

A Strategy Essential To Supply Chain Excellence

by R. Michael Donovan

An absolute and constant objective for management is the pursuit of a strategic edge in the marketplace. As more and more companies have achieved greater cost efficiency, many have discovered that their sales and profit growth is limited as a result of slow or no information and material flow in their supply chain. This has caused a number of companies to critically evaluate the speed and flow of information and material throughout their entire supply chains. The predominant conclusions are that more effective supply chain management in some industries is required just to stay even in the marketplace, while in other industries supply chain redesign can yield significant and measurable performance improvement gains.

Manufacturers must get rid of their rigid, sluggish, bloated ways and become more innovative, flexible, profitable and competitive. The world of manufacturing has permanently changed. In fact, change has become the constant as customers demand perfection in quality, delivery and price as more competitors become more flexible and quicker at delivering what customers want. These facts are causing many executives to grapple with the complex issues of changing long-established mindsets, entrenched processes and less-than-adequate information systems.

For many managers, the biggest problem may be to overcome the “rules”. These are the accepted methods of operation that have been taught and reinforced for generations, and can prevent us from accepting anything new. The saving grace for the individual manager is that it’s not you that is wrong; it’s the rules under which your company is organized and operates. When it comes to making changes, however, individual and collective value and belief systems are not easy to change. Yet, management must confront the need for change and tackle this need head-on, or the best of intentions and efforts toward beneficial change are sure to be scuttled.

DEVELOPING A FLOW STRATEGY

When is the last time you heard an executive say something like: “Our entire supply chain flow strategy was developed to give us a significant competitive edge in quality, cost, flexibility and quick response in the marketplace. There is no doubt our strategy works because customers have responded to this extra value by rewarding us with more business.” There are executives who can say this, but they are a small minority. Their companies have achieved significant business performance improvement by developing a good supply chain flow strategy. Beyond that, they have had the discipline to adhere to the strategy until it became the accepted new set of rules for conducting business.

These management teams have focused on developing a supply chain flow strategy and have implemented the changes necessary to achieve a competitive advantage. They have, at a minimum, examined and re-examined the essential core issues that are the building blocks to this success. Many questions have to be asked and answered, questions such as:

- What supply chain strategy will give us the leverage to transform ourselves into marketplace leaders?
- How will a flow manufacturing philosophy and its principles help us achieve our objectives?
- How should we structure our information and material flow, develop the right links with our customers and suppliers and implement the best supply chain processes for our company?
- What best-practice flow manufacturing and supply chain approaches can we apply in the near and longer term?
- What information system logic will be needed to support flow requirements in manufacturing and other areas in the supply chain?
- How will we measure the functions, activities and processes that drive manufacturing and the entire supply chain?
- What improvements should we achieve in cycle time, inventories, quality, service, profit and market share?

These seemingly simple, but actually complex, questions must be answered to gain top management understanding - enough understanding for them to support a major change in operational strategy. Achieving this high level of understanding at the top of the business is no easy task, but it is essential to achieving and maintaining the unwavering commitment and support needed to fully implement flow. Achieving substantial benefits from a flow environment takes substantial organizational discipline and adherence to a flow strategy.

Many companies fail because they lack the discipline to adhere to the new philosophy long enough to achieve a well-functioning flow environment. There are a whole host of reasons why the commitment flags, but the most significant one is not staying the course long enough to rebuild the mind-sets of key managers steeped in the old ways of doing things.

WHY EMPHASIZE THE SUPPLY CHAIN?

Two very compelling reasons justify the emphasis on the entire supply chain. First, in some industries, especially consumer goods, suppliers are integrating, rather than interfacing, with their customers. There's no small difference between interfacing and integrating. Both parties must move away from coexistence with independent and oftentimes conflicting goals. In an integrated supply chain, customers and suppliers become mutually codependent sharing information and focusing on common goals. The objective is for the supply chain, not just the individual participants, together to increase market share through quick response to customers' needs. This can only happen when information, materials and products flow smoothly and freely, in sync with demand.

The second reason is operational in nature and a prerequisite to establishing an integrated, mutually dependent relationship between your company and selected customers. Customer and supplier operations must be streamlined for flow. This is best done by developing ways to quickly share relevant information to support synchronized material flow for quick response to customer needs. No matter your industry, your success in achieving these objectives may well

determine your company's future. Many companies now recognize that flow through the entire supply chain is critical to their success. The fact is, customers are going to work more and more with suppliers who consistently and reliably meet their quick-response needs.

Dell Computer provides a good example of a successful supply-chain flow strategy. Many of the country's top CEO's now want to hear how Michael Dell and his management team made the company into a short-cycle, configured-to-customer-demand product company while slashing inventories at the same time. Dell Computer is one of the few that have successfully tied the entire supply chain into short-cycle, synchronized flow of material from suppliers to manufacturing and on to the customer.

There is enormous risk in not keeping pace with what the marketplace wants and needs. Failure to deliver can drive your customers into the waiting, open arms of your more progressive competitors. One of the biggest challenges for management is setting the right priorities, allocating appropriate resources and, of course, achieving the required results with flow manufacturing and the supply chain.

A good place to start is to objectively assess current conditions and determine what is needed to outperform the competition. Compare the as-is condition to the potential could-be, then determine a pragmatic should-be condition. A thorough assessment of the risks involved is also mandatory. By carefully considering these and other questions, top managers can gain a clearer understanding of where they stand and where the company must go to become a world-class performer.

IMPLEMENTATION PITFALLS

One easy way to make a conversion to flow production unsuccessful is to impose MRP operating logic on production. The fact is, MRP discrete production scheduling impedes flow because its rules and logic can impose a conformance to discreet/batch production. Breaking through this barrier is not easy, especially after a company has invested heavily in implementing a system and a process to support the old way of doing things. Three common pitfalls consistently emerge:

- When people don't understand flow they will resist it and follow the long established mindset.
- Traditional MRP systems for controlling production material flow actually inhibit rather than support real flow.
- Companies do not apply the right philosophy, policies and principles for their particular environment. Therefore, permanent adoption of flow does not happen.

For most manufacturers, the marketplace is clearly sending the message that suppliers must be more flexible and responsive than in times past. This trend will continue as customers seek and expect faster and faster deliveries, on-time, every time, with no excuses. Manufacturers must evaluate their production operations and supply chains with the conviction that they must adapt or lose business to more agile competitors. Achieving a very successful lean supply chain, however, following some rules. Overall guiding criteria, at minimum, should include:

- Leadership from the highest level in the organization must champion flow to achieve operational excellence.
- A cross-functional approach that starts with education, then moves on to defining customer requirements, and progresses through the company's information and material flow processes.
- A structured methodology to demand-based flow and cycle time reduction that examines and redesigns policies, processes, systems, and performance measurement criteria.
- If total supply chain redesign is too unnerving, start with a small, manageable aspect of the business and build confidence with initial successes, then ramp-up.
- Pre-implementation preparation activities focus on record accuracy, sales and operations planning, buffer inventory deployment planning, etc. These must be done right and are absolute prerequisites for success.
- Fix the real process problems-use information technology as an enabler, but not as the only solution.
- Develop an easy-to-do business with operational mode as you strategy for getting ahead and staying ahead of your competition.
- Eliminate the myopic, isolated micro-level performance measurements that can cause and reinforce behavior that is counterproductive to new operating philosophies.
- Measure supply chain results, not isolated activities, by focusing on performance measurement that really matter, such as customer service, market share, production throughput, cycle time reduction, inventory reduction, cash flow and operating expense.
- Build a flexible learning organization that adapts to inevitable marketplace changes and quickly responds to customer needs.

WHY DO IT?

The most significant and measurable benefits of pushing flow up and down the supply chain include reduced uncertainty in supply because of inaccuracies in demand projections, reduced cycle times that allow much quicker response, increased working capital availability for other opportunities, increased throughput and much better on-time performance. When it's done correctly, companies can achieve both revenue increases and cost advantages from improved performance. While these two advantages are significant, the big reason for adopting an appropriate flow philosophy, policy and principles should be growth in sales and profit through market share improvement. Applying and adhering to the right flow philosophy, policy and principles will work for your company as a competitive strategy.

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