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Strategic Supply Chain Alignment

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Best practice in supply chain management

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Acknowledgements

This project had a long gestation. It all started when Gower Publishing asked me to follow up the fourth edition of the very successful *Handbook of Logistics and Distribution Management* (1990) with a fifth edition. That was in late 1995 and I was just in the transition from my own consulting business to Andersen Consulting. So things were delayed for a year while I tried to fathom how this huge, successful, very sophisticated organization worked; in this regard I am grateful for the patience shown by Chris Simpson, Julia Scott and Solveig Servian at Gower Publishing.

By early 1997 I was ready for the task, and I could already see the possibilities of having the vast resources and talent of Andersen Consulting behind me to generate a book unlike any other hitherto available on the subject of supply chain management, featuring new authors and predominantly unpublished material. The opportunity was too good to miss, and so I gathered an outstanding team of people around me as we designed, refined and built the content that you are about to see. For their tireless work, often in conjunction with demanding consulting work going on at the same time, special thanks to Theresa Jones, Alister Danks, Yamini Dhillon and Lucinda Holdforth; their dedication and tenacity have been outstanding. Thanks also to Carmel McCauley of Future Perfect Communications who assisted us with the final editing process.

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You cannot produce a book like this without the contribution of a large number of very talented individuals. There are 67 authors involved in the 38 chapters which comprise this book, and every one is outstanding in their field. Six of the chapters have been written by my colleagues in academia and industry, to whom I owe a very special vote of thanks. It is relationships like this that enable us to incorporate the latest supply chain management research into our consulting work to deliver value to our clients.

The numerous contributors from Andersen Consulting also deserve special thanks because I know that your contributions were developed on top of an already killer workload. Based on my observations of how my Andersen Consulting colleagues responded so positively to the invitation to be part of this book, it is no mystery why Andersen Consulting has been so successful over the last nine years; I have never seen such a gathering of talented people in a single organization, anywhere!

I would also like to acknowledge the invaluable assistance given to me by Elizabeth Kim, Paul Littman and Howard Leibman during the writing of my two chapters in this book (including one with Cathy Walt).

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John L. Gattorna
Sydney, June 1998

Foreword

Let there be no doubt about the vital relevance of supply chain management to firms today.

Supply chain management is no longer a matter for the operational and functional areas of the firm—today it is a strategic issue demanding top-level management attention. Indeed, the quality of a firm's supply chain performance can mean the difference between business prosperity and failure.

Those companies which have moved themselves to the forefront of supply chain management have reaped clear rewards in terms of performance and shareholder returns. Benetton (quick response), Wal-Mart (very low supply chain costs), Microsoft (virtual manufacturing and logistics), Whirlpool (direct consumer delivery), Motorola (mass customization) and Peapod (home shopping) are examples of high-performing companies drawing on—and creating—the world's best supply chain management practices.

Today most supply chain innovation is confined to product manufacturing and retail firms. The next wave of change will embrace the service industries (such as banking, insurance, healthcare and entertainment), which will be forced to follow the lead of product companies in providing supply chain excellence to a more demanding generation of consumers. Smart service firms will seize the prize that awaits them through creative supply chain management.

Perhaps the biggest breakthrough in prospect lies in achieving truly integrated decision support systems that link all the parties along a particular supply chain. A comprehensive supply chain information system will make visible to managers all the opportunities to improve performance along the length and breadth of the network, ensuring that all parties improve their decision making and their capacity to contribute to, and benefit from, the optimum supply chain.

Strategic in outlook, challenging in terms of content and ideas and accessible to the general reader, this book offers an invaluable opportunity to the business executive looking to capture the latest thinking on supply chain management. This collection of contemporary readings, many of them hitherto unpublished material, reflects the best thinking of the world's leading supply chain practitioners and experts.

Together with all the contributors to this book, I wish you good reading and express the sincere hope that the 'value added' to your business as a result of dipping into a few chapters of particular interest will inspire you to do more and go further in search of superior corporate performance.

Gregory J. Owens, Managing Partner
Global Supply Chain Management Practice
Andersen Consulting
Atlanta, June 1998

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Introduction
The drive towards strategic alignment in the supply chain

The 1990s have seen a dramatic change in the way that we do business. Rapid advances in technology and increasing regulatory freedom have changed the rules of competition. Companies are now competing globally and traditional barriers between industries are breaking down. To cope with these changes and achieve superior performance, business leaders are moving towards new business paradigms that allow their companies to work more closely with their traditional and new business partners to adapt to the rapidly changing marketplace. This improved integration is the very essence of supply chain management. Supply chain leaders are reconsidering the linkages, not only between functions within their own company, but with other organizations up and down the supply chain.

As part of this transformation, we have seen successive generations of operating paradigms deliver new lessons in performance. The pursuit of functional excellence developed into a focus on business process excellence, with firms breaking down their functional silos and reorganizing around 'core' logistics-related processes.

More recently we have seen the emergence of network excellence in the form of efficient consumer response and other integrating mechanisms that link raw material providers, manufacturers, distributors and retailers along a seamless supply chain. These approaches emphasize shared resources and information, eliminating duplication, enabling rapid information flows and, ultimately, delivering smooth product flows. In the near future lies the prospect of virtual supply chains in which most functions are entirely 'outsourced'.

With so much emphasis on the technological and process elements of supply chain management, it is no surprise that one simple, vital element has received so little attention: human behaviour. The fact is that people and their behaviour both generate and amplify the pulses that reverberate through the supply chain—at the consumer level, inside the firm or between firms. An understanding of human behaviour and its implications for supply chain design and management forms the missing ingredient in contemporary thinking about supply chain strategy. Master this and we have all the ingredients for creating an 'unfair competitive advantage' with your supply chain. It is exactly this insight which is the driving inspiration for this book.

The traditional view of logistics was very narrowly defined. It focused on the physical movement of goods and (more recently) information, from suppliers to customers and their consumers. This led to a preoccupation with internal functions and processes within the firm in the name of increased efficiency, which has seen the introduction of useful techniques such as materials requirement planning, distribution requirements planning, and just-in-time manufacturing.

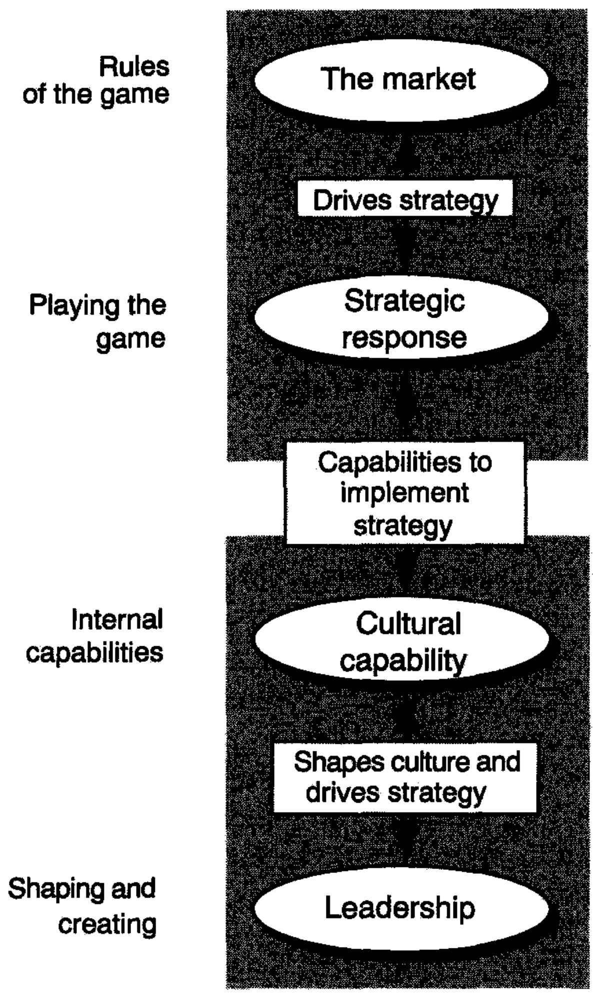
This narrow definition of logistics takes no account of different customer types and the different demands they place on the business. Nor does it facilitate the full organizational response required to meet these demands effectively. The reality is that materials and finished products only move through the supply chain because of consumer behaviour at the end of the pipeline or the behaviour of certain parties inside a particular channel. There is no magic in that insight, and yet many firms and indeed whole channels have long operated without recognizing this essential connection.

It is our contention that a new framework is required that integrates the formulation of logistics strategy with the human factors that both create the demand outside the firm and form the core capability inside the firm to deliver the prescribed strategy to the marketplace. We argue the need for a Strategic Alignment Model that brings together the external market's dynamics, the firm's strategic response(s) and the firm's internal capability to execute this desired alignment, through the appropriate subcultures and leadership style(s) built into the organization.

Customers (and consumers) place different demands on an organization. We have only to look at our weekly and monthly sales patterns for confirmation of this. What is not so readily obvious is that these demand patterns are driven by different human behaviours internal and external to the firm. For example, firms in the channel distort the flow of product via promotional campaigns, credit terms, customer incentives, internal policies and product characteristics (e.g. freshness). Patterns of behaviour at the consumer level vary significantly. Some behaviours are motivated by cyclical needs and seasonal effects and fashions, while the buying behaviours related to other product types are stable and predictable, based on maintenance or hygiene patterns such as repeat purchases of toothpaste or consumer durables.

These different customer (and consumer) behaviours drive different flows of product through an organization or series of channels. And these different flows require tailored logistics responses through some form of 'multiple alignment' capability. For example, an identical can of Coca-Cola will move along dramatically different pathways to fulfil demand in its three main channels: supermarkets, vending machines and corner stores. So the logistics infrastructure has to respond to the differ-

The Strategic Alignment Model in brief



ent types of customer and consumer behaviour represented by each of these channels, including recognizing that the volume passing through each channel may well vary over time.

The Strategic Alignment Model seeks to improve the alignment between markets, strategy, culture and leadership, on the premise that the better the alignment, the better the bottom-line performance. IBM's fall and rise constitute a good example of effective realignment. The problem in the past has been that different metrics have been used to measure performance at each of the four levels. Market researchers and corporate strategists use entirely different language to describe the marketplace. Equally, strategists rarely communicate with change management specialists interested in behaviour at the individual or team level.

The model, by its very nature, needs to be dynamic in order to respond to changes at each level. Just as humans change their behaviour in different situations or environments, so do companies and markets.

When the New Zealand dairy industry was deregulated in 1995 the previously monopolistic NZ Dairy Group awoke to a market in transition. Rather than selling 95 per cent of its produce to one customer, the Dairy Board, the company now had to compete in an open market. In order to adapt, it had to formulate a new strategy that matched the new market conditions. However, while it was relatively easy in principle to design a new strategy, developing the capability to deliver or execute it was more complex. The culture that had developed during the monopolistic period had to change radically to realign with the new competitive intensity in the market and the desired strategic response. To achieve this, the company needed a different leadership style. A new CEO was appointed who understood the current marketplace and was able to set a fresh vision for the future that aligned with current customer requirements.

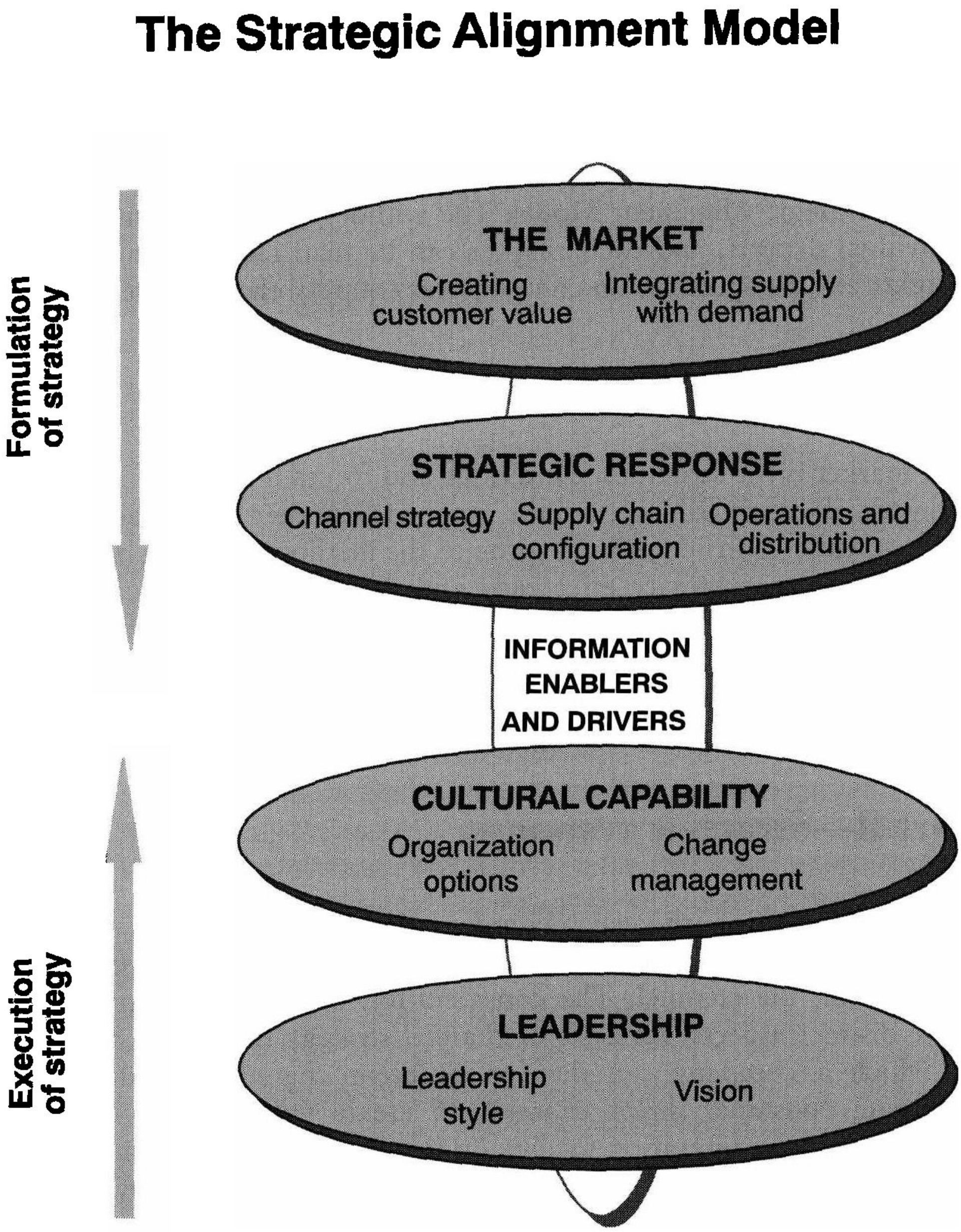
The Strategic Alignment Model emphasizes the interaction between the formulation of strategy and its execution. Formulating effective strategies requires an operational response to be developed that is consistent with the understanding of the market, its customer segments and the behaviour of each of these segments. But the intended strategy, which resides in the minds and plans of senior management, will be very different to the strategic outcome if there is a misalignment between the intention and the capabilities of the firm.

It is this crucial interface between cultural capability and strategy that has been the missing link in understanding how to shape and successfully deliver winning strategies to the competitive marketplace. We now know that a common culture and single, all-purpose response to the market will not be sufficient. Instead, what is required is multiple alignments between customer segments and internal organization structures, with the appropriate array of strategies acting as the bridge.

How the model operates

To put the model into action, the range of buying behaviours and competitive situations for a given product category must first be determined. This involves identifying the different market segments, the key customer values, the marketplace dynamics and the causes of varying demand patterns. Then the corresponding range of appropriate strategic responses is formulated to meet the logistics requirements of each market segment.

Different channels require different sets of skills to manage them effectively. So to ensure that the organization can execute its strategies it must have internalized the appropriate cultural capability, usually manifested in the diverse skill cultures necessary to meet customer requirements. Finally the leadership team must have a broad capacity to understand, shape and drive the agreed logistics strategy into the marketplace.



If conditions change in the marketplace, a ripple effect runs through the entire model. Strategies must be reformulated and the organizational capability redefined. The only problem is that, in large organizations, it is relatively easy to write a new strategy in response to a changing market, but achieving rapid change in the underlying cultures is exceedingly difficult and takes a significant amount of time—hence the flight to outsourcing in recent years, on the premise that it is easier to engage an external organization for a particular task than to find or invent the capability within the existing organization.

The Strategic Alignment Model has another element that flows