The 7 Cs of Supply Chain Management: Practices for Profitable Growth

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Companies increasingly realise that the strength of supply chain management not only lies in cost reductions and efficiency improvements, but also in driving profitable growth. We identify, based on the literature, the '7 Cs of supply chain management': Connect, Create, Customise, Coordinate, Consolidate, Collaborate and Contribute. These '7 Cs' are essential categories of supply chain practices that help companies grow by offering new, different, more and better products and services to (potentially new) markets. Case research in 16 European companies provided evidence of all except one practice (Contribute), thus illustrating the strategic importance of supply chain management.

INTRODUCTION

Supply chain management (SCM) is a function with a strong focus on cost and efficiency. During economic downturns, it is one of the first areas looked at to reduce costs. Questions often brought to the agenda of the supply chain manager are: Should we move production to a country with lower labour cost? Should we consolidate some regional warehouses into a larger, central warehouse to reduce warehousing and inventory costs? Can we change our transportation mode in order to reduce transportation costs? However, cost reductions have limited potential and if used as the only perspective on SCM, there is the risk that they will lead to a downward spiral of continuous downsizing.

A growing number of companies realises that the supply chain function can go beyond this traditional focus of contributing to cost reductions and efficiency improvements. They understand that, especially in mature markets, the supply chain can be the engine for profitable growth if leveraged in the right manner. As such, supply chains are moving from 'cost chains' to 'value chains', and from 'supply push' to 'demand pull' (Hines, 2014; Martin & Ryals, 2014).

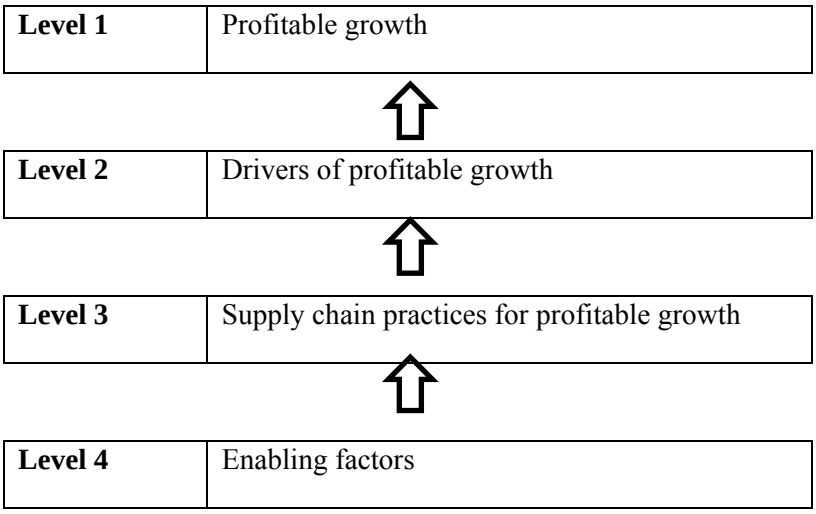
As a consequence, the performance of the supply chain function is not only measured by its impact on cost but also its impact on factors that lead to short- and long-term value creation. Melnyck, Davis, Spekman & Sandor (2010), for example, mention low cost, but also high responsiveness, security, sustainability, resilience and innovation as important supply chain outcomes. Along the same lines, Beamon (1999) indicates customer responsiveness and flexibility as important supply chain performance measures. We contribute to this stream of literature by identifying and mapping actionable supply chain

practices that can help companies achieve positive supply chain outcomes that go beyond cost reduction and support a company's profitable growth through sales generation.

METHODOLOGY

This research is exploratory and case-based. Based on a *literature review*, a 3-level framework was developed that (1) defines profitable growth, (2) identifies growth drivers, and (3) identifies the supply chain practices that support these growth drivers. Although beyond the scope of this paper, one could add a fourth level including the factors that enable the implementation of the supply chain practices, such as having state-of-the-art electronic systems which support the exchange and analysis of data. The framework is shown schematically in Figure 1.

FIGURE 1
SCHEMATIC VERSION OF OUR FRAMEWORK OF SUPPLY CHAIN PRACTICES FOR GROWTH



In a next stage, the theoretical framework was discussed with a team of consultants of PwC Enterprise Advisory, in order to complement it based on their experience in supply chain projects with their customers. This was followed by the validation and further refinement of the framework during interviews with 32 supply chain experts, at C-level and in executive supply chain functions, in 16 different Europe-based multinational companies. The companies were active in different industries, in both B2B and B2C, in production as well as retail.

In addition to validating the framework, the goal of the interviews was to identify *cases* of successful growth through SCM, and to get an understanding of the competencies needed to accomplish growth, the challenges faced when implementing such growth strategies, and the performance reached.

A selection of the experts was then invited to one of four half-day workshops, in which they presented, in total, 11 cases of growth projects. The focus of the discussion during the workshops was on the impact of supply chain practices on growth. Table 1 lists the 11 companies that have contributed to the research through these workshops.

TABLE 1
DESCRIPTION OF THE CASES (COMPANY NAMES HAVE BEEN DISGUISED)

Company	Description
OutdoorCo	Outdoor-product multi-brand retailer
PharmaCo	Biopharmaceutical multinational
TexCo	Niche player in metal fibres and metal fibre-based textile products
ChoCo	Producer of high quality cocoa and chocolate products
ShowCo	Global manufacturer of displays and projectors
FashionCo	Designer and manufacturer of luxury lingerie
PerfumeCo	Multi-brand retailer focused on high-end perfumes and beauty care products
CoolCo	Multinational manufacturer of air-conditioning, refrigeration and heating equipment
AirCo	Global provider of industrial tools and equipment
BevCo	International beverage company producing a.o. soft drinks
PostCo	Postal provider that expanded its traditional mail delivery business to include several other logistic services

Following the guidelines for case research by Yin (2013), transcripts from the interviews and workshops were analysed and the 11 cases were written down in a 2-page format. The subsequent within- and across-case analysis resulted in the identification of 7 main categories of supply chain practices supporting profitable growth. These insights led to the final version of the framework, as presented in Figure 2.

THEORETICAL FRAMEWORK

The framework consists of three levels. Level 1 defines profitable growth; level 2 explores the drivers of growth; and level 3 comprises the supply chain practices needed to drive this growth. We distinguish two categories of growth, each with their set of supply chain practices: (1) the upstream improvements drive growth by optimising cost and asset utilisation (i.e. Operational Excellence) and (2) the downstream, customer-facing improvements drive growth by generating effective value for the customer.

Level 1 - Profitable Growth

The profitable growth rate of a company can be expressed financially as the combination of its profit margin, asset turnover, financial leverage and retention ratio (Ashta, 2008):

$$Growth\ rate$$

$$= \textit{Profit margin} * \textit{Asset turnover} * \textit{Financial leverage} * \textit{Retention}$$

$$= \frac{\textit{Profit}}{\textit{Sales}} * \frac{\textit{Sales}}{\textit{Assets}} * \frac{\textit{Assets}}{\textit{Equity}} * \frac{\textit{Retained earnings}}{\textit{Profit}}$$

$$= \frac{\textit{Sales-Cost}}{\textit{Sales}} * \frac{\textit{Sales}}{\textit{Assets}} * \frac{\textit{Assets}}{\textit{Equity}} * \frac{\textit{Retained earnings}}{\textit{Profit}}$$

Whereas the latter two components are hardly impacted by supply chain decisions, the former two clearly are. The goal of our research is to identify those supply chain practices that drive growth by either increasing the profit margin or increasing the asset turnover ratio - or both.

The traditional view on SCM is that it supports the growth rate by aiming for operational excellence in order to reduce cost, hence increase profit, or in order to use assets more efficiently, hence increase asset turnover. The more recent view is that SCM also impacts profit margin and asset turnover through its positive impact on sales. This requires a focus on customer value creation, in addition to the traditional focus on operational excellence.

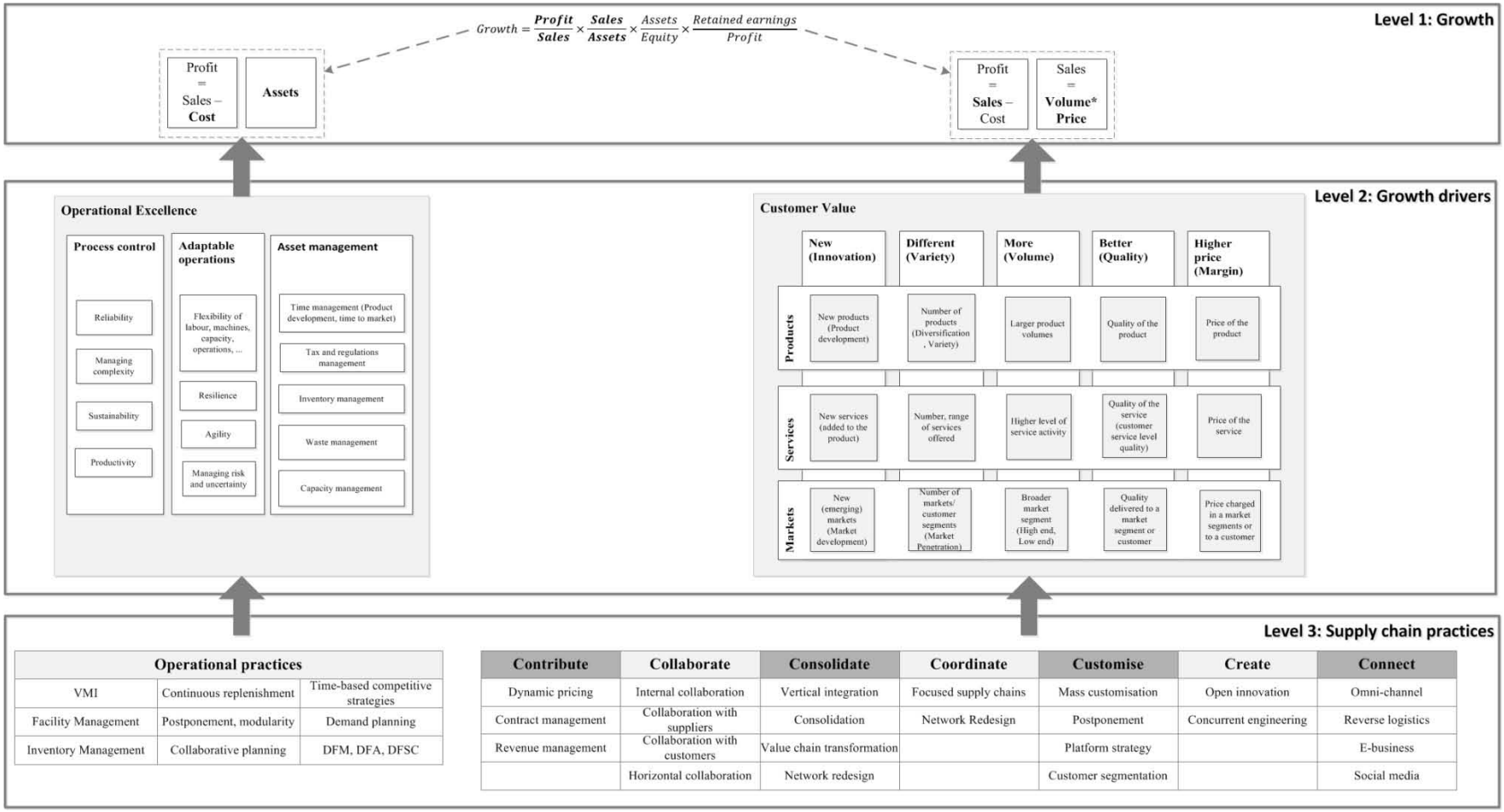
Level 2 - The Traditional Supply Chain View: Operational Excellence

The traditional focus of SCM has been on reaching operational excellence by focusing on 3 main drivers: process control, adaptable operations and asset management. Process control is crucial to ensure the reliability and productivity of the process, from sourcing to delivery. Operations should be adaptable, in order to reach the customer with the flexibility and agility that is required by the market. Asset management is important as it improves capacity utilisation, working capital requirements and the use of resources in general (Jaeger, Matyas, & Sihn, 2014). These operational excellence drivers, which have as their main goal to reduce cost and working capital needs, are achieved through different practices such as postponement, modularity, collaborative planning, VMI (vendor managed inventory), DFM (design for manufacturing) and inventory control (Alberto & Tollenaere, 2005; Disney & Towill, 2003). The supply chain practices supporting operational excellence are shown on the left-hand side at level 3 in Figure 2. Since they have been studied extensively in the supply chain literature, we do not discuss them in detail here. Instead, our goal is to reveal the power of SCM practices to increase sales and customer value, besides reducing cost and minimising the use of assets.

Level 2 - The New Supply Chain View: Driving Profitable Sales

The traditional view on SCM, as described above, is rather inward-looking. A supply chain focused on growth through sales generation is more demand-driven and outward looking (de Treville, Shapiro, & Hameri, 2004; Hadaya & Cassivi, 2007). Such growth, which comes from an increase in volume or an increase in price - or a combination of both - can be accomplished in several ways. Companies can aim to increase sales by innovating their market offering (new); by offering more variety (different); or by continuing to serve their existing customer base, but to do so on a larger scale (more), at a higher quality (better) and/or at a higher price (margin). The areas of business through which growth can be accomplished are the products that are delivered and the services that are offered with these products, as well as the market segments that are targeted. These drivers of growth are summarised schematically on the right-hand side of Figure 2, at level 2.

FIGURE 2
FRAMEWORK OF SUPPLY CHAIN PRACTICES FOR GROWTH



Operational practices		
VMI	Continuous replenishment	Time-based competitive strategies
Facility Management	Postponement, modularity	Demand planning
Inventory Management	Collaborative planning	DFM, DFA, DFSC

Contribute	Collaborate	Consolidate	Coordinate	Customise	Create	Connect
Dynamic pricing	Internal collaboration	Vertical integration	Focused supply chains	Mass customisation	Open innovation	Omni-channel
Contract management	Collaboration with suppliers	Consolidation	Network Redesign	Postponement	Concurrent engineering	Reverse logistics
Revenue management	Collaboration with customers	Value chain transformation		Platform strategy		E-business
	Horizontal collaboration	Network redesign		Customer segmentation		Social media

Level 3 - Supply Chain Practices for Profitable Sales Growth

We have scanned the literature to identify the supply chain practices that facilitate and stimulate the drivers of sales growth. This resulted in a long list of supply chain practices which we have grouped into seven categories, as one can see on the right-hand side of Figure 2, at level 3.

Connect – Getting closer to the market and serving customers tailored to their needs.

A supply chain that is connected to the market and that comes as close as possible to the final customer (e.g. by offering products online) can serve the customer faster and better (Berghman, Matthyssens, & Vandenbempt, 2006; Brown & PWC, 1999). Moreover, connecting to the market facilitates capturing the voice of the customer, which allows the company to be responsive to customer needs. Companies are, for example, increasingly making use of social media tools to communicate with their customers, partners and suppliers (Barnes & Jacobsen, 2013; Case & King, 2011).

Create – Building a supply chain that can cope with innovation and creativity.

The customer's call for new products and services urges companies to be creative and innovative. Supply chains that are able to cope with innovation or to even stimulate innovation (e.g. by allowing for open innovation) will generate a long-term competitive advantage (Huizingh, 2011; Pero, Abdelkafi, Sianesi, & Blecker, 2010).

Customise – Building a supply chain that masters the complexity of choice and customisation.

A third way to extend the product and service portfolio, is offering the customer the possibility to personalise products and services (Pine, 1993). Supply chains that facilitate customisation while managing the increase in production complexity support sales growth, while keeping costs and utilisation rates at bay (Lampel & Mintzberg, 1996).

Coordinate – Linking the partners in the chain.

Coordination across the chain is key to deal with the increasing complexity and uncertainty that comes with a wide portfolio of products and services, often sourced globally (Xiuhui & Wang, 2007). By linking the partners in the chain in a controlled manner, the impact of complexity on the supply chain can be mitigated, allowing the company to increase its market offerings at limited risk.

Consolidate – Grouping dispersed activities and integrating distribution channels.

Some companies take this one step further and move from coordination to consolidation by centralising, or even vertically integrating, their supply chain activities (Hartmut, 2015).

Collaborate – Working closely with customers, suppliers and internal departments.

Collaboration between partners in the chain – both internal and external – is a key engine for growth (Simatupang & Sridharan, 2002). Internal collaboration, between production, purchasing and sales helps to match supply and demand. Collaboration between R&D, production and purchasing ensures that products are designed for manufacturing and logistics. External collaboration with customers and suppliers provides the glue for a smooth supply chain; sharing forecast and planning information helps streamline the chain and leads to reduced costs as well as better customer service (Prajogo & Olhager, 2012). Horizontal collaboration, such as shared transportation of products, leads to reduced logistics costs, reduced CO^2 emissions, but also improved customer service (Pomponi, Fratocchi, Tafuri, & Palumbo, 2013).

Contribute – Adapting price policy and customer contracts to optimise the contribution margin.

In current markets with a high diversification of customers, companies are applying revenue management by dynamically changing prices – fine-tuned to different categories of customers - or by offering new types of contracts that change the contribution margin of the offering. Examples of such

different contracts are the shift from selling to leasing high investment products and offering maintenance contracts for long-life products (Talluri & Van Ryzin, 2005; von Lanzenauer & Pohl, 2012).

Given the interdependence of the different players in a supply chain (manufacturers, distributors, retailers, logistic providers), the practices adopted by one player may have an impact on other players in the chain. The impact may be positive, one partner strengthening the other partner, or it may be negative and the practice may even cause conflicts in the chain. For example, a manufacturer connecting to the final customer by setting up an e-business channel may be competing with his distributor who may lose part of his revenue as a result of the manufacturer's decision (Cunningham, 2013). We conclude that the position of the company in the supply chain and its power relative to other parties in the supply chain will determine its choice of practices for growth and may also impact the success rate of these practices.

FINDINGS

The interviews and workshops with practitioners allowed us to fine-tune the framework that we developed through our literature review and to illustrate the set of supply chain practices for growth through a set of cases. Exhibit 1 at the end of this paper gives some examples from our case studies for 6 of the 7 supply chain practices that had been identified. For a full description of the cases and the practices applied in the companies, we refer to the research report (Vereecke, Van Steendam, Vermeire, & Waterinckx, 2015). Note that no evidence was found in our cases for the 7th supply chain practice 'Contribute'. Although it did emerge from the literature review, it was not top-of-mind for the supply chain experts in our case studies.

As part of the interviews, the experts were asked to rate the importance of the supply chain practices on a scale from 1 to 5 (a 1 indicating very low importance, a 5 very high importance). Table 2 provides the average degree of importance for each of the categories of supply chain practices. As our sample is small (n=16), the results of this importance rating should not be overemphasised. Yet it is fair to conclude that Coordination and Consolidation were rated as very important categories, whereas the Contribute practice was considered of minor importance. Within the category of "Collaboration" we should distinguish between internal collaboration (with departments within the company), vertical collaboration (with suppliers and/or customers) and horizontal collaboration (with other partners, possibly even competitors). Whereas internal collaboration and vertical collaboration have become common practice, very few of the cases mentioned horizontal collaboration as a supply chain practice. In the few cases where we did encounter it, it concerned pilot projects which were not rolled-out and which had as their main objective to reduce cost rather than to grow sales.

TABLE 2
IMPORTANCE OF THE 7 Cs (N = 16 COMPANIES)

SC practice	Average (1 to 5)	(Standard Deviation)
Connect	3.47	(1.38)
Create	3.31	(1.25)
Customise	3.44	(1.50)
Coordinate	3.81	(1.17)
Consolidate	3.88	(0.96)
Collaborate	3.06	(1.34)
Contribute	2.09	(1.04)

Figure 3 groups the cases based on their position in the supply chain. Three of the companies are retailers, positioned downstream, close to the end customer. The other seven are producers, five of which producing end products that are sold to the end user via distributors and/or retailers. The remaining two companies are mainly active upstream as B2B supplier of components or material for other producers. Figure 3 indicates which of the supply chain practices have been applied to realise growth in each of the cases. The pattern that emerges is different for the upstream producers versus the downstream retailers. The three retailers in our study had as a major objective to improve their service to the customer, to offer a better customer experience and eventually to Connect to the customer by adding an e-store to their bricks and mortar stores. Collaboration and Coordination were considered as important practices to accomplish this goal. For the producers in our study, Coordination, Consolidation and Collaboration were considered as important practices that allowed them to Connect, Create or Customise and as such to respond better to customer needs. Although preliminary given the limited number of cases, we conclude that the position of the player in the supply chain has an impact on the set of supply chain practices that are applied to accomplish growth. We also conclude that there seems to be a hierarchy in the adoption of the practices, with Coordination, Consolidation and Collaboration creating a platform that allows companies to Connect, Create and Customise.

FIGURE 3
SUPPLY CHAIN PRACTICES FOR GROWTH VS POSITION IN THE SUPPLY CHAIN

	TexCo	ChoCo	AirCo	ShowCo	CoolCo	PharmaCo	BevCo	FashionCo	PerfumeCo	OutdoorCo	PostCo
Connect		x			x	x				x	
Create	x					x	x	x			
Customise		x		x		x					
Coordinate								x			
Consolidate			x		x	x			x		
Collaborate	x			x			x		x		x
	tier one supplier		producer/OEM						distributor dealer	retailer	

DISCUSSION

Our study brings to attention a group of companies that consider SCM a strategic function that facilitates, or even drives, sales growth. The practices applied in their supply chain fall into seven categories. The companies Connect to their customers and they offer them a Creative and Customised portfolio of products and services. They Collaborate internally and externally, with customers and suppliers; they Coordinate and Consolidate activities in the chain; and they optimise Contribution generation. Whilst the degree of importance of these practices differs, they share a common goal: creating value for the customer and hence increasing the revenue and profit margin of what is delivered to the market. The supply chain therefore not only helps to keep at par with competition but even to gain competitive advantage.

The 7th C, "Contribute", was the more intriguing one. The managers in our cases argued that it was low on their agenda and often not in the hands of the supply chain manager. Moreover, on the rare occasions where the supply chain department did play a role in optimising the contracts and revenues, the practice was not initiated from a sales growth perspective. Also, confidentiality hindered an open discussion. A possible explanation is that it is still in an early stage of application, and may grow in importance in the future. An alternative explanation could be that it is not considered as a supply chain responsibility, but as the responsibility of finance or sales. This leaves the question whether we can talk about 7 Cs found in literature, or should focus on the 6 Cs found in practice. At this point, it remains to be

seen whether the focus on price and contribution margin is a supply chain practice for the future, or whether it is a practice outside the scope of the supply chain function.

Interestingly, in each of the cases the supply chain practices driving sales growth were implemented in combination with operational excellence practices that aim for cost reduction and efficiency improvements. Hence, the assignment of SCM was not to reach either operational excellence or sales growth. Rather, it was to reach both. It was striking that operational excellence was mentioned as a facilitator for sales growth; by eliminating waste in the processes, opportunities were created and assets were freed up. Operational excellence, in particular lean operations, prepares the process for the expected growth. By making the process more robust and reliable and by ensuring that it masters the complexity that comes with growth, such practices can make the difference between profitable and unprofitable growth.

CONTRIBUTION

Our research identifies a set of supply chain practices that create a platform for profitable sales growth. We group these practices into seven categories, each starting with a C to make it appealing for practitioners.

Our research thus adds to the literature on SCM which - to a large extent - assumes a steady sales level for which the inputs and processes have to be optimised. Our contribution has been to offer a systematic overview of supply chain practices that drive sales growth.

For practitioners, the research provides a guideline for managing the supply chain in order to accomplish profitable growth. The case examples of companies that have implemented the practices can give inspiration to build the capabilities in the supply chain for getting new products to the market easily, attracting new customers or serving existing customers better, in order to grow the company's sales without increasing costs or creating the need to invest in more assets.

LIMITATIONS AND FURTHER RESEARCH

The empirical part of the research is case based. Our conclusions reflect the practices applied in 16 companies, based on interviews with 32 experts. Our conclusions can therefore not be generalised. Extending this research by collecting more illustrations through cases from additional companies and by collecting data through survey research on the application of the supply chain practices could be the next step forward. This may lead to additional and new insights.

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EXHIBIT 1
CASE ILLUSTRATIONS OF THE SUPPLY CHAIN PRACTICES

SC practice	Case illustrations
Connect	At **OutdoorCo,** a move was made to an *omnichannel* approach: a combination of physical stores and an integrated web-store. Several formats for e-ordering are now in place, each of them offering a different delivery or pick-up service. All e-order processes are directly linked to the company's ERP system to ensure full visibility on both in-store and warehouse inventories to ensure smooth deliveries, while keeping inventories at a minimum.
Connect (2)	**Pharmaco** redesigned its downstream supply chain in several markets *from a distributor channel to a direct-to-wholesalers set-up*. This enables collaborative planning and forecasting. In other markets or for some products, the supply chain was even redesigned to a direct-to-pharmacist model, turning the wholesaler into a logistics partner. This ensured full market availability and improved visibility on customer demand, as well as reduced the lead time from production to patient.
Create	**TexCo** grows rapidly by offering *new applications and new products for new customers*. The growth in volume as well as in number of products brought capacity utilisation in the plants close to 100%, putting the plants under unwanted pressure. As customers are demanding and many of the products require specific expertise in production, the importance of building a strong supply chain that can cope with the complexities imposed by this growth strategy is clear. A key aspect of TexCo's supply chain strategy is the collaboration with nearby sub-contractors for SKUs that have a relatively low production volume or that require specific capabilities. This increases capacity flexibility at the TexCo plants.
Customise	**ChoCo** uses *mass customisation* to deal with an offering of 6,000 recipes, most of which are custom-made for specific industrial customers. By producing only a limited number of 'mother chocolates' (white, milk and dark) and blending these later in the process, the outcome can be adjusted to the customer's specific requirements. By combining postponement and modular design, customers can design a unique taste that can be produced in batches as small as 500 kg.
Customise (2)	By implementing a supply chain strategy around *modular product design*, **ShowCo** was able to build a portfolio of products with over 90% parts commonality. This allowed the company to enter the mid-range segment of the projector market much faster and with a wider offering than its competitors, while limiting the impact on its production and supply chain.
Coordinate	At **FashionCo**, the central supply chain team balances over 20,000 short life cycle SKUs on a yearly basis with high quality demands from customers - while having to ensure optimal product availability. They split the entire portfolio - following a production logic - into several product categories that are pushed through focused supply chains with production facilities in different countries. In the central distribution centre, these product categories are brought together and are re-united per series or family - following a market logic. These *focused supply chains* allow FashionCo to push products to the stores as soon as possible in order to maximise in-store availability and reorder possibilities.

Consolidate	**PerfumeCo** *centralised the ordering system* of its shops, thus freeing up time for salespeople to focus on increasing in-store sales. At the same time, the logistic flows from the suppliers to the stores are now consolidated via the central distribution centre. This central hub decides which products to ship to which stores, based on real-time store inventories and centrally-produced forecasts, and it orchestrates the return flows in the network. The project enabled JIT deliveries and resulted in lower stock levels, optimised deliveries, higher levels of in-store availability, increased purchasing power and better overall responsiveness.
Consolidate (2)	**AirCo** evolved from a product to a solutions provider over the last years. To optimise its solutions portfolio, the *company consolidated the service departments* for each of its four business areas into one global service division. The ultimate goal was to increase the offering and quality of the services and the customer experience, in order to position AirCo's superior service as a differentiator in the market. With a single point of contact for all customers, focus on value creation from a customer point of view became much easier. This enhanced the collaboration with the end-user and positioned AirCo more explicitly as a total solution provider. At the same time, this supply chain consolidation allowed the company to build the necessary capabilities to actively grow the portfolio of services it offers to its customers.
Consolidate (3)	**CoolCo** implemented a far-going *consolidation and vertical integration* project in its European distribution chain. As its customers expect fast delivery and easily switch supplier in case of out-of-stocks, the lead time to customer is vital in this market. Before the project, CoolCo's sales companies placed replenishment orders with the European headquarters and stored the goods in their local warehouse before delivering to their customers. The company reduced its number of warehouses by almost half and took over the ownership of the local inventories. In doing so, the company gained control over the product flows and had better visibility on market demand, allowing it to move the goods to where the demand was – driving sales even more.
Collaborate	A hard discount retail customer offered an new business opportunity to **BevCo**, on the condition that BevCo could set up a dedicated supply chain in less than 6 weeks. A new customer-specific bottle had to be designed and delivered on customer-specific pallets. To get the product in the customer's store within the required time frame, strong *cross-functional internal collaboration* was a prerequisite. BevCo created a Logistic Account Manager function, bridging the commercial account managers and the supply chain department. This specific function's key role was to be the linking pin between BevCo's internal departments and the customer, and to open up internal silos to ensure customer-oriented solutions that were feasible in BevCo's SC.
Collaborate (2)	**PostCo** repositioned itself from primarily a mail delivery company to a *supply chain orchestrator* in a few specific domains, one of which is the service for processing EU license plates for vehicles. The company engaged in a far-reaching collaboration with the Belgian government to fully re-design the process from order to delivery based on a clear supply chain strategy. By collaborating both vertically (upstream and downstream) and horizontally (across different departments), PostCo now delivers over 5,000 license plates per day with a lead time of only 1 day, whereas this took multiple weeks in the previous set-up. By orchestrating all parties involved, PostCo has been able to tap into a new market segment while allowing its customer to focus on its core activities.
Contribute	None of the interviewees could provide examples of recent supply chain growth projects in this category of supply chain practice.