
A Global View of Supply Chain Management

- Interview by Darilyn Kane

Control M

Flow

organizati

re

War

munication

ure

Interview by
Darilyn Kane

A Global View of Supply Chain Management

Douglas Lambert, Director of the Global Supply Chain Forum, believes that successful Supply Chain Management is about taking a holistic view of the firm and looking beyond the usual boundaries to build relationships with customers and suppliers.

UABR: “Supply Chain” is a familiar phrase in business these days and you have been involved in research in the area for more than fifteen years. How would you describe Supply Chain Management?

DL: For us, Supply Chain Management (SCM) is an integrated business model that takes a process-based view of how all of the business functions need to work together and how a business relates to its suppliers and customers. The framework we have developed focuses on finding the right level of partnership with customers and suppliers and creating cross-functional teams that make decisions based on a holistic view of the business. However, there is quite a lot of confusion around the term “supply chain”. Many organisations use the term in job titles and organisation charts but they are taking a much narrower view. It can be interpreted as narrowly as materials flow which is really better described as logistics. I think probably the broadest view of supply chain management other than our framework is some kind of combination of purchasing, operations and logistics. There may be some economies in getting these areas to work together, and talk about the importance of “breaking down silos” has become common. But in fact what is happening is that they are just creating bigger silos. We need a way of thinking horizontally across all of the functions. From our perspective SCM requires the involvement of all of the business functions. We still need the expertise that has been built up within the silos or functions.

Dr. Douglas M. Lambert (pictured) is the Director of the Global Supply Chain Forum (GSCF) which researches opportunities for operational excellence in partnership with leading global organisations. He recently visited the Centre for Supply Chain Management at the University of Auckland Business School to co-teach a week-long course based on the GSCF Supply Chain Management Framework. The GSCF is based at Ohio State University where Doug is also the Raymond E. Mason Chair in Transportation and Logistics.



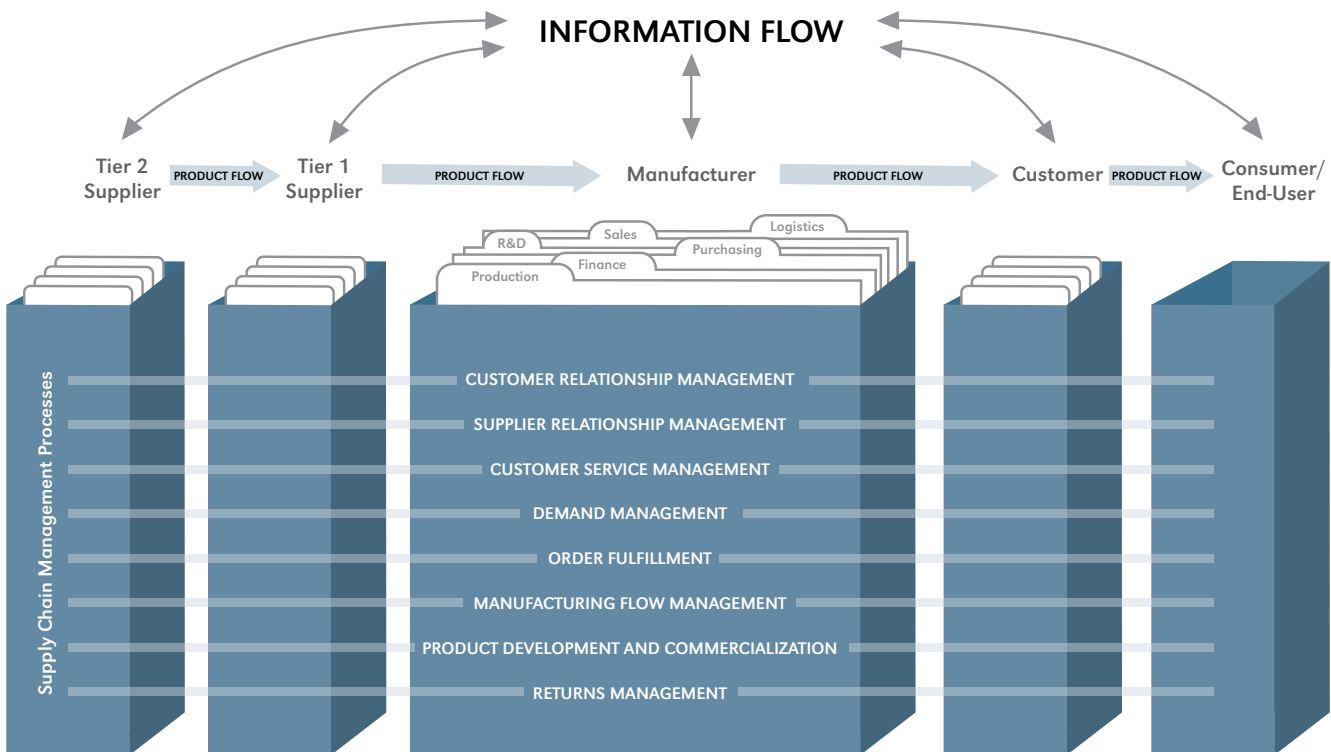
If we're going to own factories we need people who know how to operate them, or if we're buying from logistics service providers we still need some expertise within the business. It is important not to outsource the thinking even if you outsource some of the lifting. Certainly there can be economies by having purchasing, operations and logistics working more closely together. But by not including marketing, sales, finance and R and D we are simply building a bigger silo. To make the best decisions for the business, all functions must be involved. In my view, individuals from those functions that are not involved will maliciously or inadvertently subvert the effort. They will subvert the effort to show that they should have been involved or because they don't know what the effort is. Here's a great example from an organisation we have worked with, a manufacturer of consumer durables. They implemented a rapid delivery system that provided retailers with 24 to 48 hour deliveries. This was designed to keep them lean on inventory, so there would be fewer mark-downs and fresher product. If it's managed right, everything the dealer orders today has already been sold. After six years they had not realised the expected reductions in retailer inventory. The idea was never sold to the sales and marketing people so they were still offering deals on truckloads of appliances directly out of the factory, incentivising customers to buy large volumes. To

take a truly holistic view of a business, you also need to include customers and suppliers. In fact, the supply chain starts with your customer network and flows back through to your supplier network, and all the functions of the business need to be involved in managing the combined network.

UABR: Your research has involved several well-known global organisations – how has this come about?

DL: We started in 1992 and have built up a research centre called the Global Supply Chain Forum. Our research teams work with executives from 15 non-competing companies such as 3M, the Coca-Cola Company, Cargill, Defence Logistics Agency, HP, Halliburton and Shell. The first research project that we worked on was partnership. It didn't fit anything I'd previously done in my career but the rules of the game were that the members determined the research agenda. So I got very interested in partnerships, because that's what they were interested in researching. I didn't realise when we started that this research was going to be a key part of the SCM puzzle, but as our view of SCM developed we realised it is all about relationship management. No company in the group has implemented the entire framework – it's the combined wisdom of all of the executives and researchers, and that was the goal.

Figure 1 Supply Chain Management



Note: Process sponsorship and ownership must be established to drive the attainment of the supply chain vision and eliminate the functional barriers that artificially separate the process flows.

Source: Douglas M. Lambert, Editor, Supply Chain Management: Processes, Partnerships, Performance, Third Edition, Sarasota, FL: Supply Chain Management Institute, 2008, p. 8.

As academics this is a great position to be in – we are not just reporting the news, we are making it. Right now we are working with the companies to implement the framework. For example at Imation, a 3M spin-off, there are process executive sponsors and owners in place and they are implementing the processes all over the world.

The results of this research have been published in articles and a book which we are updating regularly to reflect our experience with implementation. In the third edition, published in 2008, there are four new chapters. We have totally rewritten the customer service management and supplier relationship management chapters, bringing in examples based on how Gillette and other companies proactively manage customer service and how Coke segmented suppliers. We are getting a lot of interest from outside of the North America now. We decided to team up with excellent universities outside of the USA so we have been to San Andrés in Buenos Aires, Cranfield in the UK and this is the second session that I have taught with Alan Stenger here at The University of Auckland Business School. The work that he has been doing with the Centre for Supply Chain Management within the University is a great example of starting to develop partnerships.

UABR: This approach seems like a major shift for many organisations, even those who have adopted the narrower forms of supply chain you mentioned earlier. What does a business model based on Supply Chain Management look like?

DL: It can be a major change, particularly the move to a more holistic view and finding a way to make decisions that are optimal for the whole of the business. Our model identifies eight key business processes. These are cross-functional and cross-firm and every function needs to be involved in implementing them (see Figure 1). If you're a manufacturer like Fisher and Paykel you are in the middle of the chain, and it looks more like an uprooted tree. The supplier network represents the roots and the customer network the branches. Some roots are going to be thicker than others and more important to the success of the tree or the business, just as some suppliers are more important to the success of the business. For example, the company that provides Wendy's with chicken and beef is going to be more important than the one that sells them straws and napkins. And some customers are going to be worth a lot more than others. For a long time Coke was proud of treating all of its customers the same way, but then they realised that doesn't make sense. When they have customers like Wal-Mart and McDonalds they can't afford to treat all customers like these customers. And if they treated Wal-Mart and McDonalds like they would have to in order to treat all customers the same, they wouldn't keep them as customers. That doesn't mean they don't come up with a value

proposition for every customer, but each one has to meet profit goals. So this is way beyond trucks and trains.

UABR: How important is it to get to really know your suppliers and customers?

DL: Very important – developing the right type of relationships is critical. If Colgate manages relationships better than Proctor or Unilever then they're going to win more often. They buy from the same suppliers and sell to the same retailers, so it's not supply chain against supply chain or the A Team playing the B Team. If I help my suppliers and customers to do better, those relationships are going to grow in a way that they won't for my competitors. This also ties in with a new stream of thinking that is emerging

in marketing – co-creation of value. Most of the research on this has been done with consumers. Sometimes this may be hard to conceptualize. To my way of thinking it is like this: if I buy Colgate toothpaste to get real value I have to brush often enough and in the right way, and that's how I co-create value. But, I have no trouble at all seeing that this is key in a business to business relationship. Coke and Cargill work closely together to co-create value – for example they are jointly developing a new zero

calorie natural sweetener, making process improvements to get inventory out of the supply chain and evaluating transportation to reduce the carbon footprint. Deep knowledge of the customer enables you to co-create value and the more cross-functional the involvement, the more opportunities that will be identified for value co-creation.

UABR: You mentioned different value propositions for different customers. What determines what the relationships with each customer or supplier should be?

DL: There needs to be a link to corporate and marketing strategy. Thinking about which customers are key to success now and in the future tells us what business we are in, what technologies we have to be good at and what the key inputs are. We might decide a specific segment is important, but all customers in that segment won't be the same. So we use two or three levels of segmentation to determine the importance of the customer or supplier and that helps us determine the type of relationship we want to establish. Suppliers can be scored on multiple attributes. For example Wendy's have developed a matrix based on complexity and volume, the result has strategic commodities in the top right hand corner – beef, chicken, promotional sauces - and things like straws in the bottom left hand corner. Coke also uses a matrix but with a whole list of criteria on each axis. They have developed detailed descriptions of how each area should be managed – who will be invited to participate in a one and one-half day session using our partnership model, who gets senior

executive or management involvement. Not all relationships will be partnerships – most organisations will have many arm’s length relationships which meet the needs of both parties. The goal is not to have more partnering – it is to have the right amount of partnering and get the best results for the least effort.

You don’t just need to know who to build partnerships with, you also need to figure out how to structure the relationship. Often we say we want to have a partnership but never explain what we think that means. It’s like if someone says do you want to buy a boat – I might be thinking of a sail boat but you are thinking of a fishing boat. We have to decide what the important things are before we start working together. Coke and Cargill spent a day and a half with twenty executives from each company. They went through their reasons for wanting a closer relationship. They had complete disclosure so they could build a clear picture of the partnership. The SCM partnership model separates out four major aspects of a relationship. The first two determine the potential for partnership: the drivers are the compelling reasons to commit to creating the partnership. Things like asset/

cost efficiencies, customer service improvements, marketing advantage or stability in profit growth. The facilitators are the characteristics of the two firms that make it easy or difficult to develop a close relationship, such as similar corporate cultures and management techniques. The components are the activities which managers in the two firms carry out to implement the partnership - they include planning, joint operating controls, risk and rewards sharing. They are the way managers build and sustain the relationship. Finally, the outcomes measure the extent to which the drivers of each company are achieved and the extent to which performance is improved for both parties.

UABR: You mentioned cross-functional teams and making decisions that are optimal for the whole business. How do companies make these work effectively?

DL: It’s challenging. Everybody is stretched to the limit these days and we’re not hiring more people to work on cross-functional teams. It’s something you have to put a lot of effort into because if any function dominates in decision making then you will sub-optimize. There are some guidelines about

Figure 2 Functional Involvement in the Supply Chain Management Processes

BUSINESS PROCESSES	BUSINESS FUNCTIONS						
	Marketing	Sales	Research & development	Logistics	Production	Purchasing	Finance
Customer relationship management	Marketing plan and resources	Account management	Technological capabilities	Logistics capabilities	Manufacturing capabilities	Sourcing capabilities	Customer profitability
Supplier relationship management	Capabilities required for competitive positioning	Sales growth opportunities	Material specifications	Inbound material flow	Integrated planning	Supplier capabilities	Total delivered cost
Customer service management	Prioritization of customers	Knowledge of customer operations	Technical service	Alignment of logistics activities	Coordinated execution	Priority assessment	Cost-to-serve
Demand management	Competitors’ initiatives	Competing programs in customer space	Process requirements	Forecasting	Manufacturing capabilities	Sourcing capabilities	Trade off analysis
Order fulfillment	Role of logistics service in marketing mix	Knowledge of customer requirements	Environmental requirements	Network design	Made-to-order	Material constraints	Distribution cost
Manufacturing flow management	Differentiation opportunities from manufacturing	Knowledge of customer requirements	Design for manufacturability	Prioritization criteria	Production planning	Integrated supply	Manufacturing cost
Product development and commercialization	Product/service gaps in market	Customer opportunities	Product design	Logistics requirements	Process specifications	Material specifications	R & d cost
Returns management	Knowledge of marketing	Customer knowledge	Product design	Reverse logistics capabilities	Re-manufacturing	Material specifications	Revenue & costs
Information architecture, data base strategy, information visibility							

SUPPLIERS

CUSTOMERS

Note: Process sponsorship and ownership must be established to drive the attainment of the supply chain vision and eliminate the functional barriers that artificially separate the process flows.

Source: Douglas M. Lambert, Editor, Supply Chain Management: Processes, Partnerships, Performance, Third Edition, Sarasota, FL: Supply Chain Management Institute, 2008, p. 8.

what each function can contribute to each of the key processes (see Figure 2). At an operational level you actually need to put teams together with customers. So there might be a Wal-Mart team. But at the strategic level when I'm trying to decide which customers the business wants and how to segment within customer categories – the process owner there would be the CEO and the other team members would be the Vice Presidents of the functions. At that level we're deciding how to customise product service agreements with key customers. We need to hear from R & D, manufacturing, logistics etc. what our capabilities are because we don't want customer teams to be promising what we can't profitably provide. The strategic level teams might get together every year and go through that process. Teams that are out meeting with customers might have a monthly review asking "are we on target with what we're doing with the customer?" and quarterly reviews with the customer's team. Top management must make it clear that this is the model. Reward systems need to be structured based on the work done in the process teams, for example paying members of the customer team based on the profitability of the customer. Then it's not seen as an extracurricular activity and you've got a better chance of making it work.

UABR: The research you have talked about is with large global organisations. How does the Supply Chain Management framework apply to smaller organisations that are more typical of New Zealand businesses?

DL: I think organisations in New Zealand are beginning to become aware of its importance, but are struggling with it. A lot is driven by being a trading nation and that can lead to a

Everybody is stretched to the limit these days and we're not hiring more people to work on cross-functional teams. It's something you have to put a lot of effort into because if any function dominates in decision making then you will sub-optimize.

focus on the logistics side of things. It is important to view SCM as a way of orchestrating the whole business. With smaller companies often everyone is in the same building, so there is a greater chance for interaction and they can implement changes rapidly. One of the cases we discussed on the programme is a New Zealand company that already operates with many aspects of our guidelines. They realised intuitively that it was the right way to

go. The SCM framework gives them a name for it and guidelines on where they need to go from here. It's not really about the size of a business. There's nothing in the book that's rocket science. We have taken a number of concepts that are out there and strung them together in a way that makes sense. If you're not formally segmenting your customer base, no matter how small that base is, then you're making a mistake. If the company is small enough the owners may have everything in their head and know where the money is coming from. But they might be assuming that revenue is equal to profit. Spending too much going after the revenue can ultimately destroy profit. Good financial information,

like revenue minus avoidable costs, will show you what a customer is really contributing to joint costs and profit. Likewise you may have CRM process working but if you're having trouble matching demand with your ability to supply, then you don't have the demand management process right. I think cross-functional teams really help with smaller companies. The person who is buying transportation services for your company needs to be part of key customer teams to understand what they need. That way better decisions can be made about how to transport product to these customers. But you still have to be selective because the scarce resource is your people, the business results must justify the investment in time spent with customers. You have to ration the resource to the relationships where there will be a pay off. ■



Art in this issue

Dave Barker
 "City of Sails"
 Waitemata Harbour
 October 2007