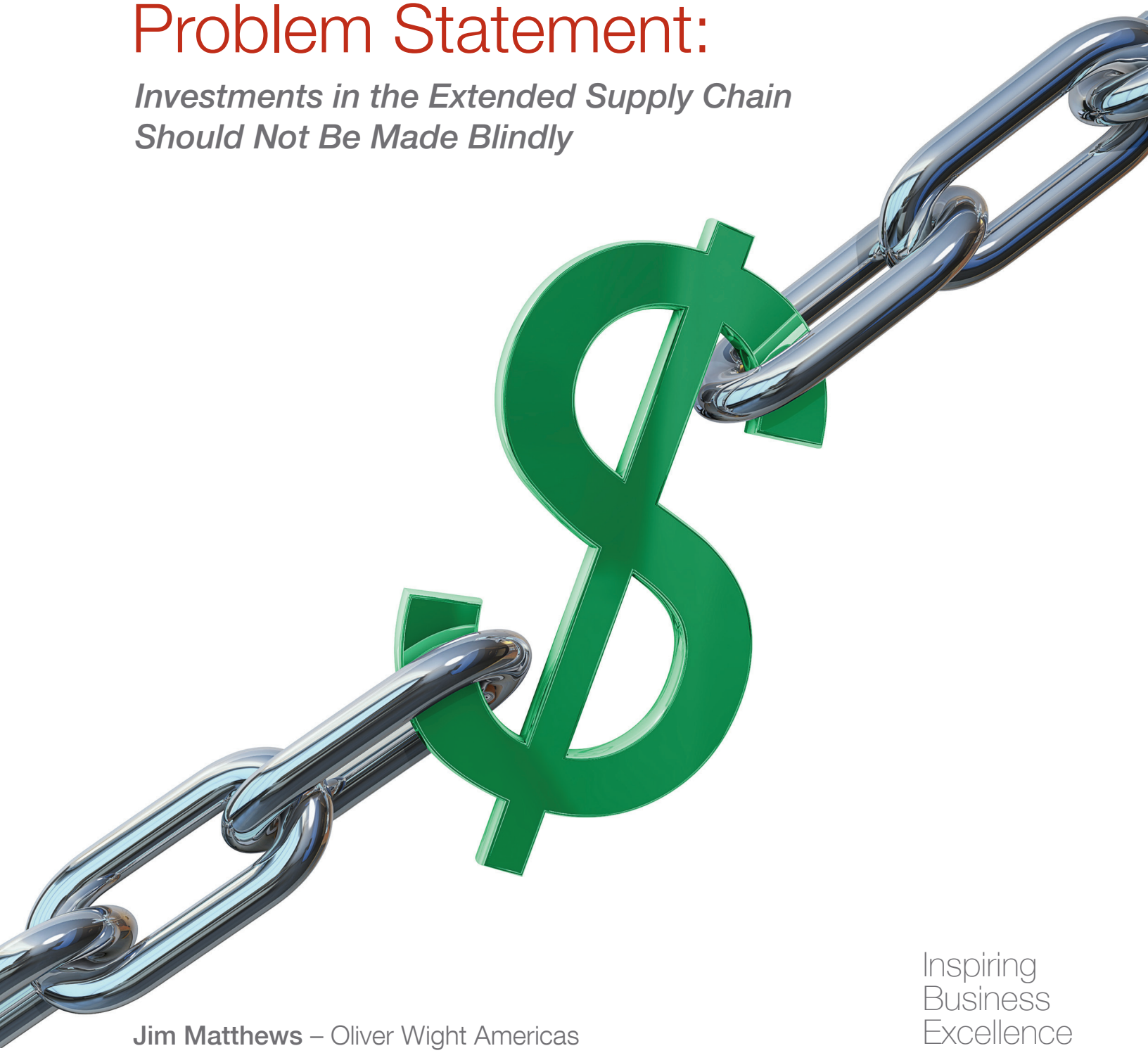
OLIVER WIGHTPAPER series

Framing the Problem Statement:

Investments in the Extended Supply Chain Should Not Be Made Blindly



Jim Matthews – Oliver Wight Americas

Inspiring Business Excellence

"How do I realize more value from my investment in the

Extended Supply Chain?"

This is a common question. Investments in the extended supply chain can include millions of dollars spent on information technology, major cross-company process improvement efforts, as well as long-term participation in industry associations to establish standards, such as VICS – the Voluntary Interindustry Commerce Solutions Association.

The disappointment that many experience is understandable; it can be a tough and long road to attaining measurable value – especially when a formal structure for improvement is lacking. For those who persevere and those who use a structured approach, the gains are significant and can often come quickly (with the right approach).

Before starting any initiative with Supply Chain partners, consider the following:

- The need for clarity on the problem you are working to solve
- Ensuring that the stated problem is a priority with your executive team or that you can make it so
- Knowing the effectiveness of your existing internal management processes (is your house in order?)
- Evaluation of whether there is sufficient benefit to external partners for them to commit to the effort
- Clarity on defining and documenting what success looks like and how it will be measured

WHAT'S THE PROBLEM?

Nothing gets (or should get) your attention like a truly upset customer. Here's a case example:

The tension between two supply chain partners was very high. When the executives from each company defined the biggest problem, the distributor's issue was "non-performing" inventory, or inventory turns that were slower than desired. The supplier's issue was that the distributor would not release legitimate purchase orders in a timely manner, resulting in stockouts of products that were selling well.

Both companies were well versed and supportive of implementing a Collaborative Planning Forecasting and Replenishment (CPFR®) process. Given the nature of the issues, neither side was willing to patiently wait for results. One of the basic tenets of CPFR® is to implement the process quickly.

During the due diligence stage of the CPFR® implementation, a framework was utilized to facilitate a constructive dialogue about the current problems.

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The teams from both companies understood that the key issues would not be solved unless root causes of the issues were identified and used to flesh out appropriate solutions.

Here are what were determined as the root causes of the situation:

- The planning teams from both companies were agreeing to a common volume plan, but the supplier had more ambitious sales plans. A consensus planning process, which included consideration of the sales plan, was not in place. The distributor did not understand the actions being taken by the supplier's sales and marketing organizations to drive higher demand volumes.
- The distributor was more focused on slow-moving product rather than the fast-moving items. The result was confusion that drove counterproductive behaviors. With inventory growing, much of it from slow moving products, the distributor was putting the brakes on ALL purchase orders.

Fig 1. *Structured Approach to Collaborative Improvements in Extended Supply Chain*

It did not require waiting for CPFR® to be fully implemented to work together to resolve these significant problems. Teams from both companies worked together to share information, identify key variances, settle issues, and track and sustain the gains. Once trust in the solution was established, the distributor began releasing the purchase orders in a timely manner. The teams from both companies worked together to solve clearly defined gaps in performance. As a result, inventory dropped by 35 percent within a few weeks.

Before moving on to discuss trust in greater detail, here is some advice: When a customer is upset and vocal about it, you already have achieved engagement. Use this attention to jump-start identifying the problem and solution while you have the customer's attention. When a customer goes silent, you need to be really concerned.

ESTABLISHING TRUST

Some people promise the world. Others either won't commit or subscribe to the doctrine of under-commit and over-deliver. These approaches violate the critical behaviors needed to establish trust:

- Communicate the truth as you know it today.
- When the situation or plans change, communicate good and bad news early, not late.
- Do what you say you are going to do.

When partners adopt – and commit – to these key behaviors, a proliferation of key performance indicators is not needed to try to determine what ails a partnership. The quality of communications is simplified as well.

Another way to build trust is to tackle resolving issues together. At the start of a CPFR® implementation, it is preferable to identify one or two big, tough issues to solve. The most worthy issues can sometimes be the most difficult to measure. The issues may take the form of restoring customer confidence in an environment

"Confidence in sustained gains was tied to faith in the executive sponsor's on-going support and the culture of trust and teamwork."

of repeated failure to execute (for example, ship product on time to the customer's requested due date). The issue may involve simultaneously reducing bloated inventory while resolving stockouts of the most desirable products.

When company leaders see the level of thought and collaboration that went into developing the recommended solutions (and business case, if needed), the leaders will have more trust in the solutions. They will be more willing to commit resources to the execution of the solutions. At the same time, they will be more confident in the results and business benefits from solving the issues together.

Success can be defined in many ways. Those teams that effectively articulate real business problems, link the recommended solution to the problem, and commit to desired outcomes, will more often than not secure the leadership mandate.

SUCCESS EVOLVES INTO MORE SUCCESS

In the previous example, the reduced inventory and purchase orders flowing again were not the biggest win the two supply chain partners experienced. A lesson learned was that the actual root cause of an issue may be different than expected, and the most impactful improvements may not be immediately obvious. It is very important to be open to where the journey in identifying root causes takes you and to respond to surprise learnings.

In the course of working together, the supplier's executive sponsor shared with me that his company had been the primary source of the problem. While it was undesirable to "publicize" how the supplier had contributed to the root problem, it was desirable for the teams to work together to resolve the issue.

Using this background knowledge, the teams were guided to deeper discussions on the issues and ways to work together in the future to prevent the basic problem from occurring again. A more robust solution was identified. The teams found and fixed a number of process gaps to better protect against future occurrences. The solutions put $65 million back into the customer's balance sheet.

The business benefits exceeded the original operational goals. Plus, an extremely adversarial team situation between the supply chain partners was improved to the point that cross-company team events were established. Friendly bets and shared solutions also replaced divisive and time-consuming escalations of issues.

Why did this effort result in three years of sustained gains for the supplier and customer? Trust and fun had found its way into the equation and helped pave the way to continuous improvements!

As challenging as this may be to measure and as “soft” as this win may have been, the odds of holding the gains were high – and not just because of the process redesign, smart key performance indicators, and a robust governance process. Much as these were key enablers, success and confidence in sustained gains were tied to faith in the executive sponsor’s ongoing support and the culture of trust and teamwork the group had created. They simply would not let it fail.

ABOUT THE AUTHOR

Jim Matthews has more than 25 years of industry experience in general management and demand and supply chain planning, working with such companies as IBM, Research in Motion, Lucent, Consumers Glass, Storeimage, and Brightstar. His experience includes participation in initiatives applying collaborative practices to identify opportunities and improve performance across the Extended Supply Chain.

Jim is known for his partnership at all levels, his passion for client success, and for effectively leveraging best practices and teamwork to deliver sustained results. He is a frequent speaker at industry conferences.

Jim joined Oliver Wight Americas in 2012 as an educator, consultant, and coach.

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