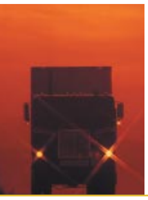

Quick-Change Supply Chains

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To ensure business success in the 21st century, companies must continuously transform their supply chains and build collaborative relationships to gain long-term competitiveness.

We may never see a television series about supply chains. However, nearly everyone is familiar with *Survivor*, where the best players develop fast-changing strategies to outdo competitors and persevere through shifting conditions. "Outwit, outplay, outlast" is the show's motto. So perhaps *Survivor* can be viewed as a good model – a template, in fact – for 21st century supply chain management. And if that is the case, then what will it take to be a survivor of 21st century supply chain battles?

Survivor's conflict analogy is relevant to how today's businesses compete. We've all watched U.S. manufacturers lose ground to overseas companies. And how many companies have been pushed off the "island" because obsolete operating models rendered them ineffective? Simply put, most companies already are engaged in serious battles over product availability, service levels and logistics costs. Those that aren't will be soon. The island is getting smaller.

In his *Harvard Business Review* article "The Triple-A Supply Chain" (October 2004), Hau Lee profiles the new battlefield. The Stanford University professor states that high speed and low cost aren't enough to give companies a sustainable supply-chain-based advantage. As proof, he notes that U.S. supply chains became significantly faster and cheaper between 1980 and 2000. However, product markdowns due to excess inventory jumped from 10 to 30 percent of total units sold, and customer satisfaction with product availability plummeted. Some companies – like Amazon.com, Dell Computer and Wal-Mart – bucked these trends. However, Lee's research shows that the supply chains of these companies are more than fast and cost-effective. They are agile – responding quickly to sudden changes in supply or demand. They also are adaptable – evolving rapidly as markets change. And finally, they are aligned – synchronizing goals and characteristics with those of their supply chain partners.

So how should the rest of us transform our supply chains to compete in the future? The answers are complex and highly individual, but there is at least one common denominator. Most of today's supply chains (regardless of industry) are "hard wired." In other words, they accommodate only standard service offerings, and have little or no ability to meet fast-changing availability or delivery requirements. Yet business success in the 21st century will increasingly demand quick-change supply chains.

Quick-change supply chains adapt rapidly to changes in customers' product needs and delivery preferences. In a similar vein, they accommodate global variations in supplier material availability and logistics provider capacity. They also are externally focused on issues like evolving marketplace needs and new ways to work with supply chain partners to satisfy customer demands. Simply put, there is no place in the quick-change supply chain for fixed methods of manufacturing, storing, packaging and moving products. That's because the companies that deploy them know that customers, markets and (consequently) supply chain behaviors will be more fluid in the 21st century than ever before.

What Will Be

Sooner than you think, quick-change supply chains – supply chains that continuously transform themselves to ensure long-term competitiveness – will become the rule rather than the exception. Their philosophical cornerstone will be cooperative approaches to supply chain design and execution, working routinely with supply chain partners, including customers, vendors and logistics services providers. Regardless of whether those new supply chains are managed internally or with the help of outsourcing services providers, they surely will use interchangeable parts – similar to a child's LEGO set. This will enable them to reconfigure service and delivery options as marketplace conditions change. New types and sources of supply chain information, planning technologies and management procedures also will be required.

Lastly, companies will need to consider, and potentially adopt, a number of endemic quick-change principles. Here are five:

1. More Logistics Partnerships

Your home is becoming a digital network, with consumer electronics manufacturers working together to help music, video and information travel from room to room. In the near future, supply chain masters will

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strive to achieve the same connectivity and resulting success. More of them will work together to ensure better availability, greater portability, more cost-effective service and overall high performance.

Collaboration is the linchpin of this scenario. Even in the 1990s, do-it-yourself supply chains were becoming more expensive and less effective, while partnerships with carriers and third parties were becoming more popular. A few innovators even experimented with outsourcing entire supply chains, with many reporting significant cost savings and service improvements.

Now the trick is to form new relationships with various supply chain providers quickly to meet rapidly changing needs. Working with outsourcing services providers is one way companies can achieve this. In fact, helping clients transform supply chains or set up new ones is becoming an important selling point among third parties. Li & Fung, for example, leverages its worldwide supply base of 2,700 partners to offer companies apparel sourcing, manufacturing, logistics, design collaboration and information systems. This full-service approach enables clients to rapidly build a quick-change supply chain capability.

> "... the principal mission of 21st century companies must be to get off the island, to establish linkages and build and extend relationships beyond the island, across the enterprise and potentially around the world."

To begin seeking the right supply chain partner(s) and developing mutually beneficial relationships:

- Talk with organizations in your industry that have successfully outsourced all or part of their supply chain operations.
- Identify a particularly difficult distribution problem within your company. Then talk to third-party providers with relevant experience and get their input.
- Make interactions with logistics services providers a frequent and ongoing initiative, and encourage C-level staff to actively promote and participate in the collaboration process.

2. New Information Management and Planning Tools

High-frequency data sources – detailing on a real-time basis what's happening with customers', carriers' and suppliers' supply chains – are integral parts of a quick-change supply chain. Unfortunately, one-stop supply chain information sourcing isn't happening any time soon, so companies will have to rely on multiple data sources to drive supply chain performance improvements. A key differentiator will be their ability to establish data aggregation and swapping relationships – either directly or through third parties – with customers, logistics providers and suppliers.

Business Service Platforms

In the late 1990s, many believed that dot-com marketplaces were the answer to supply chain data-availability problems. Although that didn't happen, the next generation of e-markets – business service platforms (BSPs) – may succeed where their forbearer failed. In "The Invisible Hand of Commerce" (*Optimize* magazine, July 2004), Thomas Koulopoulos and James Champy describe BSPs as hubs of enormous networked communities, such as those being developed by Wal-Mart and Dell with their suppliers and customers. However, these company-driven BSPs will soon be succeeded by next generation networks – where multiple, competing product and service providers do business. Within these networks, real-time information will be widely shared among supply chain partners.

Wireless Enterprise Data Sources and Mobile Enterprises

BSPs may eventually become major players in electronic commerce. But other types of information hubs are emerging now. A good example is wireless enterprise data sources – RFID, telematics, remote entry, bar codes and so forth. Used individually, these tools are emerging as valuable contributors to supply chain efficiency. But what if they were linked together using world-class execution and planning technology? This is starting to happen in the form of mobile enterprises where anytime/anywhere ecosystems are based on the increasing ubiquity of people, inventory, knowledge capital and assets.

Business Information Networks

Business information networks (repositories of information critical to real-time supply chain management) have also become important tools for enhancing supply chain performance. To stock these "BINs," information on logistics requirements, channel performance, product availability, etc., is collected directly from supply chain participants (e.g., shipment status from carriers) or indirectly as part of other activities (such as retail takeaway data collection). BINs operate all along supply chains, helping to manage customer relationships, shipments and supplier interactions. However, they also can function as stand alone information sources, or be linked to supply chain execution, management and planning software.

Figure 1 shows how companies will increase their use of new supply chain information sources in the coming years. P&G, for example, is adopting and implementing a partner-focused collaboration model around supply chain information sourcing. And Dell is pioneering a customer- and partner-focused supply chain data-sourcing model that synthesizes information from numerous internal and external providers.

These pioneers remind us that, for the time being, individual companies will need to take the lead in developing industry-specific strategies for capturing, integrating and leveraging large quantities of external data as:

- Consumer goods manufacturers are increasingly squeezed by tighter delivery and service requirements. For them, an information management priority might be to provide customer service

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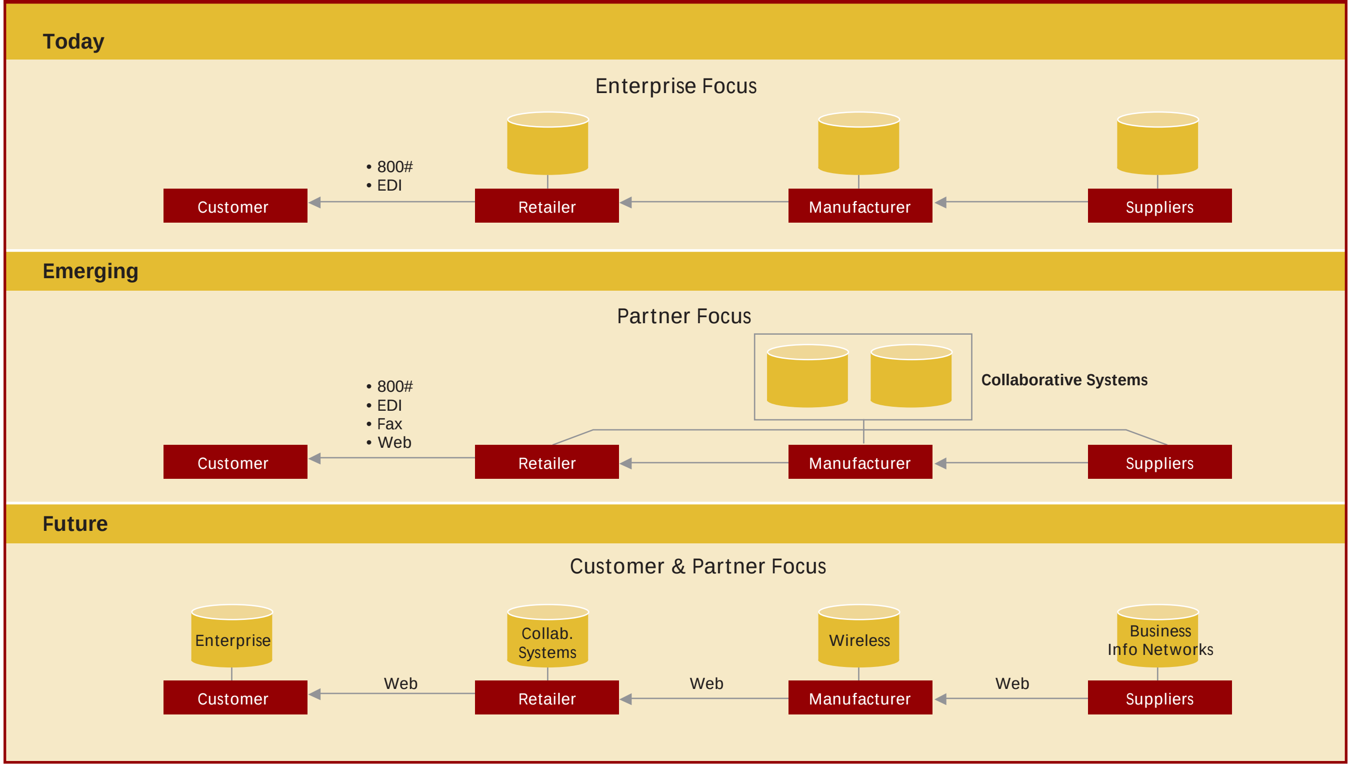
Figure 1 Evolution of Supply Chain Information Sources



people with more and better data from hubs that focus on transportation tracking and customer sell-through information. This has the potential to increase product availability, thereby creating more frequent on-time deliveries and more satisfied customers.

- Complex inbound supply channels often daunt high-tech manufacturers and retailers. Better and more frequent supplier-management data could help them reduce delivered-material costs and increase the flexibility of their product pricing.
- Resource companies often fall short in their ability to blend plant-level data with shipment status information. Improvements in this area would help them increase overall supply chain productivity, while enhancing security (e.g., for hazardous cargo).

3. More Incentive-Driven Performance Metrics

Many businesses enjoy collaborative, symbiotic relationships. However, Wall Street still rewards (or penalizes) individual companies. This is why your CFO is often suspicious of multipartner supply chain improvement projects, such as RFID. After all, such "opportunities" promise higher returns for both you and your partners. But they still cost your organization real money.

So how can supply chain leaders combine collaboration and enlightened self-interest to achieve high performance? Supply chain masters often work first with innovative customers and suppliers (not necessarily the largest ones) to develop joint programs that reduce supply chain costs or improve service. Wal-Mart does this all the time, using lowest delivered price as its (excuse the mixed metaphor) 800-pound carrot. However, most approaches don't need to be this aggressive. One favored strategy is to work closely with suppliers to evaluate inbound material-flow options and identify ways to share productivity savings. This approach could reveal that your suppliers actually are better equipped to coordinate your just-in-time deliveries than you are. Dell recognized years ago that its suppliers are the best managers of Dell's material flows. Thus Dell supply chain professionals focus on defining and monitoring supplier-performance metrics, rather than physically managing flows.

The bottom line is that suppliers and customers often know more about what types of improvements yield the best results. This explains why P&G second-largest office is in Bentonville, Arkansas. Simply put, P&G figured out that living next door to your best customer is a good way to improve logistical, product development and merchandising performance. But it and many like-minded companies also apply other strategies to build success in multipartner supply chain projects to:

- Work with partners to understand the legal options associated with cross-company incentive sharing. This can be done in the context of a task force – with companies, customers and suppliers working together to determine costs and benefits and develop joint plans.
- Identify how potential initiatives may alter the flow of cash across companies. Nothing gets a CFO's attention faster than free cash flow. If a deal can be formulated that correctly measures the value of improvements, while providing a way to legally share the costs and benefits, then executives will pay attention – particularly if it involves major customers or suppliers.
- Establish an ongoing process for examining new incentive programs with supply chain partners. For example, the process might require new suppliers to propose gain-sharing pricing, based on agreed-upon service and cost/performance metrics.
- Consider developing a vendor management organization (VMO) inside your company. VMOs make dedicated resources available to coordinate interactions with vendors, pursue supply

chain improvement initiatives and monitor the performance of multipartner projects.

4. New Coalition-Based Supply Chain Management Practices

For better or worse, supply chain executives and supply chain organizations acquired greater power in the 1990s. The better is that supply chain professionals now do an improved job of managing complementary functions: transportation, warehousing, after-sale service and sometimes even inbound materials management and manufacturing. The worse is that this expanded scope often came at the expense of other functional areas. But does a better way exist?

Generally, yes. And a good start is to work harder to draw relevant executives and departments into the supply chain management process. Given the increasing number of internal and external supply chain constituents, this broader, coalition-style approach is clearly relevant and could soon be essential. In such a scenario, P&L responsibility generally remains with the supply chain group. But supply chain strategy – establishing new channels, defining service levels, determining investment priorities and so forth – is more likely to involve teams composed of customer relations, procurement and manufacturing executives.

Executives will need a sequenced, value-creating approach to launching coalition-style, supply chain management strategies – potentially one that includes customer and supplier executives. To begin:

- Forge stronger relationships with customer service, sales and marketing executives, perhaps by inviting them to discuss upcoming supply chain investment priorities.
- Include sales and procurement decision makers in contract and channel management meetings with customers and suppliers.
- Clarify up front the role that each participant is expected to play, the anticipated results of the collaboration and the added value a coalition approach brings to the table.
- Ensure that participants have support staff available to do the tactical heavy lifting between meetings.
- Establish a series of attainable, short-term goals; for example, improving service to the most profitable customers.
- Propose a schedule for future meetings, predicated on hitting performance goals established by the coalition. Schedule update sessions with key executives (e.g., the CFO), who may not be part of the coalition management process.

5. More ‘Continuous Transformation’ Capabilities

Thousands of supply chain executives have spent millions of hours pulling together the support, assets and cooperation needed to create world-class supply chains, which is why few want to hear that their carefully crafted solutions now need to be more flexible or responsive. The reality, however, is that such changes probably are necessary and inevitable. But couldn’t transformation take place with less pain, resistance and disruption?

The answer may be continuous transformation, an ongoing process during which companies collect relevant information; evaluate and prioritize changes; and effect new capabilities as needed to support shifting requirements. Continuous transformation is the life-blood of quick-change supply chains.

This doesn’t mean that supply chains must be in a constant state of revision. The point is to make decisions and directives about raising the profit performance part of the routine. For example, initiatives geared to improving product availability, fill rates and on-time delivery usually hike profits. So they would be topics of regular discussion. Constantly revisiting profit performance opportunities also is a good way to build coalitions with sales and marketing. Here are some other winning behaviors associated with supply chain transformation:

- **Work to continually shorten the supply chain.** Zara brings 11,000 new fashions to market each year, generally with a three-week lead time.
- **Jointly define key performance indicators (KPIs).** Henkel (a multinational manufacturer of consumer and industrial products), Condis (a Spanish supermarket chain) and several packaging suppliers established an interesting continuous planning forecasting and replenishment process for laundry and home care products. The program’s major components are daily data interchange for select items; coordinated business plans (e.g., combined promotions and collaborative forecasts); and specific, mutually acceptable KPIs.
- **Exhibit unwavering leadership.** Supply chain transformations become casualties when leaders lose faith in the strategy or process. Texas Instruments avoided this trap by putting multiple, senior-level champions behind a global project to re-engineer planning and forecasting. This helped the company move steadily ahead in its mission to schedule all plants simultaneously and thus reduce costs.
- **Monitor competitors’ actions closely and look to other industries for guidance.** Tesco made the decision to pick and pack Web orders from its retail stores after watching other online grocers make unprofitable investments in distribution facilities.

Outwit, Outplay, Outlast

Revisiting our *Survivor* analogy, it’s clear that tomorrow’s supply chains will differ in one crucial way: On *Survivor,* the goal is to stay on the island. However, the principal mission of 21st century companies must be to get off the island, to establish linkages and build and extend relationships beyond the island, across the enterprise and potentially around the world.

Think about the core missions of tomorrow’s companies and supply chains: *Team up and integrate more completely with business partners. Join with customers to fully address their fast-changing requirements. Collaborate with suppliers to shorten the supply chain, reduce costs and increase availability.* Each of these goals also distinguishes the quick-change supply chain. Each helps companies grow more profitably, operate more efficiently and achieve high performance in less time. And none of them can happen on an island. ■

WEB LINK

For more information on how mobile, real-time trading communities are changing business practices see “The Evolution of Enterprise Mobility: Five Predictions” by Al Delattre at www.ascet.com.