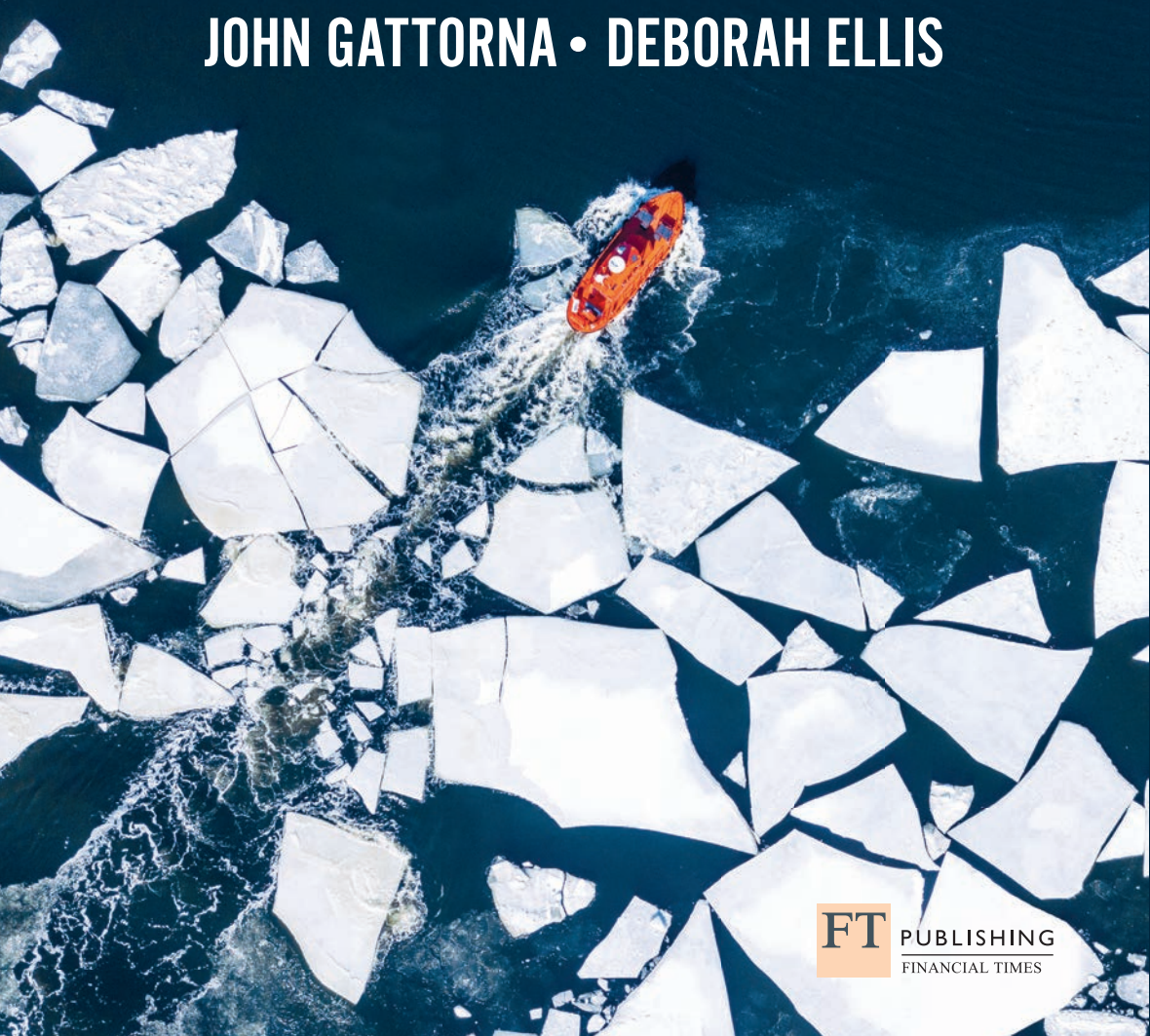


TRANSFORMING SUPPLY CHAINS

Realign your business to better serve
customers in a disruptive world

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PUBLISHING
FINANCIAL TIMES

Praise for *Transforming Supply Chains*

‘One of the most insightful books in supply chain management this decade. From providing a deep understanding of the new drivers that shape value chains and entirely new perspectives on market research and segmentation, to new concepts in overarching business strategy development. The way in which these forces shape business and supply chain strategy is brilliantly explained. The book covers all these concepts with a fresh perspective on customer-centric behavior, channels to market, and how to align internal culture to outside realities. It is also probably one of the first books to cover the new world of Industry 4.0 and its impact on supply chains in great detail, as well as giving us a view of how this will shape supply chains in the future.’

**Dr Jan Havenga, Professor, Logistics; Director, SCM Centre,
Stellenbosch University, Cape Town, South Africa**

‘*Transforming Supply Chains* causes one to think comprehensively in aligning data-driven supply chains and related technology to meet the increasing demands of the segmented customer base in an ever-changing and increasingly efficient and service-oriented environment.’

**Gregory J. Owens, Former Global Head of SCM, Accenture;
CEO, Manugistics; Chairman and CEO, Iron Planet, Senoia, Georgia, USA**

‘Since enterprises have complex goals they are likely to have complex challenges. *Transforming Supply Chains* gives you fresh insights on how to optimize the complexity of large enterprises. Gattorna and Ellis have anchored their perspectives on optimization in the customer/market, rather than in efficiency and cost. This book helps you identify how your company’s supply chains can drive better digital and physical customer experiences. A key message is – if you want to get some control over disruption – then it’s best to disrupt your own organization and do it by bringing the voice of the customer into supply chain decision making. This belongs in the library of any business executive.’

Dr Lloyd Vogelman, CEO Corteks Company, Sydney, Australia

‘Customer expectations and business dynamics are changing on almost every level – if you agree and are looking for a playbook for kick starting your supply chain transformation, look no further, this is it. Backed by real-world case studies, time-tested research, and thought-provoking insights, this is a one-of-a-kind guide you simply must read – and then share with your team!’

Bill Marrin, Director, World 50, Inc., Atlanta, Georgia, USA

‘The authors set the scene for this book very well, referencing topical events that are currently interrupting global supply chains, i.e. the potential trade war between the US and China; unpredictable decisions by the Trump Administration; and Brexit. Then follows a sequence of suggested methodologies to counter the disruptive effects of these and other events, e.g. “outside-in” thinking and the Dynamic Alignment™ model; AI, digitization, IoT, Blockchain, all of which are designed to assist us to cope with the new era of volatility. The authors are genuine SC “thought leaders” for this contribution.’

**Christina Huang, GM, Bright Blue Sea Global Supply Chain Management Co.,
Shenzhen, China**

‘*Transforming Supply Chains* will provide useful frameworks to kickstart practitioner thinking around end-to-end supply chains for years to come. With over 100 helpful pictorial summaries or concept visualizations, this book provides a high-level map of the transformation

For each supply chain type, we will:

- ◆ propose a *value proposition* that summarizes how this supply chain delivers differentiated value to the target customer segment;
- ◆ suggest elements of an ideal, cross-functional, *operational strategy* to deliver each value proposition;
- ◆ consider the supply chain network and planning implications of each type.

Collaborative Supply Chains™

This is a unique supply chain type. It is, effectively, a subset of the more commonly known Lean Supply Chain. Through our work on behavioral segmentation, we were able to recognize the existence of this particular group of customers in many different markets. They look similar to *transactional* customers and share many of the same characteristics, but there are also some defining differences, e.g. willingness to share information and data; trusting a few selected suppliers as primary sources; and interest in participating in joint developments, to name a few.

We always suggest to our clients that the first thing they should do is identify which of their customers fit into this category because, if managed appropriately, they will be a continuing source of revenue and margin, unlike some of their other customers who come and go at will.

This type of customer craves acknowledgment and recognition, demonstrates brand loyalty and is not especially price-sensitive. If they like a company or brand, they will stay loyal until they lose faith, which is mostly due to being constantly ignored and under-valued.

Collaboration often is treated in ‘motherhood’ terms, an aspirational mode of operating with all customers. Our experience has been that this is rarely appropriate. First, for many customers, the commitment to one organization and the dedication and patience required to be loyal buyers or effective collaborators, does not synch with their own mindset or their organization’s DNA.

And, second, this is often only a fraction of the market. Except for very high-end, premium branded product categories, *Collaborative* customers are rarely the largest segment in a market in terms of the numbers of customers.

The *Collaborative* segment, though, tends to represent a much larger proportion of sales or margin than their numbers suggest.

A typical value proposition for the *Collaborative Supply Chain*TM is shown in Figure 4.1. Notice how it is represented as cutting right across the entire enterprise. We contend that all functions contribute aspects of the customer's experience of value and that they all must buy-in if this supply chain is to be a success.

In industrial buying situations and where customers are few and relatively large, you may need to limit the number of customers singled out for the special treatment that the Collaborative Supply ChainTM implies. It is, by definition, a very labor-intensive supply chain type, because large customers in this category expect personal attention in a world that is rapidly going digital. They can't be switched over easily to an impersonal arms-length, system-driven relationship, for the sake of efficiency.

On the other hand, some of these customers may be happy to work on a joint systems/IT project connecting the two organizations, but only if the personal touch is kept intact as well.

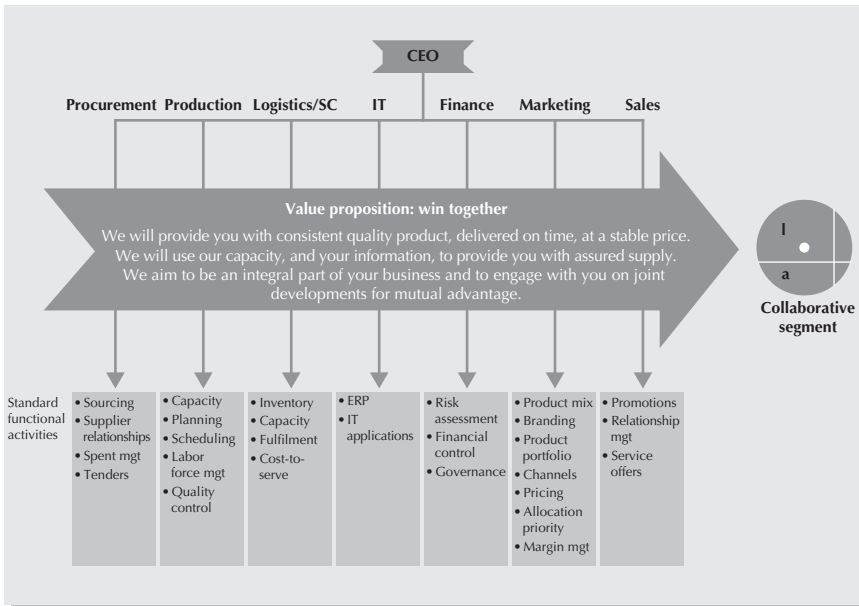


FIGURE 4.1 ♦ Value proposition for Collaborative Supply ChainsTM

Source: Adapted from Gattorna (2009) p. 140

In the consumer market, or industrial situations where there are a large number of smaller Collaborative customers, the relationship must be necessarily built and managed by the brand and systematic personalized engagement. The most important factors here are that the consistency and ‘assurance’ that the brand represents are backed up by supply chain performance.

Protective strategy

In the ‘Strategy recipe’ for each supply chain type, we have included 16 Strategic Dimensions, which are drawn from across all the functions depicted in Figure 4.1. For each Strategic Dimension we have suggested an ‘Ideal Operations Strategy’, and the combination of all 16 represents the way the business can shape its Collaborative Supply Chain™ for the purposes of servicing the Collaborative customer segment. There are, of course, other ways to achieve the same end but these give a guide to the types of strategies to consider.

The collection of Ideal Operations Strategies, which together represent the Protective Strategy for the Collaborative Supply Chain™, are detailed in Figure 4.2.

These strategies will improve the probability of both retaining your Collaborative customers and, indeed, increasing your share-of-wallet in the categories they buy from you.

Network implications

The potential stability and visibility of demand associated with Collaborative customers can open up new and more efficient supply paths and/or ways to use your existing network. Refer to Figure 4.3. These are some of the options to consider. Not all are applicable in every situation and a creative focus on the particulars of the customer and their own network will likely yield other options. But we have found this a good checklist to review against.

On the supply-side, stable demand can be underpinned by stable procurement arrangements for major inputs. Reliable suppliers who are in the business for the long-haul, and will be responsible and loyal suppliers to you, are the best fit to give the certainty and low risk needed for these customers.

TAILORED SUPPLY CHAINS GIVE FLEXIBILITY

	STRATEGIC DIMENSION	IDEAL STRATEGY
Marketing/sales	Product mix	Emphasis on mature, branded and augmented products
	Marketing emphasis	Build brand loyalty
	Channels of distribution	Either direct or via trusted outlets
	Pricing regime	Price according to strength of brand; moderate price sensitivity
	Promotional activity	Low promotional activity – not needed
Positioning	Innovation emphasis	Big emphasis on product quality and joint product development. Innovate to improve relationship
	Service emphasis	Empathy with loyal customers; consistency of service; trust
	Relationship intensity	Mutual dependence between customer and supplier
	Resource allocation priorities	Focus on supporting the relationship to retain customer
	Strategic risk profile	Low
Fulfilment	Procurement/sourcing approach	Select suppliers on basis of relationships
	Production	Low volume – high value add. Collaborate to reduce costs
	Capacity considerations	Maximum utilization achievable consistent with serving customers
	Logistics approach	Reliable/scheduled delivery; shared forecasts
	Systems/IT support	Emphasis on customer management, CRM essential
Finance & Administration	Financial considerations	Relax credit terms. Undertake customer account profitability analysis

FIGURE 4.2 ♦ Collaborative Supply Chain™ Strategy – Protective

Source: Adapted from Gattorna (2015) p. 202

Network	Supply	<ul style="list-style-type: none"> • Long-term best value (life cycle cost) • Stable volumes • Stable supply paths
	Manufacturing	<ul style="list-style-type: none"> • Base – committed capacity plans • Agreed plans • Stable regional/local mix
	DCs/Depots	<ul style="list-style-type: none"> • Minimize stock level by removing variability • Optimize stock holding location between customer and supplier
	Transport	<ul style="list-style-type: none"> • Firm contracts with 3PLs – assured volumes and routine schedules to minimize price • Drop out echelons – more direct paths

FIGURE 4.3 ♦ Practical implications of the Collaborative Supply Chain™ configuration

In manufacturing terms, it is likely we will have forecasts from these customers that are highly accurate, so capacity commitments and production plans can be locked further in advance.

In the wider downstream distribution of finished goods, it is very likely that demand from these *Collaborative* customers will form a convenient ‘baseload’ in terms of stocking points and inventory levels. We might even be able to treat our customers’ inbound networks and our outbound network as one, thereby reducing the overall level of inventory carried in the system and lowering overall holding costs.

Finally, considering transport across our network and that of our customers, we should be able to offer firm contracts to selected 3PLs, as well as find innovative ways to drop out nodes. For example, DKSH in Thailand was able to take soft drinks from the end of the supplier’s production line in Thailand and deliver direct to retail outlets such as 7-Eleven, bypassing the need to take the product through its own distribution centers (DCs), with all the additional time and handling costs involved.

Planning implications

Planning in the case of *Collaborative* customers should be relatively easy and straightforward. Why? Because in most, if not all, cases, these customers will

Planning	Demand planning/ forecasting	<ul style="list-style-type: none"> • Collaborative planning and forecasting – at SKU level
	Production planning	<ul style="list-style-type: none"> • Firm plans to meet commitments • Coordinated S&OP
	Inventory	<ul style="list-style-type: none"> • Minimal inventory associated with low variability and high visibility
	Deployment	<ul style="list-style-type: none"> • Minimize stock levels by removing variability • Where volumes justify; more direct from plant to customer
	Demand/order capture	<ul style="list-style-type: none"> • Default orders • Vendor-managed inventory • Full visibility, true demand

FIGURE 4.4 ♦ Practical implications of the Collaborative Supply Chain™ configuration

happily share their own forecasts of demand and make firm order commitments. The sales and operations planning (S&OP) process is greatly simplified. Customers can even be sitting in on our planning discussions or we can implant a planning executive in the customer's facility. Either way, it takes a lot of the unknowns out of forward planning.

In removing variability, we are able to carry less stock and produce product to an agreed schedule.

The planning implications are summarized in Figure 4.4.

Lean and Agile Supply Chains

In most industries that we are familiar with, Lean and Agile Supply Chains work in parallel, the *yin* and *yang* of the supply chain. For that reason, we will discuss them together and compare their respective properties, which are largely complementary.

While the Lean Supply Chain is designed to deliver product on a reliable basis at lowest cost, the Agile Supply Chain is designed with enough in-built capacity to be able to respond to unpredictable demand, cost-effectively, but not at the same low cost as Lean.