Companies today face unprecedented disruption across all business functions. Whether it is changing business models, the impact of digital, increased M&A or pressure from activist investors, disruptors are compressing operating margins and are making scalable, profitable growth and consistent competitive agility much harder to achieve. Addressing these challenges and driving margin expansion requires a focus on cost optimization, growth and operating model change. Supply chain leaders are often on the receiving end of these cost reduction programs, or initiate cost optimization activities such as strategic procurement or supply chain optimization. Therefore, it comes as a surprise that supply chain leaders are rarely at the table when organizational leadership is discussing growth or operating model change. Given their strategic role in an organization, how can supply chain leaders do more to proactively drive change and growth, in addition to leading cost-cutting initiatives?
Winning through comprehensive margin expansion

In today’s world, shareholders and stakeholders expect winning companies to be growth-led, nimble with their cost base and committed to scalability and trust. Accenture has developed a “Competitive Agility Index” to measure how effectively organizations are executing against these three dimensions. The Agility Index identifies these as leading indicators of performance, given their bearings on top and bottom-line financial results.

Accenture Strategy’s 2018 research analyzed over 7,030 companies across 20 sectors and found that more than half (54%) of the companies we examined experienced a material drop in trust at some point during the past two and a half years. A material drop in trust is defined as a drop of 5% or more. The average company that experienced a drop in trust with their strategic partners also saw their Competitive Agility Index score decline by two points. There is a direct negative correlation between the Competitive Agility Index and revenues, meaning that when a company’s score drops in the Agility Index, their revenues are at stake. Of the 54% of companies in our sample that experienced a decline in trust, a collective $180 billion (US) in revenues were jeopardized, based on available data, compressing their top-line margin growth.

Given that over half of companies struggle with declining trust and as a result, are eroding significant revenue opportunities, what can organizations do to fortify stronger trust with customers and suppliers? Our experience shows that organizations are building trust through integrated margin expansion strategies, featuring equal emphasis on top- and bottom-line growth, optimized and reduced cost and scalable operating models. Introducing a comprehensive margin expansion program offers a transformative path forward and helps strengthen trust with shareholders and critical stakeholders. (See Figure 1.)

Given the strategic nature of their role and the visibility they have into an organization, supply chain leaders should be in the driver’s seat of margin expansion programs. In two recent case studies in the high-tech industry, we saw chief supply chain officers (CSCOs) proactively architecting margin expansion programs that dramatically transformed their organizations.

In the first example, a company was experiencing pressure from an activist investor, growth rates were stalled at around 7% to 8% and operating margins were down from 30% to 24%. They requested Accenture Strategy partner with their C-Suite leaders to help return their company to 30% operating margins, without negatively affecting their short and long-term growth trajectories and harming the trust of their shareholders, employees and customers. Our approach focused on preserving the unique and differentiating aspects of their business, and helped them:

- achieve target operating margin;
- deliver accelerated growth;

![Figure 1: Building trust](source: Accenture)
Driving margin expansion

- increase sustainable benefits; and
- follow a clear and executable roadmap.

In this success story, the supply chain leader embraced the role of transformation architect, driving both growth and cost reduction, and delivering on commitments to shareholders. As other supply chain leaders consider margin expansion initiatives, best practices suggest that they must continue their leadership of cost optimization efforts, specifically focusing on general and administrative (G&A) cost optimization and third party spend reductions. Supply chain leaders should seek to expand their roles through the use data and analytics, to draw insights for driving growth and sales initiatives, ultimately generating opportunities for operating model evolution. Supply chain leaders also need to get a seat at the table and influence the growth side of margin expansion, in addition to their ownership of cost optimization.

In the second example, a company acquired a division through a partial divestiture from another company. After paying a heavy premium for this strategic acquisition, the organization needed a smooth transition to maintain shareholder trust. Successful integration was predicated on driving down costs, and growth through innovation (new product development and driving solutions faster to the market). The CSCO played a key role in directing the integration.

There are several other examples demonstrating how CSCOs create growth from the forefront while driving margin expansion, which is redefining the traditional CSCO role. Forward-thinking organizations can parlay this into an improved position in the competitive agility index and orient themselves for a successful operating margin expansion. These success stories bespeak how CSCOs are helping companies “win” through comprehensive margin expansion programs. The most impactful margin expansions incorporate three core components; each is outlined in detail below.

G&A cost optimization

The cost component of margin expansion concentrates on using zero-based methodology to reduce labor and non-labor spend in G&A functions. For labor spend, the zero-based approach seeks to determine the right structure, right work and right size for functions like procurement, finance, HR and IT (see Figure 2). According to “Structural Cost Transformation & Enabling the Growth Strategy Agenda,” a 2015 survey from Accenture Research, up to 70% of work activity in some organizations does not contribute to a desired business outcome. Given that cost is a key element of the Competitive Agility Index, a structured approach to G&A optimization is an essential for successfully positioning companies to expand their operating margins. Designing from a “clean sheet,” focused on the right structure, right work and right size, allows this non-differentiated work to be eliminated, accelerating the path to significant cost reduction.

Typically, leading companies explore structures like Global Business Services to optimize their labor arbitrage/outsourcing efforts and streamline their internal operations. To highlight the right work, many enterprises leverage automation to eliminate non-value-added activities and drive improved outcomes across end-to-end processes. Robotic Process Automation (RPA) is a common starting point for companies early in their automation journey. Many companies are able to use RPA software to automate repetitive, non-value add work. To right size organizations, companies often seek ways to reduce spans and layers and eliminate organizational complexities from their G&A functions.

In addition to optimizing G&A functions, companies looking to drive margin expansion also focus on reducing spend inefficiencies with third party providers. Spend inefficiencies are commonly identified in cost centers like professional services, facilities, HR, IT, logistics, marketing, packaging, travel, energy, equipment, engineering and construction. A five-step, closed loop methodology provides a framework to drive sustainable reductions in spend (see Figure 3).

Companies can begin by providing transparency around the true cost and efficiency of a company’s operations through financial and operational data analysis. Using that data, a company can conduct value-targeting to identify and quantify price, performance and value engineering initiatives to improve efficiency, reduce complexity and reduce costs. After a meaningful list of initiatives has been generated, organizations are encouraged to blueprint and enhance their procurement
capability. These enhancements include any necessary organization redesign, process optimization and technology enhancements required to bolster an organization’s procurement capability. After blueprinting has been completed, execution of cost-out initiatives begins, and commitments identified earlier in the process begin to catalyze in a measurable way. Finally, tight controls must be developed to monitor the initiatives through a set of KPIs and regular monthly reporting. Leading organizations typically emphasize variances against the annual plan and developing targeted action plans to adjust.

The supply chain officer’s role
Supply chain officers are in a unique position to own and drive G&A cost optimization, especially in the Procure-to-Pay (P2P) function. With labor spend optimization, supply chain leaders should be looking for ways to reduce contractor spend, leverage global business services and optimize work placement of the P2P function to maximize labor arbitrage benefits. Supply chain leaders also need to be informed about the benefits and risks of automation for the supply chain organization and the overall corporation.

There is a huge opportunity for automation in supply chain functions—planning, managing shipments, delivery updates to customers, reschedules and PO creations to name a few. Automating these tasks allows supply chain professionals to focus on value added work, while automating mundane and repetitive tasks. For all discretionary spend, they can help their C-Suite peers fortify stronger partnerships with third party providers, not solely focused on price, but rather the total value impact generated from these partnerships.

Additionally, it is worthwhile to streamline and optimize P2P processes to drive the right-work and evaluate spans and layers across the P2P function to ensure that the organization is right-sized. With non-labor spend, supply chain leaders need to manage third party spend using a closed-loop approach and ensure that their organizations have the right talent, processes and tools required to effectively perform the procurement function. Data is an indispensable foundation to optimizing both labor and non-labor spend.

Supply chain leaders should be regularly analyzing headcount data and spend information to monitor and affect change across the G&A function. Far too often, companies lack visibility to contractor data, employee data and finance data, precluding leadership from understanding a comprehensive headcount picture. This task can be easily owned and managed by supply chain leaders.

FIGURE 3
A five-step, closed loop methodology

1. Spend visibility
2. Value targeting
3. Blue printing
4. Executive initiatives
5. Control and monitoring

Source: Accenture

FIGURE 4
Top-line growth and bottom-line growth

Unleashing next generation selling motions, removing the barriers that slow sales, and shifting the performance curve

Winning at point of sale

Optimize channel spend

COGS, 3rd party, other

Sales spend ROI

EBITDA

Revenue

Potential revenue

Gross revenue

Net revenue

Source: Accenture
Driving margin expansion

leaders as they have teams have existing capabilities in complex analytics and algorithms.

Fueling growth through data and analytics

Data and analytics are also imperative to the growth components of the operating margin equation. Growth has two key mechanisms: top-line growth and bottom-line growth. Top-line growth is focused on unleashing next generation selling motions, removing barriers that slow sales and shifting the performance curve. Bottom-line growth is about reducing cost through optimization of sales spend and winning at the point-of-sale. Accurate, actionable data and insights are essential for improving both top-line growth and bottom-line growth (see Figure 4).

A first step in driving top-line growth is analyzing key metrics for customer segmentation. Analytics can help companies better understand which customers bring value (value creators) and which do not (value distractors). Leading sales organizations tailor selling motions for both value creators and value distractors, especially as it pertains to digital. Typically, they maximize profitability by optimizing investment (discounts, free services and favorable terms and conditions) for these different customer types, and limit churn for the highest value customers. Furthermore, sales reps must be equipped with negotiation enablers (cost to serve analytics, value proposition, negotiation strategies) to drive the desired outcomes and create a comprehensive discounting strategy, including standard deal terms and targeted deployment of discounting dollars. Sales rep compensation should be defined by a customer treatment model to ensure that behavior and incentives are aligned. With role clarity, aligned selling motions and compensation and defined customer treatment, high-performance selling can result in accelerated growth.

Bottom-line growth focuses on charting a course to increased sales effectiveness through improved sales spend ROI and winning at the point-of-sale. Sales spend ROI is generated through the development of the optimal sales team structure and engagement model to drive a more disciplined division of labor between inside sales, direct sales and channel. Furthermore, ROI highlights the importance of aligning compensation to business performance by moving away from unit sales as the driver of performance and towards margin. Leading organizations actively manage a pay-for-performance structure and use analytics to set quotas and reduce overpayments (manual pay, quota management, sales credits). Winning at the point-of-sale happens through increased revenues, sourced from improved negotiations, reducing cost through limited price erosion and generating value in non-traditional areas like terms and conditions. Addressing sales effectiveness through compensation and winning at the point-of-sale helps companies bolster their position in the competitive agility index and ultimately, drive bottom line growth and margin expansion.

Supply chain officers and growth

Through segmentation, sales leaders are reducing costs associated with servicing value-distracting customers. These savings are being reinvested into value-creating customers and driving greater revenue. Supply chain leaders are integral in cost reduction, as they often have key insights into where costs and non-value-add investments are hidden. They can also adopt a segmented view offering some customers high-value supply chain logistics, operations and delivery, while others receive more streamlined, low-touch and low-cost services. Further, they can also help identify the true cost to service a customer through the product lifecycle. These opportunities can be incorporated into commercial treatments guidance for sales representatives to leverage as they develop competitive offers for customers and prepare for negotiations.

Creating an agile operating model

Companies often make changes to their G&A functions or improve their sales motions, but fail to address underlying structural challenges in their operating models. This creates a situation where benefits can be achieved in the short-term but ultimately erode over time. Durable margin expansion efforts should be tightly coupled with a transformation of a company’s operating model. This is fundamental to achieving sustainable profitable growth.

Operating model transformations have two dimensions: intent and blueprint. To assess the intent of an operating model, companies typically look at whether the corporate vision is supported by the structure. Organizations also evaluate if their distinctive business capabilities are being enhanced or eroded, based on their structure. For example, if a company has multiple divisions, are those businesses differentiated and distinct? Are they positioned to support growth via segmentation? Does a company have the right underlying support structure? As G&A costs are being taken out, do new structures like global business services need to be considered? Assessing the intent of the operating model helps to understand whether a company’s corporate structure needs to adapt to changes generated by margin expansion activities.

The other part of creating a sustainable operating model

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relates to a company’s blueprint. In plain terms, this means ensuring that an organization has the right fundamentals to sustain change. Fundamentals include things such as whether an organization has the process discipline to adhere to a new segmentation model or whether a company has the technology enablers needed to drive standardization and optimization of processes. Blueprints also address the placement of right measures and incentives in place to continuously drive behavior that reinforces the goals of either cost optimization or growth. (See Figure 5.)

**Supply chain officers and the operating model**

Assessing the intent and blueprint of a company’s operating model helps to identify where the most impactful transformation opportunities lie. Given the breadth of their roles, supply chain officers have a unique vantage point from which they can evaluate an operating model and make recommendations on how to prioritize transformation needs in support of margin expansion. Supply chain leaders see elements of each business and should be proactively offering perspectives about how to make their company more effective and efficient. This becomes even more relevant for companies that are undergoing an evolution of their operating models. For example, several high-tech companies are now making the pivot from a product model to solutions “as a service.” As the business landscape continues to rapidly evolve, supply chain officers need to be alongside their C-Suite peers in determining the right operating model for the company.

**Driving growth**

With disruption affecting all facets of the enterprise and creating significant trust challenges for companies, the role of chief supply chain officer is more prominent than ever. CSCOs offer an invaluable perspective on the cost reduction and growth initiatives that harbor successful operating margin expansions. Supply chain leaders are not only focused on the bottom line; but also understand and enable top-line growth.

Their unique visibility to both components of operating margin expansion makes them an indispensable member of the operating committee. CSCOs should not only be consulted, but also included in strategic conversations about developing a sustainable operating model. Companies that encourage an elevated role for the chief supply chain officer can translate insight into action, driving down costs, augmenting revenues and subsequently, strengthening trust and generating higher returns for shareholders.

*Annie Peabody, a senior manager with Accenture Strategy, contributed to this article.*