

Building a Supply Chain that Responds Well to Market Changes

Based on an Interview by Senior Editor Bob Bowman of Supply Chain Brain with Michelle Meyer, Director of Supply Chain Solutions at Hitachi Consulting.



100th
ANNIVERSARY

Celebrating 100 years of the Hitachi Group

HITACHI
Inspire the Next

Q: What are some of the drivers that cause companies to seek out more responsiveness in the supply chain?

A: There are three main drivers that we were seeing companies dealing with that are creating significant impacts the supply chain.

The first one is the dramatically increasing or fluctuating transportation costs and how that was creating structural and economic changes in their supply chains they were starting to have to deal with.

The second is the very significant economic situation that we're all facing, and the decreasing and/or disappearing business that a lot of companies are dealing with and how they're managing demand fluctuation and other issues within their supply chains, for themselves, their customers and their suppliers.

The third major conversation that we find supply chain executives talking about is the greening or sustainability of the supply chain and the impact their supply chain is having on the environment.

Q: So what have you learned about the ability of a company to build or fail to build a responsive supply chain?

A: Well, one of the things we did this past year is a joint research project with AMR where we asked more than 160 companies across multiple industries about "building more responsive supply chains." What we found most interesting was their response to a question regarding what the biggest barrier is to "making your supply chain more responsive" The single biggest answer, from about 50% of respondents, was "company culture." Basically, they told us that the single biggest barrier to building a more responsive supply chain "is ourselves" and how they struggle dealing with that cultural issue within the organization.

Q: What did they mean by culture?

A: We learned that culture is how willing they are to connect themselves internally and with their partners. In addition, the culture of the organization drives how it operates, works and how it gets things done, and that impacts a supply chain's ability to be responsive to ensure it delivers the customer service and products as planned.

Q: What are they doing to overcome that particular barrier?

A: We found that the leaders are designing supply chains from the customer point of view first and working backwards. They are designing very customer-centric supply chains that are built around customer channels, and factoring in customer expectations and then delivering capabilities that are really driven by customers needs.

The second thing that they are doing is looking at how the company is structured organizationally. The leading companies that have more responsive supply chains tend to have a very broad definition around their supply chains and structure their organizations accordingly, versus a more narrowly defined supply chain that we find in other companies.

Q: Let's talk about customer service aspect – since just about every company claims it's customer focused...

A: Interestingly enough, we find it's a very basic and simple answer. And that is around metrics. It's the old adage, "what gets measured, gets managed and improved." And these organizations are very focused on putting metrics in place that tie the supply chain together and tie the supply chain toward driving toward a certain customer experience or a customer service level. There are lots of metrics that each part of the supply chain can apply to themselves and in some sense can almost be viewed as tactical victories along the way from a supply

chain perspective. And yet, if the overall capability of the supply chain or even if just one of those parts of the supply chain or one of those tactical victories doesn't happen, the overall customer experience can be significantly impacted. So a lot of these companies are beginning to understand that it's their supply chain that actually delivers the overall customer experience and so they're beginning to apply metrics very specifically that tie the supply chain together and tie the supply chain to the customer.

Q: So share with us some of those metrics, either with respect to customer service or any other aspect that leads to supply chain responsiveness?

A: We're seeing a couple that are really helping to drive responsiveness. The first one is around a customer experience or customer service level and often times it can be as simple as the Perfect Order. The second one is a focus on total cost and having an executive responsible for total supply chain costs versus individual costs that are broken up across the organization, such as transportation costs, production costs, inventory, etc.. So, if we go to the customer service perspective, we're finding organizations that hold true to the Perfect Order and try to hold true to its intention is really helping them drive some responsiveness and connectedness across its supply chain.

If you recall, Dr. Novak from Penn State introduced that metric <Perfect Order> more than a decade ago and the definition of it is an order that is shipped on the originally requested delivery date, not a promise date, all lines and items filled at 100%, an accurate invoice that is generated and paid, and no returns or damage. So, essentially no issues with the order so the entire order experience is what the customer is experiencing and it reflects your capability and what the organization is focused on delivering. The important point about the Perfect Order metric was that if any one of those metrics failed, the entire order was a failure—the performance on the ENTIRE order was ZERO.

Companies have a very hard time doing that to themselves and so they sometimes cheat a little bit in terms of how well we perform on the order.... *"Well, we did great but the invoice was wrong and so we had to deal with a credit or a debit and so overall we were at whatever metric that ends up producing for <ourselves> themselves."* But, from the customer's experience, there was a problem with the order; it doesn't matter where it was.

The other big metric that is very basic but also driving responsiveness is if you can get an executive focused on total cost and driving total cost metrics across the supply chain that helps to start making the organization understand the trade-offs and consciously make decisions about where they're going to invest to be more responsive and where they're going to make decisions to be more efficient.

Q: Emphasis on the word total though...is it true the landed costs or all the way back to the beginning of the chain are managing to get their arms around all those costs?

A: Yes, it's truly a total perspective and what we're finding is that total cost perspective is actually extending itself into a sustainability conversation. Companies haven't really started yet but the conversations have started as to what's our total cost for this product from the new concept of cradle to cradle introduced? And how much does it cost us to not only source and produce and deliver a product, but also what is it costing us and/or someone else to deal with the waste and/or something that we feel might be of zero value? Or, how do we design for the follow-on product? Or, even prior to sourcing, what are some of the sustainability issues there? So the total cost perspective is, in effect, going to expand

Q: So are you saying that a company that is good about figuring its total cost is more likely to be good at also figuring its carbon footprint for instance because it already has that organizational visibility.

A: That's exactly right...many companies are beginning to understand that their supply chain drives a tremendous amount of that carbon footprint and/or environmental impact that they have. So, for those companies that are joining in on that green conversation, they're looking very early on to their supply chain to understand what that impact is.

Q: *Going forward in terms of the newest linkages that you might see happening or going to happen, what would those be?*

A: What we're seeing now with supply chain organizations is linkage to their product development or R&D organizations. There are companies that are finding they can actually design a more responsive supply chain the sooner they are linked into that product development lifecycle or management process. So having more knowledge about products that are phasing in and phasing out, as well as about new product characteristics being developed, the supply chain organization is often able to support a product development effort both from a product characteristic, a sustainability characteristic, and a follow on capability of the supply chain organization to manage and deliver that product.

Another linkage we're seeing is that companies are finding their supply chain organizations are helping to drive and support sustainability efforts between suppliers, customers and third-party providers to be more environmentally friendly and have a lower environmental impact – certainly, we're going to see more of this over the next 5-10 years where brand new companies, and new supply chains will develop from people asking: What do I do with this waste? How do I create a more sustainable product? How do I create a product or think about managing my product from cradle to cradle? There are new companies and new supply chains that are going to be built around that.

Interestingly enough, we find it's a very basic and simple answer. And that is around their metrics. It's the old adage, "what gets measured, gets managed and improved." And these organizations are very focused on putting metrics in place that tie the supply chain together and tie the supply chain toward driving toward a certain customer experience or a customer service level. So there's lots of metrics that each part of the supply chain can apply to themselves and in some sense can almost be viewed as tactical victories along the way from a supply chain perspective and yet if the overall capability of the supply chain or even if just one of those parts of the supply chain or one of those tactical victories doesn't happen, the overall customer experience can be significantly impacted. So a lot of these companies are beginning to understand that it's their supply chain that actually delivers the overall customer experience and so they're beginning to apply metrics very specifically that tie the supply chain together and tie the supply chain to the customer.

About Hitachi Consulting Corporation

As Hitachi, Ltd.'s (NYSE: HIT) global consulting company, with operations in the United States, Europe and Asia, Hitachi Consulting is a recognized leader in delivering proven business and IT strategies and solutions to Global 2000 companies across many industries. With a balanced view of strategy, people, process and technology, we work with companies to understand their unique business needs, and to develop and implement practical business strategies and technology solutions. From business strategy development through application deployment, our consultants are committed to helping clients quickly realize measurable business value and achieve sustainable ROI.

Hitachi Consulting's client base includes 25 percent of the Global 100 as well as many leading mid-market companies. We offer a client-focused, collaborative approach and transfer knowledge throughout each engagement.

For more information, call 1.877.664.0010 or visit www.hitachiconsulting.com.

© 2010 Hitachi Consulting Corporation.

All rights reserved. "Building the Market Responsive Company," "Knowledge-Driven Consulting," and "Dove Consulting" are all registered service marks of Hitachi Consulting Corporation. "Business Intelligence at the Edge of the Enterprise" and "Performance Management at the Edge of the Enterprise" are service marks of Hitachi Consulting Corporation.