Supply Chain Design and Optimization

Building supply chain relationships
**Introduction**

With continued economic uncertainty and increasing global competition, the customer remains king. Whilst money may be tight, there seems no let up in consumer demand for superior service, increased value and competitive price. Inevitably, this brings ever-greater pressure for efficiency gains and performance improvement. The health of an organisation depends more than ever on its ability to successfully meet the needs of its customers. In today’s business environment, this cannot be achieved merely through internal business improvement; it is dependent on optimisation of the entire supply chain.

Keeping your own business under control and simply relying on your customers and suppliers to do the same, is no longer sufficient. The benefits to be gained from developing formal relationships and collaborative partnerships with key suppliers and customers throughout the supply chain, are too significant to be ignored; optimised supply chains deliver best-in-class service at half the cost. Moreover, those that maintain a ‘laissez faire’ attitude and don’t collaborate face being left behind by the competition.

“Optimized supply chains deliver best-in-class service at half the cost”
End-to-end thinking

When people talk about supplier relations they are often referring to first tier suppliers, but by not thinking end-to-end, companies are missing out on the real opportunity for improvement. It is important to understand the effect of your actions on others in the supply chain. One simple part or product variant, for example, may have negligible effect on your business, but the cumulative effect can be widely felt, as added cost and complexity is ‘bull-whipped’ across the supply chain.

You have to account for all-important supply chain ‘nodes’ on both the supply and customer side; that is, those that have the most influence on the supply chain - the ‘power players’ - however far downstream they are. A major supermarket, for example, is an important supply chain node, and even if it is several tiers away from your own business, you have to take it in to consideration, because its influence on the supply chain is too significant to ignore. Likewise, a supplier can be a power player, particularly if its product is in short supply and it can call the shots with its customers.

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To feel the full benefit of improved relations, you have to consider not just your suppliers, but customers too. It is typical for organisations to focus on the six or seven key nodes in the supply chain; those, which are closest to home - two or three internal (primary production, secondary production and warehousing & distribution) and four external (tier 1 and 2 suppliers and tier 1 and 2 customers). However, you may need to consider nodes further away than this since, often when there are issues in the supply chain, they are caused by multiple nodes and/or stem from beyond those closest to you.

For some businesses this could potentially involve hundreds of suppliers. Obviously you can’t realistically work with all of these, so you need to prioritise. Identify areas of weakness and where most opportunity lies and build solid relationships with those that have the greatest impact on your business – this will be influenced by the business strategy. For example if a particular supplier has a key role in your product design, you will want to make sure they are in control and aligned with your business. Equally, if there is a particularly poor performer in the supply chain, great benefit can be derived from working with them, as they are an obvious cause of inefficiency.

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**Figure 1: Oliver Wight thought leadership extends through the supply chain**
Trust in supply chain collaboration

Supply chain collaboration is not a new concept, nor is it unusual for companies to want or have it. But ‘collaboration’ is arguably one of the most overused - and misused - terms in supply chain management. Many talk about ‘collaboration’ prematurely, before they have even established true partnerships.

Often supply chain collaboration is viewed as the exchange of data; but simply acquiring data from another organisation does not make you collaborative. Collaboration is not a single step, there is far more to it than that. The Oxford English dictionary defines collaboration as ‘the action of working with someone to produce something.’ It is about working together, as a team for a common objective: to optimise the supply chain. This does not necessarily mean organisations have to share the same goals - the benefits from collaboration can vary - but to work it has to be worthwhile for all parties involved, and it has to be understood how these benefits will be delivered through working together.

An alternative definition of collaboration is ‘traitorous cooperation with an enemy’; this pertinently reflects how some view the process of supply chain collaboration. It is not uncommon for organisations to use supply chain partnerships simply to keep an eye on each other. But partnerships shouldn’t be an underhand way of creating boundaries and managing one another; businesses can never become truly collaborative behaving this way. Collaboration relies strongly on trust, and this is often the biggest barrier to overcome.

“Supply chain collaboration reduces operating costs by up to 50%”
A means of ensuring trust is to collaborate only with partners of equal capability. It’s a ‘pitch and catch’ situation: organisations want to know that if they are going to ‘pitch’ a better view of demand to suppliers, that they have the capability to ‘catch’ that information and use it to improve their processes back through the extended supply chain. The extra effort required to provide greater visibility has to be justified; organisations need reassurance that gains will be made by sharing their information and becoming collaborative.

Supply chain collaboration can have an enormous impact on an organisation’s ability to service customers effectively and profitably, as improved communication and integration inevitably allows organisations to more effectively meet demand. The closer an organisation works to the demand signal and the more accurately it is communicated, the less amplification there is further back in the supply chain. The process then becomes more efficient, producing less waste and generating more profit. In fact, supply chain collaboration reduces operating costs by up to 50% at the same time as improving customer service levels.
The journey

Something to establish at the outset is that organisations cannot launch straight in to collaboration; it is a journey of maturity, with different levels of transition - as discussed organisations must first have equal capability with their core business processes, moving to the establishment of successful partnerships, before they can consider collaboration. Before any of this can begin, however, it is imperative to they get their own house in order.

At Oliver Wight, we use something called a maturity map (Fig 2), which helps an organisation identify and understand its maturity and capability, and that of its supply chain partners. This is essential when establishing areas of focus and types of relationship to develop.

At the bottom of phase one, the focus should be on ensuring you have control over your own business, which means you do everything you plan to, at least 95% of the time. A good understanding of your processes and assurance they are consistently executed is a necessity, as credible, reliable information is an essential prerequisite to good supplier relations. At this stage supply point planning is carried out, preparing for supply chain planning and optimisation by establishing the required...

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**Figure 2: Supply chain optimization - maturity**
behaviours, roles and responsibilities, including engagement at the executive level.

It is not until the top of phase one, transition three (T3), once internal control and efficiency has been established, with a suite of metrics and processes in place, that an organisation can start to think about supply chain design and connecting more closely with customers and suppliers. Information should now be flowing between the different nodes, things like supply and delivery can be synchronised and you should start to think from the viewpoint of the customer. Naturally, you have to recognise the boundaries in which you operate and design your supply chain accordingly.

As you progress in to phase 2, T4 and beyond, this is when you start to really understand and create value from the perspective of the customer, and form true partnerships. These partnerships may vary by customers or groups of customers, but for it to be a true partnership it has to look not just at synchronised supply, but synchronised production right the way back to the supplier base, i.e. total optimisation (cost, service and investment) of the overall supply chain.

True collaboration and optimisation can only occur at the top of phase two (T5). At this stage, you can operate in virtual teams across the entire supply chain.

In the supply chain journey, these capabilities have to be built one on top of the other. You cannot rush head first in to collaboration, otherwise it will collapse like a house of cards. Because organisations typically have more control over suppliers than customers, it is natural to want to drive improvement from suppliers to customers (left to right in Fig 3) but this approach may have to be tempered according to the reality of the supply chain environment in which you operate. If there is an ‘800lb gorilla’ in your supply chain, for example, they may not want to collaborate; you may have to be part of a larger implementation led by them.

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**Figure 3: Supply chain journey**
While many companies have a clear strategy, 75% of businesses lack the processes to successfully deploy it. But an organisation cannot progress along the supply chain journey, if its people, tools and processes are not aligned to the overall business plan.

The supply chain strategy (supply and logistics) is derived from the market and product strategy and has to align with the corporate strategy. This alignment should be driven throughout the supply chain, so everyone from the process worker to the leadership team in every enterprise understands the strategy and business objectives; then the appropriate processes can be designed and implemented.

Design of the supply chain has to account for boundaries and key drivers, for example legal requirements, HSE issues and political policies; as well as capabilities (people, processes and tools) and the customer’s experience of value from the supply chain. That means you have to understand how your customers are actually experiencing value and what their expectations are. When establishing which relationships to develop and how to optimise each supply point, the capability to put yourself in the shoes of the customer and understand their perspective, is fundamental.

Naturally, different customers want different things. Businesses can often meet customer demand more effectively through market segmentation and a realignment of the supply chain. If you opt for supply chain segmentation, as an effective way of satisfying individual product and service needs while maintaining economies of scale, it is essential alignment with the overall strategy is sustained, along with a focus on the need to improve service, maintain a good cash position, and minimise cost.
Supply chain metrics

To optimise your extended supply chain you not only need strategic alignment between the different organisations, you also need shared supply chain goals, and therefore, metrics. Every single function and enterprise will have its own performance focus, but supply chain metrics which concentrate on optimising the overall supply chain are also required.

Furthermore, in the competitive environment, knowing how your overall supply chain is performing compared to your competitors’ is essential. You have to understand what best-in-class looks like and always keep a clear view of the speed needed to stay ahead of the competition.

Measurements and Key Performance Indicators play a key role in building relationships throughout the supply chain. They drive the right behaviours and accountability, and act as a catalyst for cultural change; helping move away from a silo mentality, towards that end-to-end perspective, which is so important.

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Leading change

The first step on the Oliver Wight Proven Path to successful supply chain optimisation (Fig 5) is leadership.

It is common for supply chain optimisation programmes not to work because of buy-in at the top. Indeed, 66% of change initiatives fail due to lack of leadership. When developing relationships and optimising the extended supply chain, it is not just sponsorship of the improvement programme which is required, but active engagement and visible leadership, from the senior executive.

"66% of change initiatives fail due to lack of leadership"

Across the six or seven nodes of the supply chain closest to you, you need to develop an understanding of current levels of supply chain capability, what the issues are and the business case. The leadership team within each enterprise needs to be educated so the challenges and advantages of moving towards an integrated supply chain are fully understood, and at the point of commitment (highlighted in Fig 5), the benefits, method and cost required are known.

In the development stage of the proven path, the leadership team has to become expert in the processes, i.e. what best practice looks like and how it is going to be implemented within the supply chain. Some cascade education is required to educate and train people within the different nodes of the supply chain, so they understand the processes too, and importantly their role in supporting them. Then is the time to drive ownership, leveraging capability and behaviour change.

All too often supply chain initiatives are launched, but fizzle out quickly because the leadership team was never really engaged or committed. Inevitably after too many such initiatives, people come to assume change will not work before they even give it a chance. To really make the improvement initiative work, a significant amount of soft activity - communication and engagement - has to be undertaken to ensure people understand why things are going to work differently and what they have to do to make that successful.

It is not just about having the right processes and tools in place, people have to be motivated across fiscal boundaries, within different organisation, if they are to have a shared vision and common understanding of the benefits an integrated supply chain can provide.
Supply chain excellence

Mutual capability and integrated strength bring continuous improvement in supply chain efficiency and effectiveness, enabling business growth, increased market share, better customer service, and more profit.

Collaborating strategically across the supply chain and aligning behaviours, processes and tools for optimum performance allows you to capture savings and benefits that cannot otherwise be achieved. An optimised supply chain typically improves perfect order ratings by 17% and developing strong relationships will substantially enhance your ability to meet customer needs. In an age when consumers are becoming increasingly demanding and less loyal, it is an advantage you can’t afford not to take.

Key aspects of supply chain excellence:
- Managed by a single process
- Market-driven
- Shared knowledge and information
- One set of numbers across the supply chain
- Supply chain supports product innovation and speed to market, aligned with segmentation
- Formal partnerships with key customers and suppliers
- Shared goals routinely delivered

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About Oliver Wight

Oliver Wight has a 40 year track record of delivering business improvement to some of the world’s best-known organisations. We believe that sustainable improvement can only be made through your own people. So unlike other consultancy firms, we transfer our knowledge to you, which means you can achieve performance levels and financial results that last.

At the leading edge of management thinking and practice, our Integrated Business Planning (IBP) model lies at the heart of our clients’ journey to outstanding business performance. Oliver Wight originated Sales and Operations Planning in the 1980s and IBP can most simply be described as advanced S&OP, evolving from its production planning roots over 40 years into the fully integrated management and supply chain collaboration process it is today. IBP allows the senior executive to plan and manage the entire organisation over a 24 month horizon, aligning tactical and strategic plans each month and allocating critical resources to satisfy customers in the most profitable way.

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