Dynamic Supply Chain Alignment

A New Business Model for Peak Performance in Enterprise Supply Chains Across All Geographies

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Preface

Just like the world financial system, but for different reasons, corporations need a new business model for their enterprise supply chains going forward. The old conventions no longer work in this new world of volatile and increasingly unpredictable demand and supply. The enterprise needs to become more 'connected' to its own parts, as well as its partners up and down the chains it participates in. So too, we need to embrace new ways of looking at customers to gain deeper more insightful impressions of what they are telling us about the way they want to buy products and services. And then we need to convert these signals into corresponding action driven by the people in the business – leaders and staff alike – who are aligned to their customers' service expectations. This is the world of *dynamic* supply chain alignment where, increasingly, supply chains are the business.

Talk to different executives about supply chains these days, and you get as many different interpretations about scope, so let's put that one to bed right away. Supply chains (note the plural) pervade every enterprise on earth, and include all the activities, linkages, information exchanges and relationships along these 'chains' formed by parties who choose to work with each other, be they buyers or sellers, or indeed third-party service providers. The common goal of each and every 'chain' of parties is to move products and services ever closer to final consumption, more cost-effectively than the next competing chain.

But products and services don't just move through supply chains by themselves, adding value as if by accident! They move because humans make conscious decisions along the way. Some of these humans we call *customers* and they are downstream from a supplier or, indeed, at the end of the line if they are the ultimate end-user/consumer. They 'pull' products through the pipeline on demand. And yet modern firms know relatively little about the 'buying behaviour' of their customers/consumers. It's an unforgivable lapse, and one that will come back to haunt these firms in the difficult times that we face following the recent meltdown of financial services and subsequent recession in the real economy.

On the inside of the enterprise we have another category of humans in the form of employees, managements and boards, all making decisions at various levels which directly and indirectly impact on the way products and services are ‘pushed’ through the pipeline. Taken together, I estimate that 40–50 per cent of the activity in contemporary supply chains is driven by human behaviour, enabled, of course, by technology (another 40 per cent), and physical infrastructure (10 per cent). And yet we know so little about how this human behaviour plays out across enterprise supply chains except to observe the visible outcomes. What is missing from this picture?

A NEW WAY OF ORGANIZING OUR RESOURCES

In a world that grew up in relatively predictable operating environments over a long period after the Second World War, we fell into sloppy ways and became content with the functional silos that grew like Topsy in our businesses and across whole industries. These were slow and ponderous structures, but they seemed to do the job at the time. And they made managing people in large corporations relatively easy. But as we entered the new Millennium the world accelerated thanks to the Internet, but at the same time became increasingly unpredictable. Customers learned and became more demanding, seeking ever-faster response times. Our typical response was to look for technological solutions, underpinned by increasing process standardization. Something had to give, and it has. Companies that have pursued such an approach have found themselves seriously misaligned with their customers, and in many cases the short-term solution has been near-fatal and only saved by costly manual intervention. Sainsbury’s, the UK retailer, is a prime example and an early victim of this cycle.

DYNAMIC ALIGNMENT: THE WAY TO GO

The concept of ‘alignment’ is simple to say, yet not so simple to implement, but leading-edge firms that are embracing alignment principles are reaching significantly higher levels of performance. In brief, in order to achieve sustained corporate performance, it is necessary to ‘align’ four vital facets of an enterprise’s operation: an understanding of customers; the corresponding strategies to approach and satisfy these customers; the internal capability of the enterprise, where all the energy and resources reside; and the leadership style of the top management team. This is not a supply chain concept per se; rather, it is a whole-of-business concept. The connection we found was that, if you understand how to align businesses with their customers and suppliers, it will inform you how supply chains can be successfully configured and operated.

The breakthrough came after years of work in the field when we realized that, for any product or service category, there exists only a limited number of *dominant* buying behaviours among target customers – indeed, no more than three or four. By definition, this means that we can largely cover the market with a correspondingly small number of supply chain configurations, reverse-engineered back from the previously identified behavioural segments. Also, we found that these natural buying behaviours could change for short periods under new or different situations, and then later return to their original state. This provides the *dynamic* component of business and its supply chains, a phenomenon that has never previously been adequately addressed by enterprises.

THE FOUR GENERIC TYPES OF SUPPLY CHAIN

Continuous replenishment supply chains focus on the relationship with customers (and suppliers), and involve sharing information freely. Strategic Partnerships, long-term stability and mutual trust are all key components of this type of supply chain. Indeed, this type indicates the 'zone of collaboration' which is very distinctly restricted to those parties who have collaborative values and are committed to helping each other for mutual benefit.

The particular subculture that must be present to drive this type of supply chain is characterized by an organization design that involves a cluster of multidisciplinary personnel, with a bias for relationships, underpinned by standard processes that focus on relationships.

IT applications include Customer Relationship Management (CRM), Supplier Relationship Management (SRM) and Key Performance Indicators (KPIs) all of which are aimed at retaining loyal customers and suppliers. The leadership style for this type of supply chain is necessarily one of consensus and concern for other team members.

Lean supply chains focus on efficiency and lowest cost-to-serve. In order to achieve this outcome, high-volume, low-variety business is ideal, and products are made and distributed to forecast. Economies of scale are the order of the day, in what is mostly a predictable operating environment for essentially mature products and services. The subculture that underpins this type of supply chain is one that focuses on reducing the cost of core processes and aims for a high Delivery-In-Full-On-Time-Error-Free (DIFOTEF). Conformance to policy is the order of the day, and routine is not to be disturbed under any circumstances. The leadership style emphasizes stability and cost control. Good steady work, if that is what you like.

Agile supply chains are all about delivering a quick response to demanding customers, mostly by making to order using postponement techniques. This has to be the case because the operating environment is now quite unpredictable.

The organization is composed of clusters of multidisciplinary personnel who have a common goal of speed as they focus on specific customer segments. The leadership style is unrelenting in the quest to meet tough objectives, often in high-growth markets.

Fully flexible supply chains are designed to meet unplanned and unplannable demand. The subculture is essentially entrepreneurial and involves a small group of like-minded individuals seeking creative solutions, fast. The leadership is by inspiration, and always authentic.

However, it is rare to find the same type of supply chain on both the supply side and the demand side. The more usual situation is a combination. For example, the Spanish retailer, Zara, uses 'lean' supply chains to procure and import uncut fabric from low-cost source markets such as China, bringing it closer to its consumer markets. Indeed, it maintains a 'fabric bank' in Spain and surrounding countries, and about every three weeks it decides on designs for the next cycle, selects and cuts the fabric, manufactures the finished garments and distributes them to its stores across Europe and the Far East. This latter operation is very fast by clothing industry standards and is in effect an agile supply chain at work. Daewoo Shipping in Korea do something similar, but their product is a supertanker or ore carrier launched every 1½ days – a phenomenon of superb heavy engineering technique.

FROM DENIAL INTO THE LIGHT

The truth is that many senior management teams have been, and still are, in denial about the influence of human behaviour on the operational (and financial) performance of the firm and its constituent supply chains. Why? Because it is all a bit scary to contemplate. It means that the modern line executive has to get out of his/her functional ghetto and become more of a 'universal' manager, seeking to understand and mould the performance of all the functions inside the enterprise for the benefit of customers, suppliers and the enterprise itself. When more executives get to this stage of development the profits will flow more readily, and sustainability of performance will not be the big issue that it is today. The way forward is right there in front of us; but we must have the courage to throw off old ways and embrace the new.