

A Four-Step Program for Supply Chain Agility

Hitachi Consulting and AMR Research surveyed 164 companies on what they are doing to be more responsive to customer needs and market conditions while reducing costs.

This article discusses the high level findings and their implications. Traditional supply chains are built for efficient response. With product proliferation and rising demand error, companies need to move from focusing on efficiency to agile response. The problem is that these designs are mutually exclusive.

This article, written by Lora Cecere of AMR Research, suggests a four-step program to improving responsiveness and becoming more agile.

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A Four-Step Program for Supply Chain Agility

by Lora Cecere

Traditional supply chains are built for efficient response. With product proliferation and rising demand error, companies need to move from focusing on efficiency to agile response. The problem is that these designs are mutually exclusive. How can your company become truly agile? We advocate a four-step program for intervention, based on a recent study on agility with 164 multi-national manufacturers.

The demise of the American auto value network should be a rallying cry for supply chain agility. Henry Ford's motto about a car being available in any color as long as it is black set the stage for the auto industry's demise. Following this leadership, U.S. automakers built push-based supply chains with long delivery cycles, with a focus on efficient assembly lines and low-cost supply.

The limitations of this model—too much inventory and the need to sacrifice margins because of the high distribution costs to move it—are no longer news. Automotive supply chains, blind to sensing true channel demand, have been anything but agile, opening up the door for competition—consider the **Toyota** lean production model and the just-in-time-era automobile makers that focused on luxury.

Auto supply chains bring to light a broad challenge faced by companies across industries. As they try to expand the choices for consumers through product and service differentiation, the need for supply chain agility increases.

Achieving agility requires four capabilities:

- **Speed**—This recognizes the pace at which your company can sense and respond.
- **Ease**—This measures how nimble your company is when things don't go as expected, as well as how easy it is for your company to sense change and respond.
- **Predictability**—Reliability can be even more

important than absolute speed. The company that can respond quickly and easily in three days every time is a more desirable trading partner than one that sometimes responds in one day, but other times takes six.

- **Quality**—A supply chain that senses and responds quickly, easily, and predictably, but with poor quality orders or products, doesn't qualify as agile.

Four steps to agility

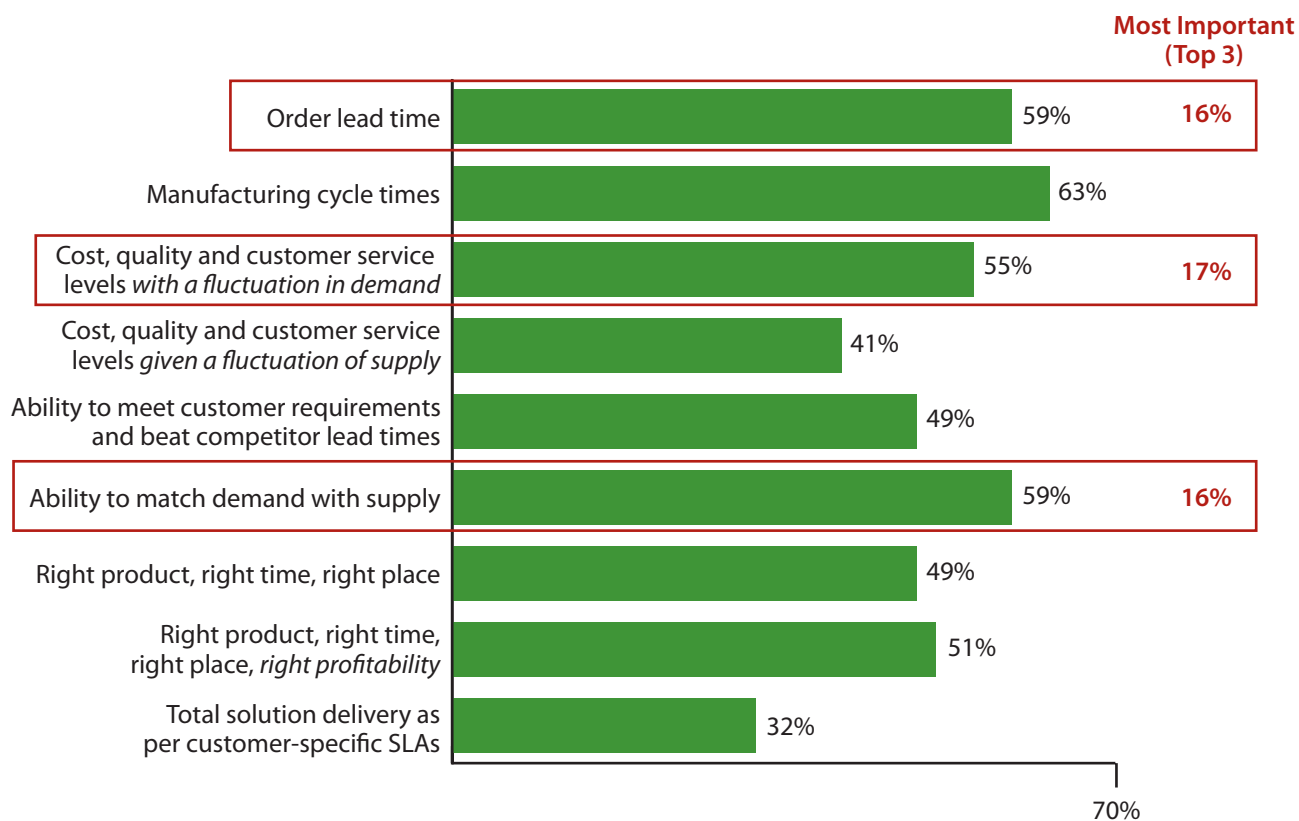
Competence in these skills prepares companies to achieve AMR Research's four-step process for being agile: clear definition, leadership, alignment, and supporting cycles.

Step 1—Build a definition

There is no industry-standard definition for agility. For top performers, agility is well defined for each organization. For laggards, the term is used in strategy documents, but isn't defined.

Agility is most frequently defined as manufacturing cycle time, according to our recent study. However, the most important definition—that is, the one driving the greatest improvement in customer service, asset utilization, and inventory write-offs—is the ability to have the same cost, quality, and customer service given at every level of demand variability.

Figure 1: How companies measure agility



Q. How does your organization measure agility? What do you consider your most important measure of agility for your organization? (n=164 manufacturers)

Source: AMR Research, 2009

Traditional supply chain processes focus on efficiency. The outcome is an improvement in return on assets (ROA), but not necessarily in agility or responsiveness. According to our survey, return on assets improved only by 1% after four years invested in supply chain excellence.

Step 2—Leadership the missing link

The need for agility is felt across the organization, but it can't be solved by any one function. Instead, it requires a cross-functional approach. For this reason, the effort has to be led by someone with authority over every function involved. Agility initiatives are most successful when driven by the chief operating officer, our research shows.

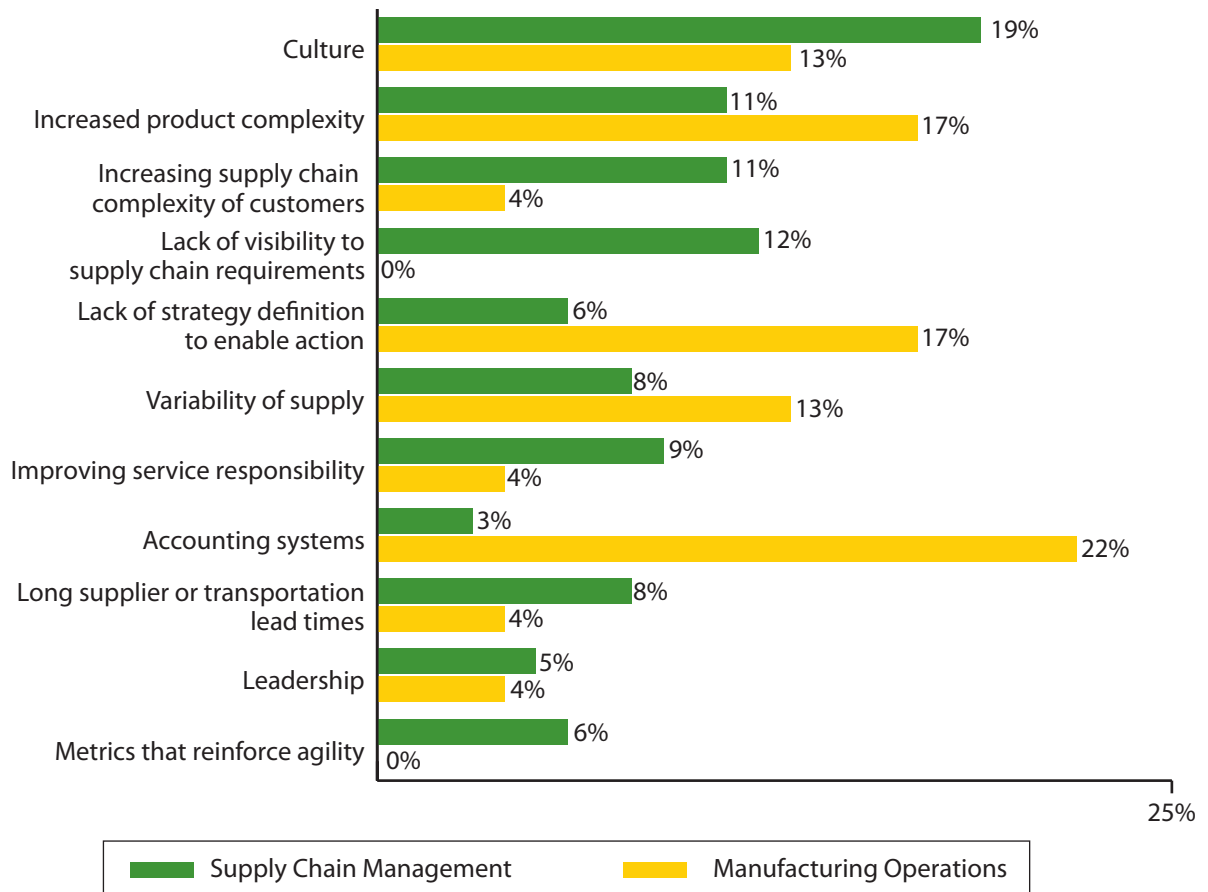
Step 3—Alignment

Cracking the nut requires a focus in three areas: culture, right-sizing complexity, and rethinking financial reward systems. Culture is the biggest barrier to achieving agility.

Companies that have successfully closed their customer service gaps while maintaining high asset utilization have taken five actions:

- **Reduced product complexity**—To accomplish this, there's an active focus on product and customer complexity.
- **Invested in available-to-promise (ATP) capabilities**—To improve visibility, ATP processes are extended to manufacturing capabilities.

Figure 2: Top barriers to improving agility —by role



Q. What would you say is the biggest barrier to improving agility in the supply chain? (single select)
 (n=130 SCM respondents / 23 manufacturing operations respondents)

Source: AMR Research, 2009

- **Reduced demand forecast error**—Over 60% of companies are experiencing an increase in demand variability, with new product launch forecast being the largest contributor to this error. A focus in this area can yield big dividends.
- **Improved order effectiveness**—Successful companies have a significantly higher percentage of orders that move through their order management systems without manual intervention.
- **Designed for supply**—The focus is on common formulations, platforms, and reuse strategies for source, make, and deliver.

Step 4—Supporting cycles

Reactive supply chains are unable to play catch-up. On average, the time to sense demand is three times the time to process an order. Companies that focus on reacting to demand are always on their back feet. And, despite the investment in order-to-cash processes, this remains an area of opportunity for most organizations. Agility increases when the time to sense demand is aligned with the time to respond to an order. Companies can close this gap by improving demand sensing.