custom interfaces."

Satterfield says that's not uncommon. She reports that she's seen many cases in which a company goes into a project thinking it can handle the job on its own (or with a little support from the vendor) only to run into trouble. If the supply chain executives sound the alarm in time—that is, as soon as they suspect there might be a problem—they can usually salvage the project (and their jobs) by bringing in a third-party systems integrator.

Why don't they just call in a third party to begin with? Satterfield says companies often have misplaced faith that their regular IT staff can handle the job. But competent as their IT people may be, that's a recipe for disaster. "Those people already have a full-time job," says Satterfield. "Adding an implementation on top of their normal work load can [prove to be too much]. Certainly there are technical issues that come up and derail a project, but in our experience, the resources issue is the biggest problem. People just underestimate the amount of time and effort that the implementation will take." □