



GLOBAL SUPPLY CHAIN GROUP

Winning Global Supply Chain Advantage

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THE A B C OF SUPPLY CHAIN TRANSFORMATIONS

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ABC of Supply Chain Transformations

All successful Supply Chain Transformations have three elements in common – Alignment, Balance and Continual Improvement. Case study after case study has revealed that companies ignore these cardinal rules to their own peril.

Supply Chain Transformations are again in fashion. In the late 90's they were being driven by aggressive supply chain systems vendors; now they are driven by simplistic academic theorists. Both groups have little, if any, real life experience in supply chain management. Leading Supply Chain Management academics today contend that every supply chain in the world should be same -Agile, Adaptable, and Aligned. We believe this is arrogant. It is like saying every woman in the world should wear size 7 dress – it sounds sexy, but is impractical.

Despite huge advances in supply chain decision support tools, the dream of mass customisation is still out of our grasp today. Consequently, efficiency and agility remain diametrically opposite poles on the same continuum. However, that does not mean that every organisation, no matter what industry or what strategy, should congregate to the holy grail of agility. In fact, on the other end of the continuum, there is substantial concentration of industrial investment, where business imperative is to drive the last fraction of cent out of costs. A supertanker of 350,000 Metric Tonnes, when fully loaded, does not leave much room for agility; and a large amount of today's crude oil is still being carried by such tankers. The examples are numerous, perhaps more than those quoted by the academics - ranging from natural gas to petroleum to ores, coals, and mines - where the entry ticket to economic activity is so high that subsequent supply chain systems do not leave room for either agility or adaptability.

We believe that supply chain of each organisation should be aligned to its business. Whether it is agile or adaptable should depend entirely on requirements of the business. Some businesses, driven by customer sentiments, innovation or short product lifecycle need agility and adaptability in their supply chains. However, other businesses depend on efficiency to deliver the lowest costs that their customers demand. Agile supply chains would leave these businesses extremely exposed to much higher costs than their competitors - and perhaps the first ones to fold under cost pressures. For example, shipping crude oil in 10 tankers of 35,000 MT would certainly make the supply chain more agile - however, the costs would go up by 50% to 200%. Whether that agility is worth anything to the end-customer, with huge investment in tankage in the discharge ports, is still a big question.

Let us start from the basics. To maximise profitability, organisations need to give the customers what they want, when and where they want it at the best price that can be achieved. To enable this to happen, they need to have the product ready by spending minimum amount. The basis of competition differs between different industries and even within same industry over time. Hence the supply chain imperatives will vary accordingly.

For this reason, A B C of Supply Chain Transformations is crucial. This means Alignment (between business strategy and supply chain strategy), Balance (between competing supply chain alternatives), and Continual improvement. The first two are a matter of getting the supply chain strategy right, and the last is a matter of tactical short term improvements on on-going basis.

	OBJECTIVES	METHODS
Alignment	Create a perfect alignment between the business strategy and supply chain strategy. Cost leadership based business strategies should be matched with low cost supply chain strategies embodying efficiency, while organisations with primarily differentiation strategies have a room for agility and adaptability in their supply chains.	<ul style="list-style-type: none"> ● Make Supply Chain an integral part of C-level decision making team ● Look for signs of misalignment, such as: <ul style="list-style-type: none"> ○ Unhappy profitable customers – Churn ○ Cost blow-out, and lack of profitability in primarily commodity industry ● Consciously make an effort to align at the times of major business change – such as acquisitions, major product launch, and major revamp of business strategy
Balance	The art of optimising the end-to-end supply chain, taking into account all the trade-offs involved <ul style="list-style-type: none"> ● Cost vs. service ● Between various components of supply chain ● With in a single component of supply chain 	<ul style="list-style-type: none"> ● Understand the cost-service tradeoffs in supply chain decisions - Explore the continuum on either side of where the current supply chain is operating ● Allow sufficient time for proper analysis before making major supply chain moves ● Choose the right supply chain decision making tools – aligned to the supply chain strategy ● Understand the limitations of all supply chain decision making aids
Continual Improvement	Even a well aligned and balanced supply chain will need fine tuning all the time, especially at the tactical level. This is due to two reasons: <ol style="list-style-type: none"> 1. Reality on ground effect – the fact that the helicopter view used for strategy development usually misses out some of the details 2. Most strategies will need to be adjusted due to unforeseen events during implementation 	<ul style="list-style-type: none"> ● Engage team members at all levels ● Unblock communications flows – horizontally and vertically ● Take time to analyse situation, when needed ● Transparent and logical issues resolution process in supply chain implementations ● Hold the people accountable ● Create, consistently use, report and widely promulgate meaningful measures of progress in supply chain improvement

ALIGNMENT

One of our clients had a robust business built over several decades. Our clients' products and services have always been a small part of customers' overall spend. However, the business impact of a poor quality service would be significantly out of proportion. The customers appreciated high quality service and traditionally paid handsomely for it. Due to competitive dynamics, regulatory changes and new entrants, gradually the market was commoditised. The purchasing was being increasingly centralised, driven by head office cost pressures. The customers were no longer willing to pay for extra services. While the users on ground appreciated all the traditional service, they were in no position to influence the price or purchase decisions any more. Our clients' supply chain strategies were still 'high cost/high service levels' while their business strategies had moved to selling commodity products at commodity prices.

In numerous companies supply chain strategy and business strategy are out of alignment with each other. This can happen as a result of a one-off event such as mergers, acquisitions, divestitures, product line revamp, major strategic initiatives, LBO/MBO etc. or as a result of gradual drift of markets. This could even happen when supply chain transformations are being guided by fads.

As a start, it is paramount that the supply chain strategies are matched to the current and future business strategies. This is such a fundamental requirement of any supply chain transformation that all other efforts are useless without it. Some key fundamental questions need to be answered to achieve a shared understanding of supply chain objectives: Who are

the customers? What are their key requirements? How do we plan to meet their needs and wants? How do we interact with the customers? What margin are we planning to achieve? In return for what service level? What cost targets are justified? What supply chain KPIs are most appropriate? What are the target levels for these KPIs? How to monitor these KPIs in an ongoing manner?

In our experience most major supply chain transformations which fail to ask these fundamental questions at the outset, either visibly stall just few weeks into implementation when differences of opinions between various organisational functions start surfacing, or do not produce meaningful results.

Top management ownership of supply chain transformation efforts, conscious search for symptoms of misalignment between business and supply chain strategies, and alertness at the times of major structural changes to business are some of the other means of achieving alignment.

BALANCE

A company we know initiated a major supply chain transformation initiative. All warehouses were given strict KPIs in terms of RONA (Return on Net Assets) and inventory levels. The expectation was that if all warehouses achieve their RONA targets, the overall supply chain would be in a much better shape. However, at the end of 6 months, when the overall supply chain costs were tallied, it appeared that the overall supply chain costs had actually increased. On further investigations, it appeared that due to strict inventory restrictions on the warehouses, they were ordering minimum possible stock, resulting in much more frequent replenishments – sometimes even on LTL (less than full truck load) or expedited shipment basis. So all the savings in inventory reduction was more than eroded by the increase in transportation costs. Like a half-filled balloon being pressed in one place, the costs would just show up somewhere else – in an area which was not being focussed on temporarily. This type of partial optimisation approach results from a lack of balance in the supply chain transformation efforts

Supply Chain Advantage is all about achieving balance – between costs and service levels, between various elements of the supply chain and within each element of the supply chain. At the highest level, clearly, every supply chain service level will have a commensurate cost level attached to it. Supply chain strategy setting entails a balancing act between achieving highest possible service level at the lowest possible costs. Further down, trade-offs needs to be achieved between warehousing and transportation, between various modes of transportation, between various locations for warehousing, between various possible lot sizes, between carrying spare inventory and carrying spare production capacity, between lost sales and high replenishment costs and numerous other similar decision criteria. Generally, a holistic approach to supply chain optimisation is needed in order to achieve an overall balance between all these moving parts. This is an area where good decision support tools can prove their worth. However, it is essential to select the right decision support tool, configure it in the right manner, know its limitations, and rely on it only up to the right level.

CONTINUAL IMPROVEMENT

No matter how good the supply chain aligns with overall business, or how good is the overall supply chain optimisation, every supply chain needs to be improved everyday. This is because of two reasons. Most supply chain strategies and optimisations are based on models built to simulate reality. By necessity, for sake of expediency, some details have to be ignored during model building. However, some of these details could be important in some instances, and thus need to be taken into account during implementation at local level. The

tricky question for supply chain strategists is - which details are so important that the supply chain configuration needs to change and to what degree.

Secondly, businesses change continuously. Customer, suppliers, competitors, production processes, technology, raw materials, personnel all are in a constant state of flux. Many of these changes require the business to adjust their supply chain.

With continual improvement, a major transformation effort should not be needed more than every 4-5 years. However, many organisations seem to launch a major supply chain transformation effort every 1.5-2 years literally one on the back of the other. This is because of failure to achieve alignment, balance and continual improvement in their supply chain transformation efforts.