

Demand Driven Supply Chains: New Models of Leadership and Technology

Dr Paul Chapman

Cranfield
UNIVERSITY
School of Management

Dr Andrew White



oxford
SAID BUSINESS SCHOOL

In association with

 AMR Research

Introductions

- Cranfield School of Management
 - A graduate school with excellence in:
 - Degree programmes: MBA; MSc; PhD
 - Executive development
 - Research, particularly applied research
 - Home to the Agile Supply Chain Research Club
 - An academic–practitioner collaboration researching customer responsiveness
- Said Business School, University of Oxford
 - The highest standards of academic rigor with a practical understanding of business and wealth creation.
- AMR Research
 - Advisory services and peer networking opportunities to supply chain and technology professionals in manufacturing and retail sectors.
 - Thought leaders behind Demand Driven Supply Network (DDSN)

Objectives

- Give a 'networked world' context to your knowledge of contemporary supply chains.
- Underline the leadership characteristics required to deliver and sustain a demand driven supply chain.
- Benchmark your organisation's demand driven competency.
- Demonstrate the methods that will place you on the journey towards being customer focussed and demand driven.
- Show the contribution of the demand driven supply chain to increased shareholder value.

- Context
 - The Rise of the Networked World
 - Demand Driven Supply Chains
 - Leaderships and Peripheral Vision
 - Technology Enabled Networked Convergence Organisation
- DDSC Readiness Assessment Exercise
 - Your Opportunity to Benchmark
- Delivering Results
 - Case studies from non-food and fresh categories
 - DDSC: implications for shareholder value

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Context – The Rise of the Networked World

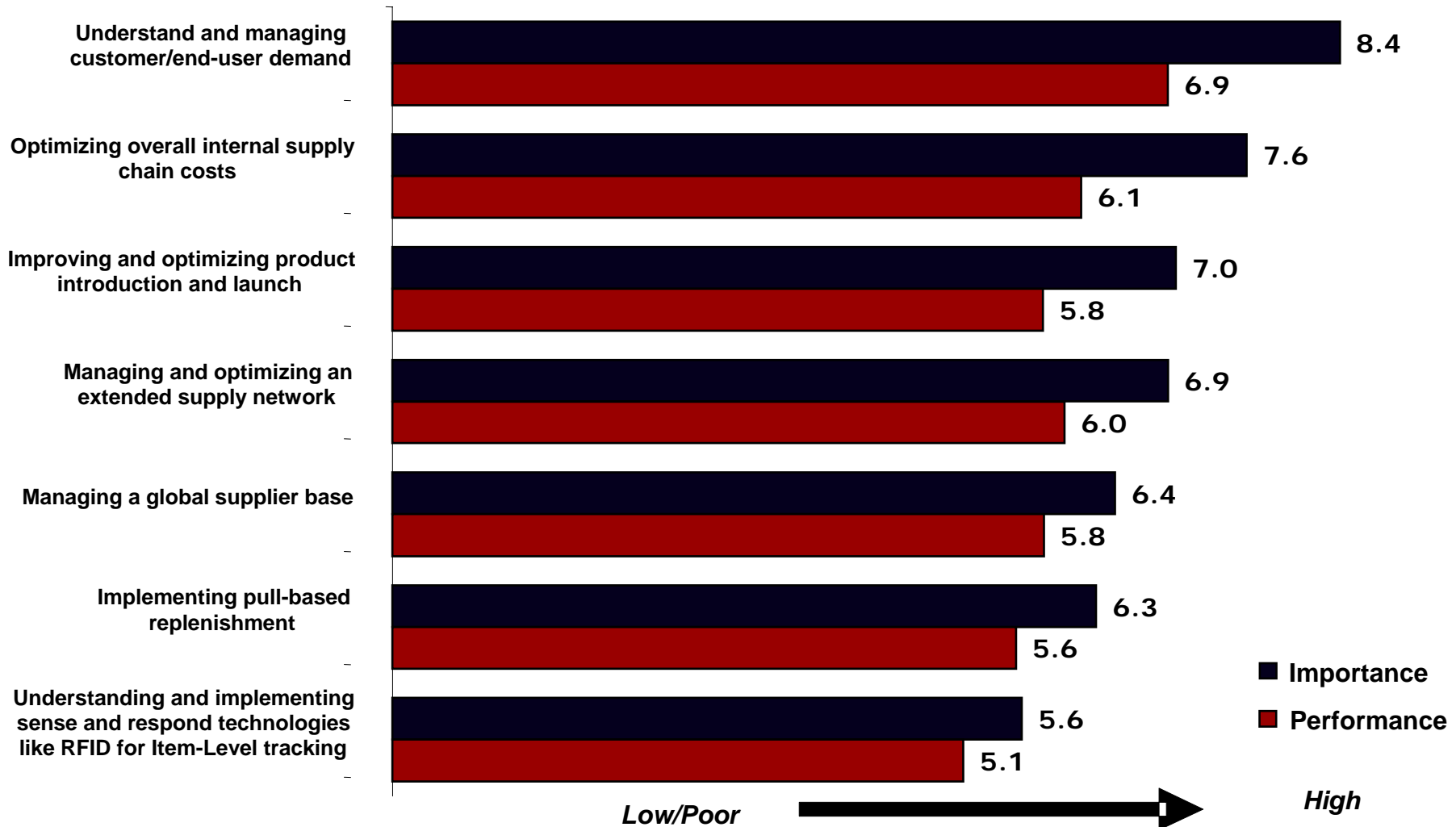
The Rise of the Networked World

- Rise of regional political blocks
- Outsourcing of manufacturing and business processes
- Eating Chilean strawberries across Europe in January
- Growth in world trade (exports from Western Europe rose by 17.5 per cent to €3.02 trillion in 2003, and imports rose by 19 per cent to €3.05 trillion).
- Commercial and social technological integration
- There has been a five-fold increase in air travel over the last 30 years and freight traffic at UK airports has doubled since 1990.
- Shocks, discontinuities and terrorism

Demand Driven Supply Chains

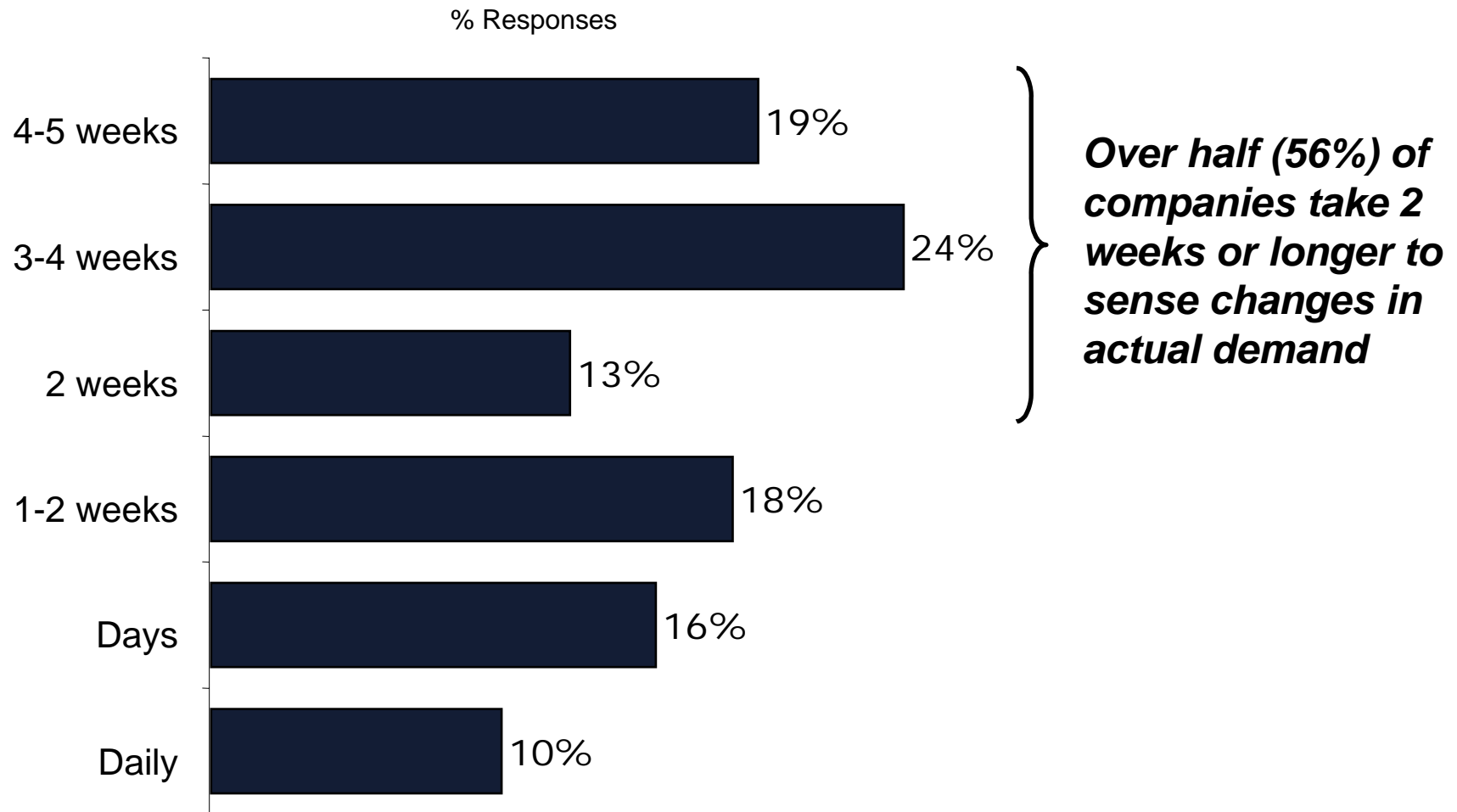
Demand Driven Supply Chains

Mean/Average Score on 10 Point Scale for Importance/Performance, All Industries

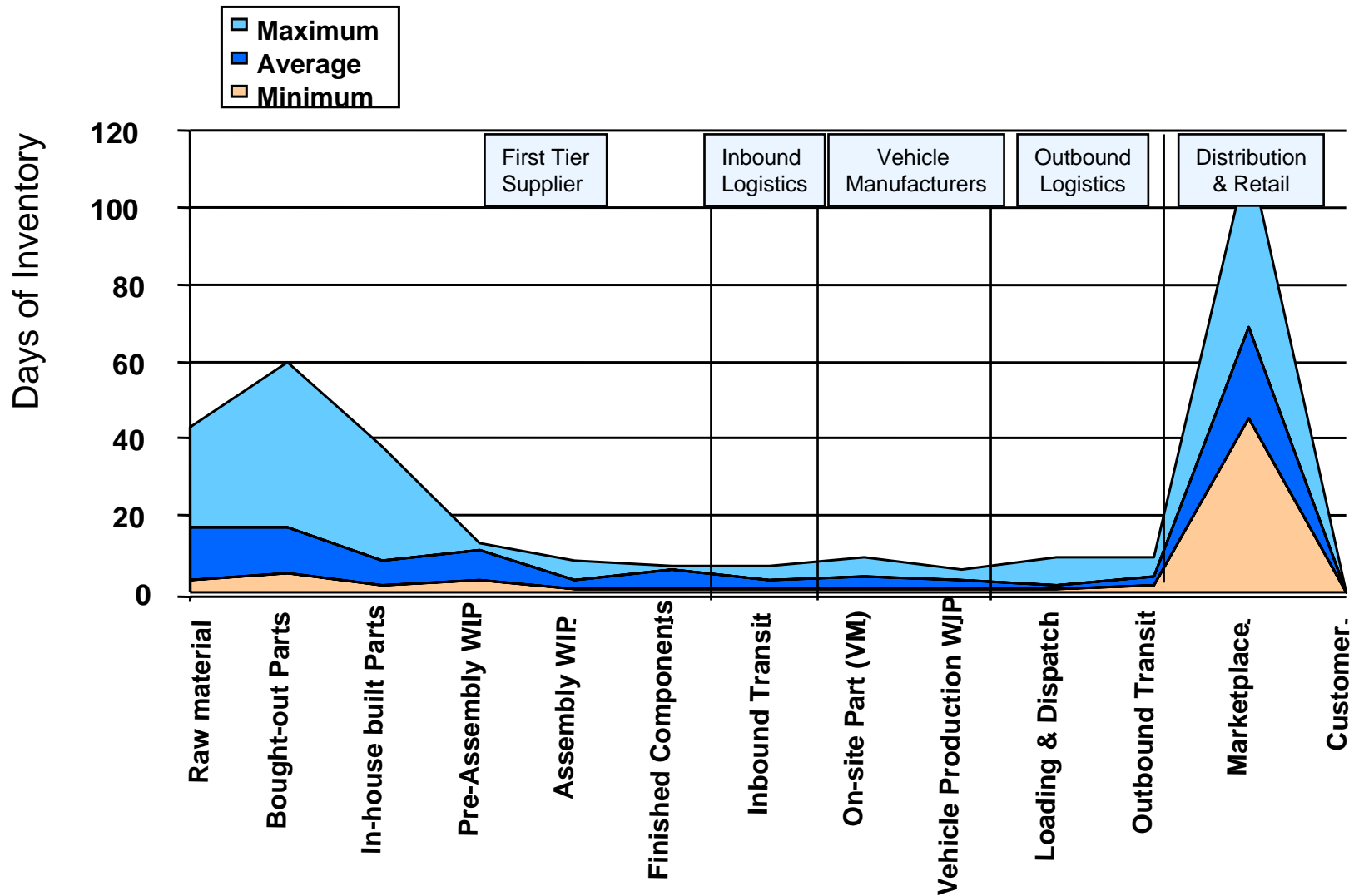


Demand Driven Supply Chains

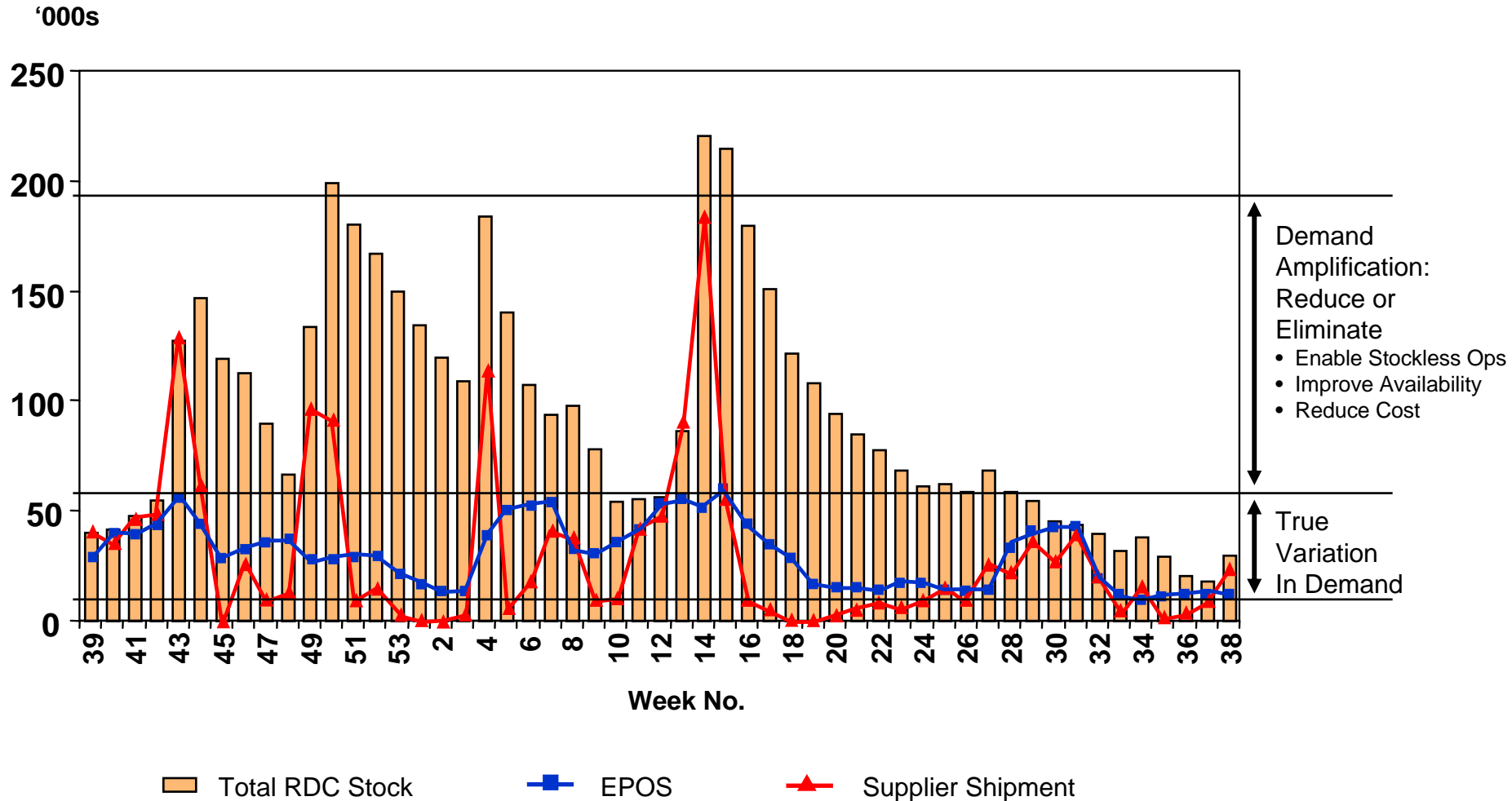
How long does it take your organization to detect changes in true (or actual, customer/consumer) demand?



Collaboration or Clobberation?



Forrester (Bullwhip Effect)



Leaderships and Peripheral Vision

Keep your eye on the ball

In business, you need to **keep your eye on the ball**

- Watch the following movie of a basketball game
- Focus only on the team in **white** t-shirts
- Count the number of catches **and** bounces

Remember, keep your eye on the ball!

Keep your eye on the ball



Events on the Periphery

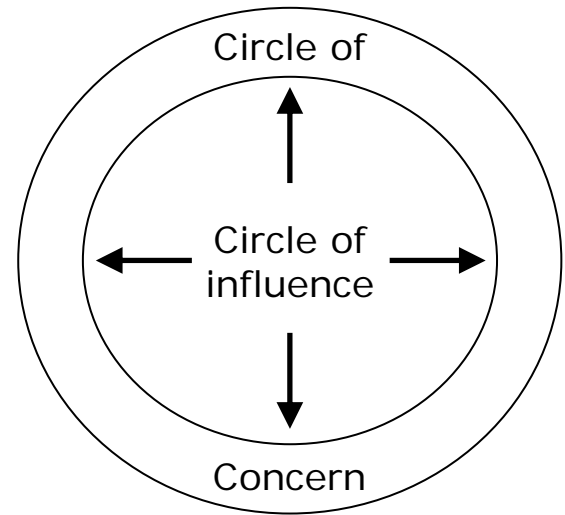
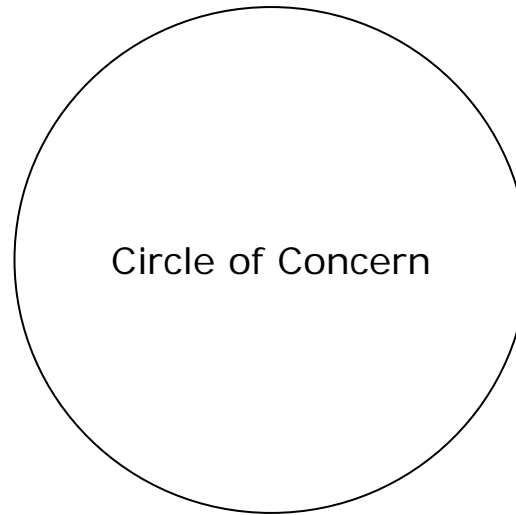
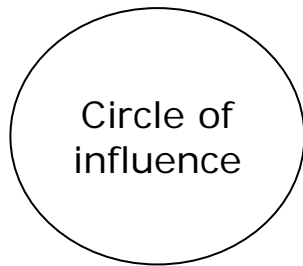
Supply Side

- Land Rover
 - Business failure of UPF Thompson, the chassis supplier for Land Rover, put the production of the vehicles at risk. KPMG threatened to halt supply unless Land Rover made an immediate up-front payment of between £35 million and £45 million.
- Ericsson
 - At the end of 2000, Ericsson announced a \$2.34 billion loss in its mobile phone division. This was the result of a small fire at a chipmaking plant owned by Philips NV. Nokia however, mitigated the effects of the fire by responding to the situation before Philips had even contacted them. They were able to meet production goals, and increase market share from 27% to 30%.

Demand Side

- Cisco
 - Announced a \$2.2billion write-down on obsolete inventory in 2001 as a result of failure to react to a downturn in demand quickly enough.
- Seagate
 - Missed the market for 3.5 inch disk drives because it was too focused on its existing customers (desktop pc manufacturers) and not the emerging market for Laptops.

Circles of Influence and Concern



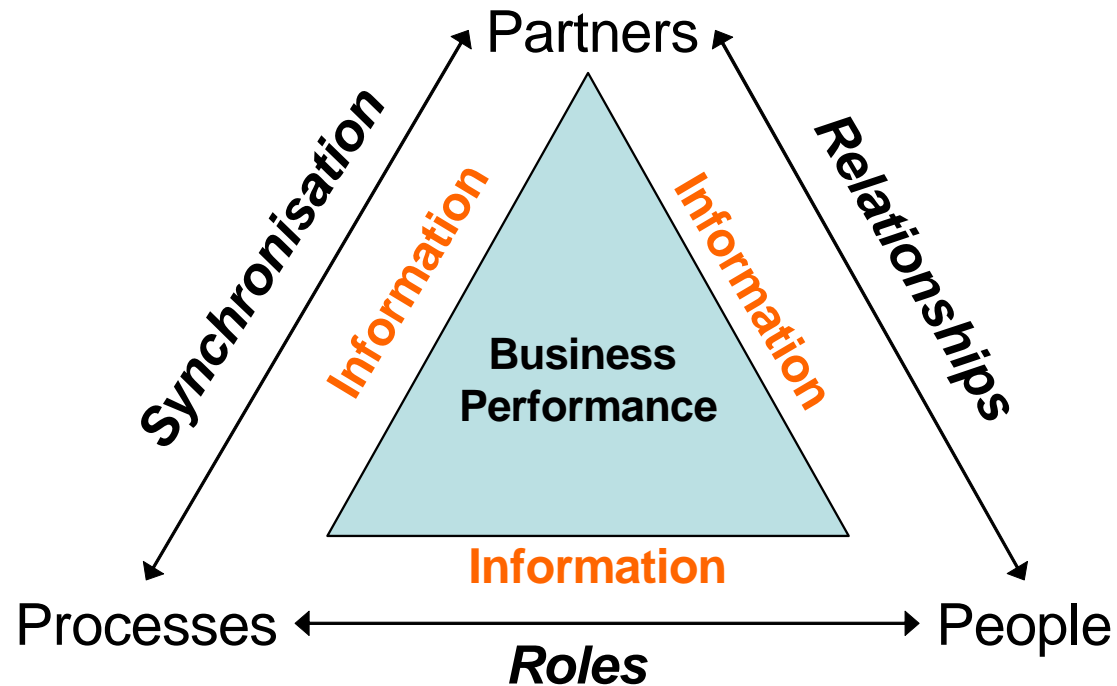
Delivering shareholder value to my organisation

Delivering shareholder value to my own, my customers' and my suppliers' organisations

What are the levers that I can use to increase my circle of influence?

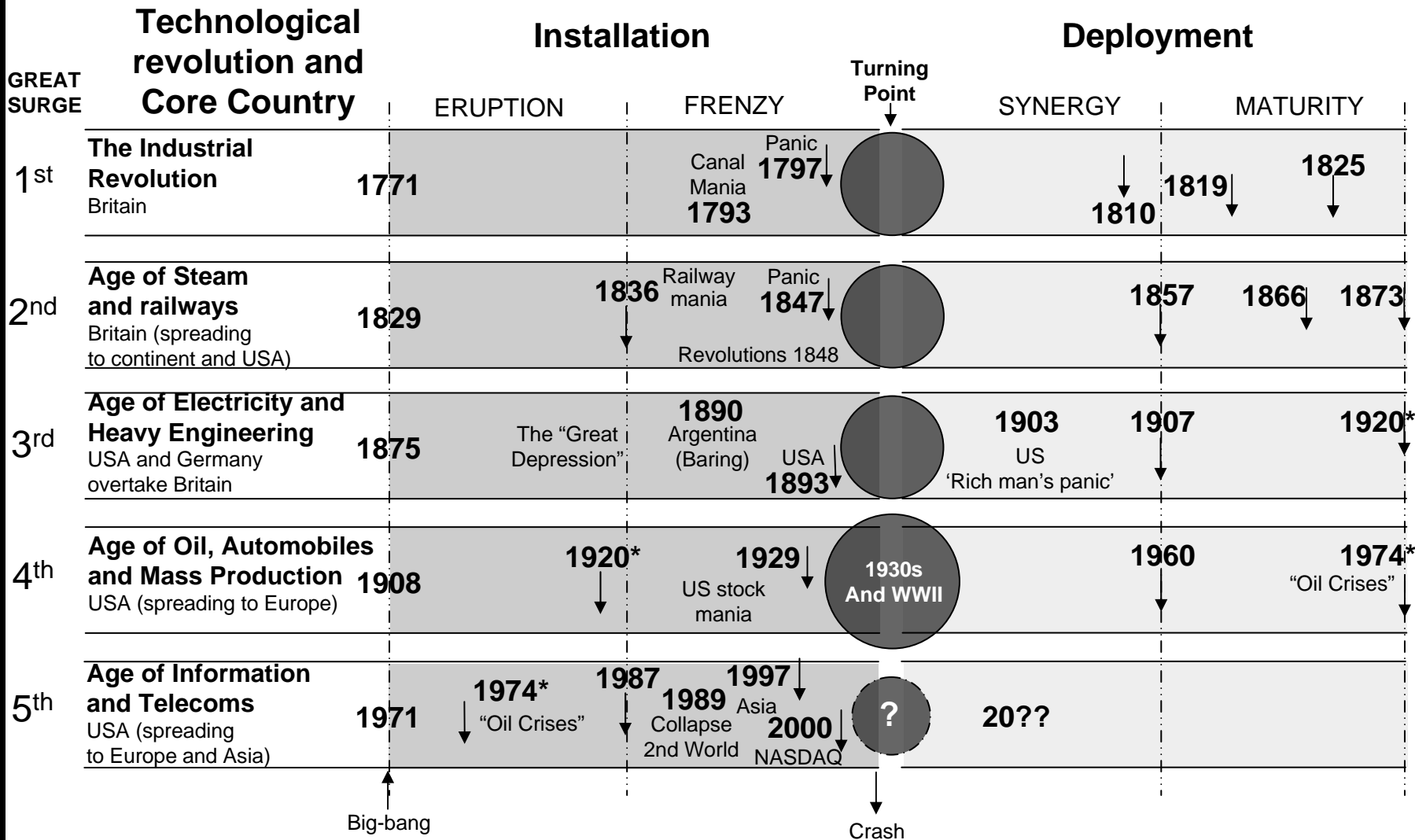
Leadership for Demand Driven Supply Chains

- Managing self: the reflective mind-set
- Managing organizations: the analytic mind-set
- Managing context: the worldly mind-set
- Managing relationships: the collaborative mind-set
- Managing change: the action mind-set

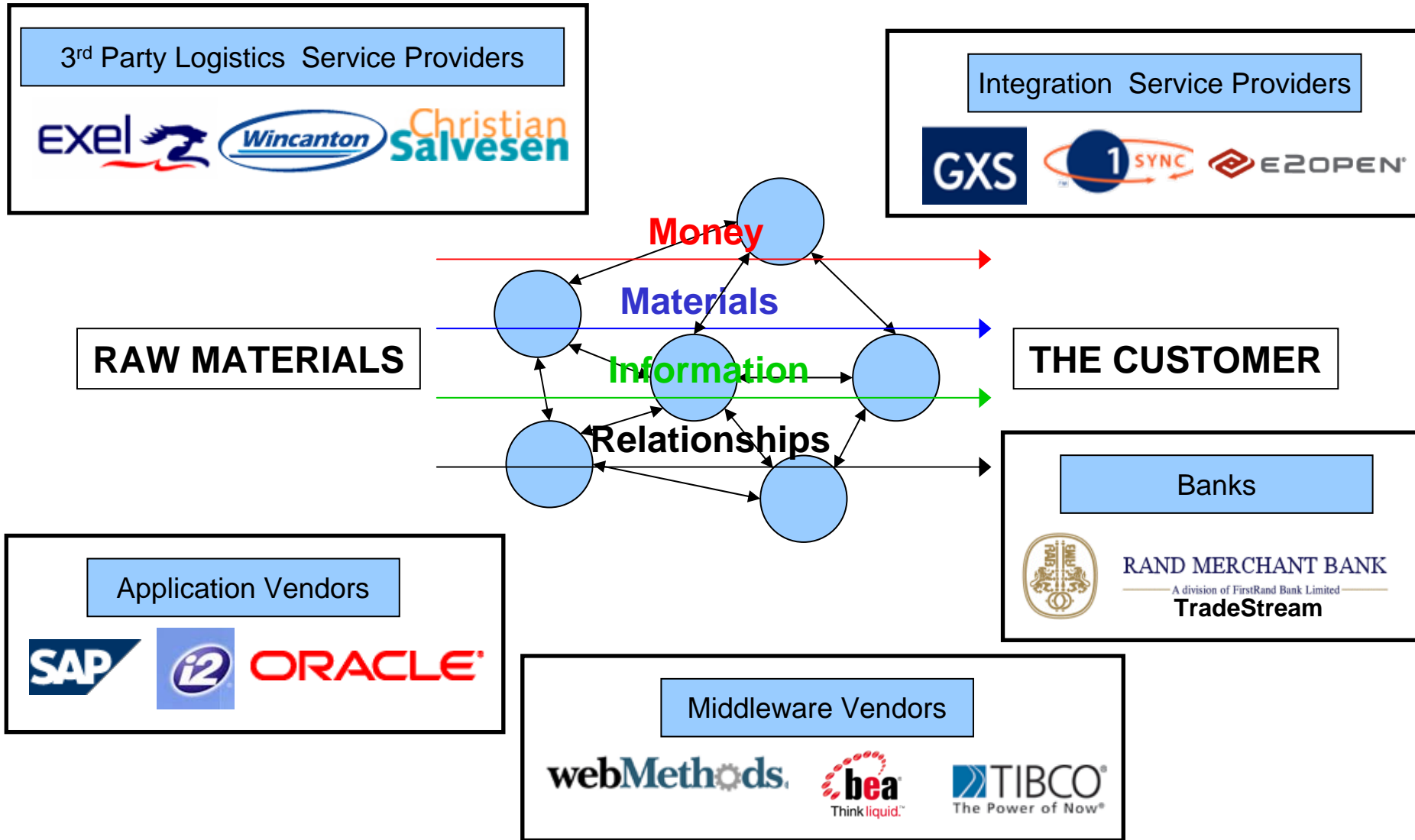


Technology Enabled Networked Convergence

The Coming IT Based Revolution?



The Journey Towards Networked Convergence



Summary

Summary - The Power of Peripheral Vision

- The human eye has evolved to enable us to respond rapidly to threats located in our periphery.
- The eye's retina has substantially more rods, which are used for peripheral vision, than cones that focus on a narrower field.
- Supply Chain Leaders need to learn from this and dedicate more resources to activities on the periphery.
- Leadership in Demand Driven Supply Chains requires a different mindset that is able to deploy resources in innovative ways to integrate the end customer with retailers, intermediaries and suppliers.



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Q1. DDSC Performance

- How long does it take your supply chain to sense and respond to changes in end-customer demand?

- | | | |
|--------------|----------------|--------------------------|
| 1. Very high | (days or less) | <input type="checkbox"/> |
| 2. High | (a week) | <input type="checkbox"/> |
| 3. Low | (a few weeks) | <input type="checkbox"/> |
| 4. Very low | (months) | <input type="checkbox"/> |

Q2. DDSC Readiness

- Q2.1 How closely can your supply chain meet your customer's need for responsiveness?
 - 1. Very high
 - 2. High
 - 3. Low
 - 4. Very low

- Q2.2 What is your ability to improve your demand driven performance?
 - Knowledge of what to do?
 - 1. Very high
 - 2. High
 - 3. Low
 - 4. Very low
 - Ability to deliver change?
 - 1. Very high
 - 2. High
 - 3. Low
 - 4. Very low

DDSC Readiness - Assessment Table

Q2.1 Meet customer needs	High		
	Low		
		Low	High
		Q 2.2 Ability to Improve	

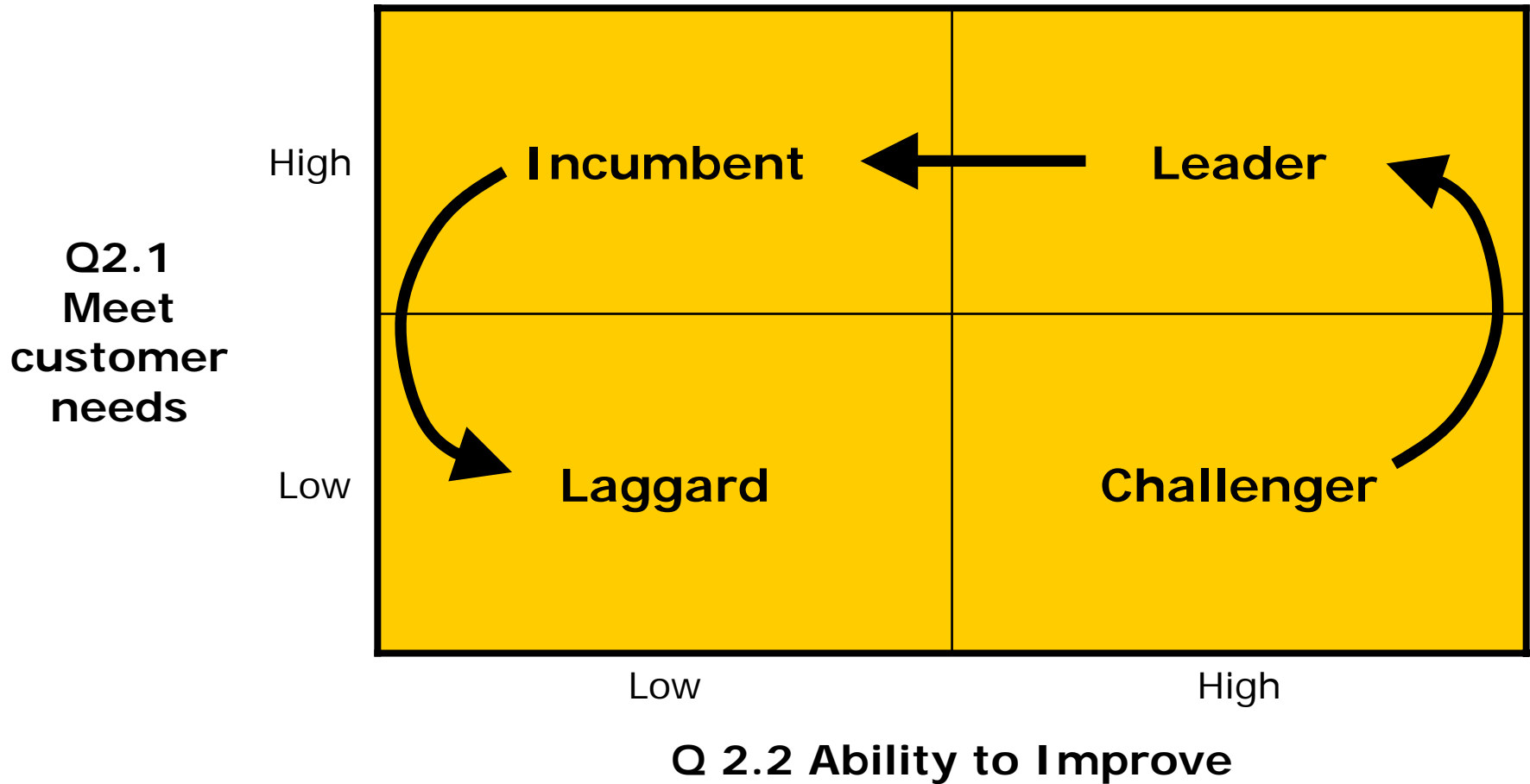
DDSC Readiness - Assessment Table

Q2.1 Meet customer needs	High	Incumbent	Leader
	Low	Laggard	Challenger
		Low	High

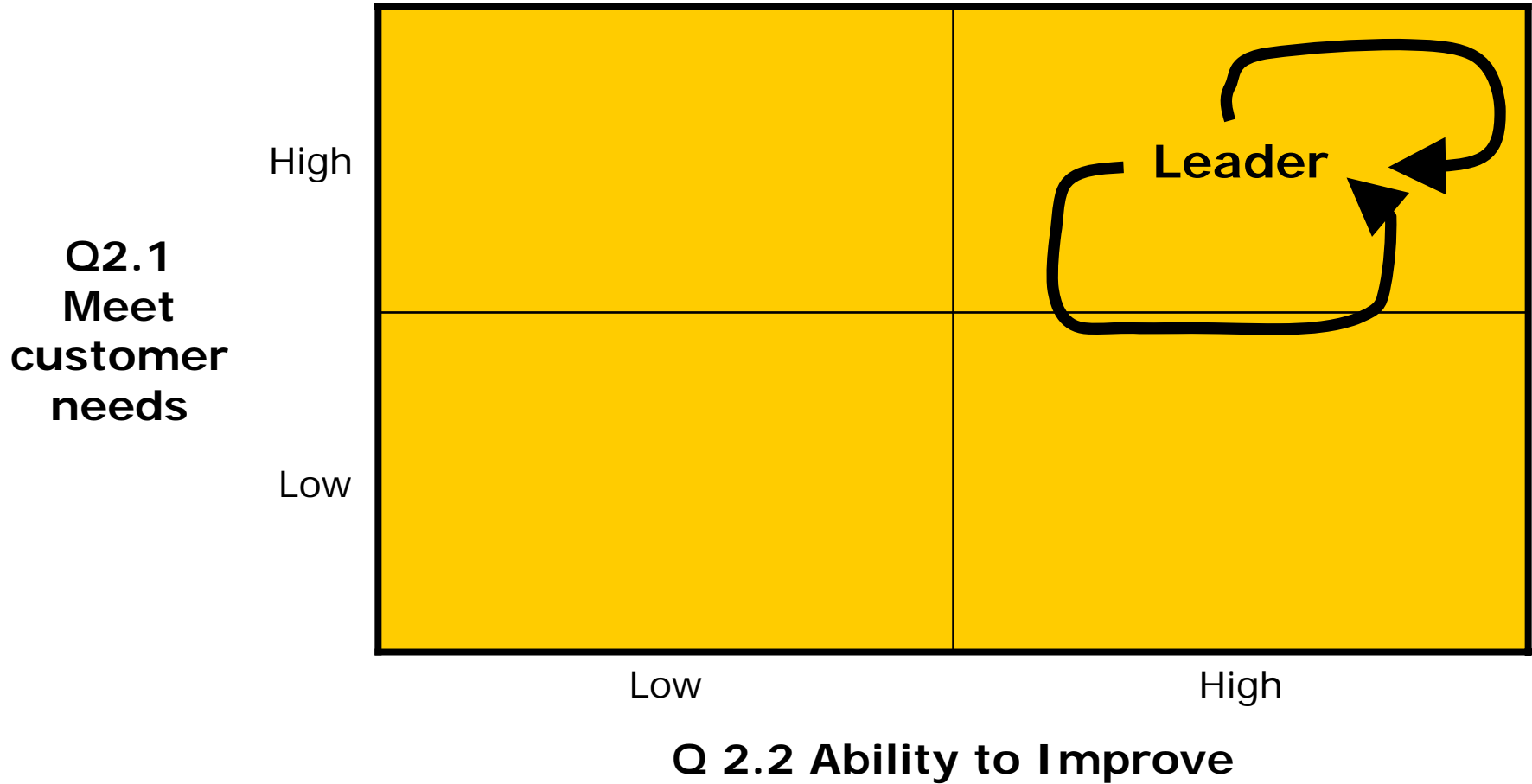
Q 2.2 Ability to Improve

- Pair-up with someone in the same situation
- Discuss:
 - What are the attributes of DDSC leaders?
 - What do you need to do to close the gap on DDSC leaders?

Scenario 1. Cycle of birth and death



Scenario 2. Cycle of innovation



DDSC Readiness – Summary Points

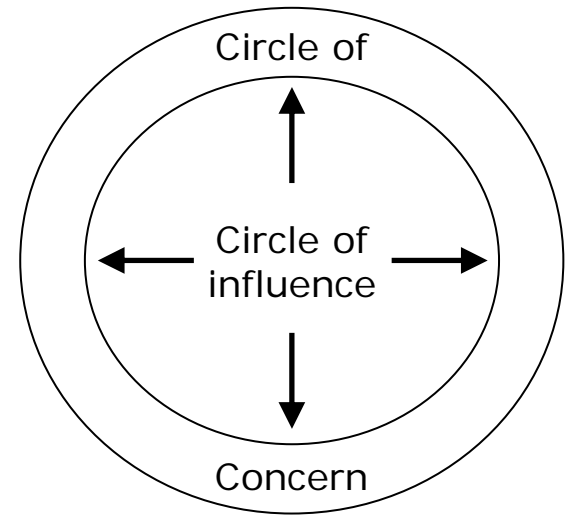
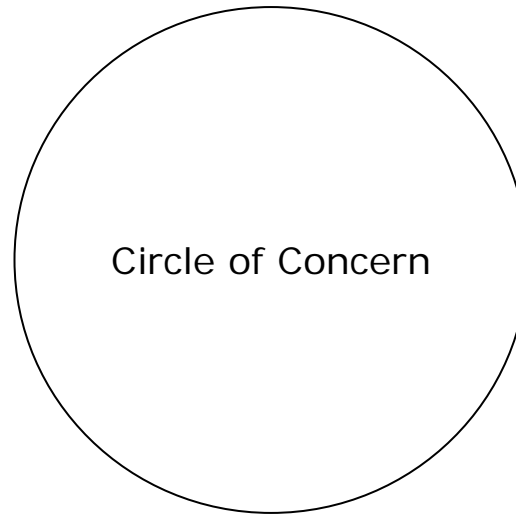
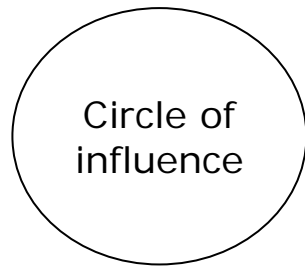
- The ability to sense and respond to changes in end customer demand is critical
 - Gather measures
- Knowledge of what to do next:
 - Where to spend your technology budget
 - Determine the organisational structures
- Ability to deliver:
 - Leadership
 - End-to-end process management

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DDSC: what we know already

- **DDSC companies are know to:**
 - **Begin their thinking with the customer**
 - **Have a clear market understanding**
 - **Improve availability and minimise discounting by selling more goods at 'first price – right price'.**
 - **Control inventory costs by getting goods to the right place at the right time.**
- **Inspiring examples:**
 - **Dell (personal computers)**
 - sale + assembly + delivery to your door = 5 days
 - **Zara (fashion apparel)**
 - sale + design + manufacture + distribute + merchandise = 1 week
 - **7-eleven Japan (bread)**
 - Sale + manufacture + distribute + merchandise = 12 hours
- **However few companies are in this league.**

Back to our Circles of Influence and Concern again



Delivering shareholder value to my organisation

Delivering shareholder value to my own, my customers and my suppliers organisations

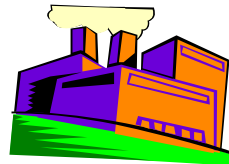
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Results from 2 case studies:

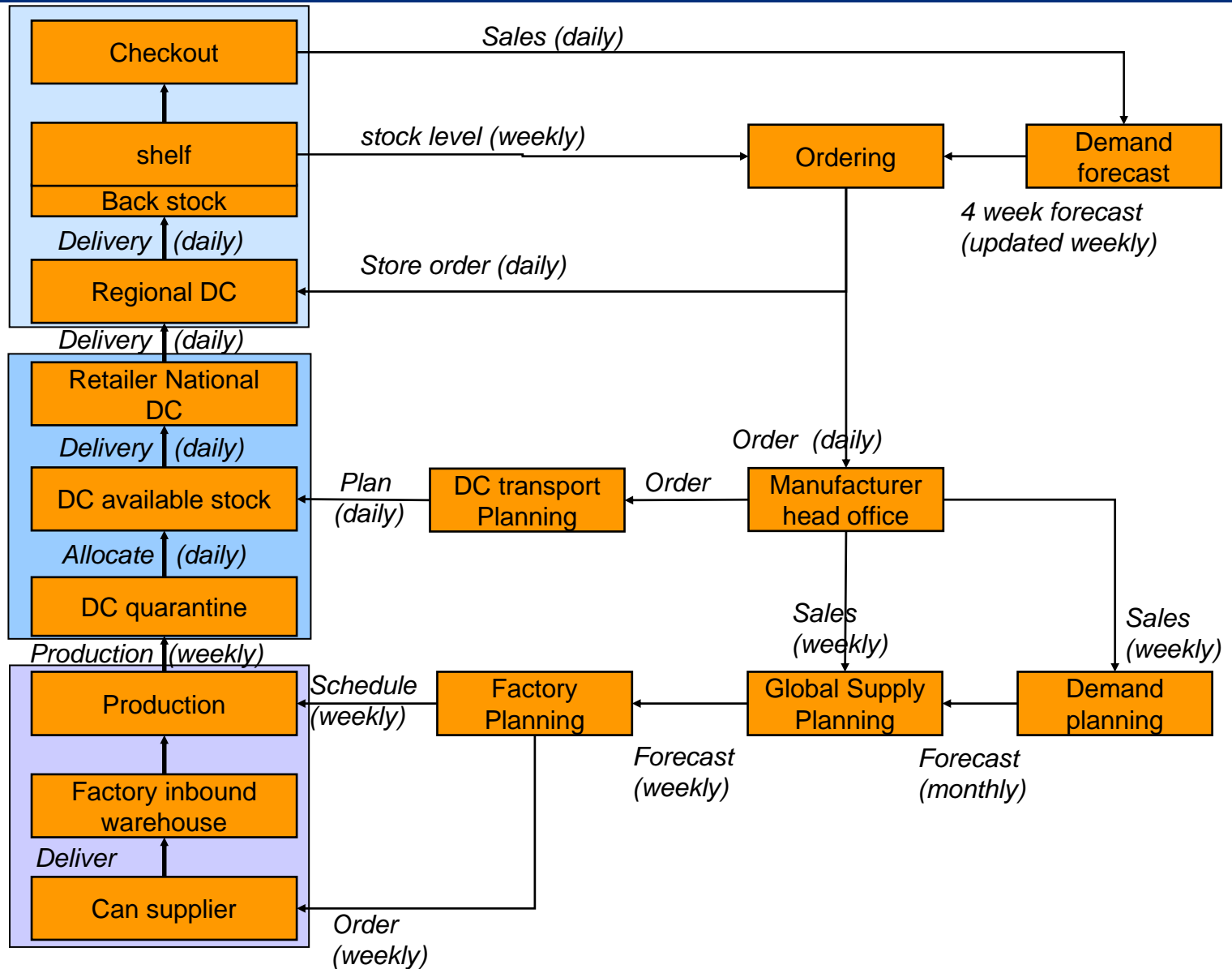
- Fast moving health & beauty line
 - Gillette Series Gel purchased at Boots the Chemist
- High volume fresh line
 - Own-brand bagged salad purchased at Sainsbury's

- Focus:
 - a 'fast moving consumer good', i.e. a manufacturer's highest sale line to biggest customer account
- Scope:
 - Large mass-merchandise retailer
 - Manufacturer of branded H&B product
 - First tier supplier

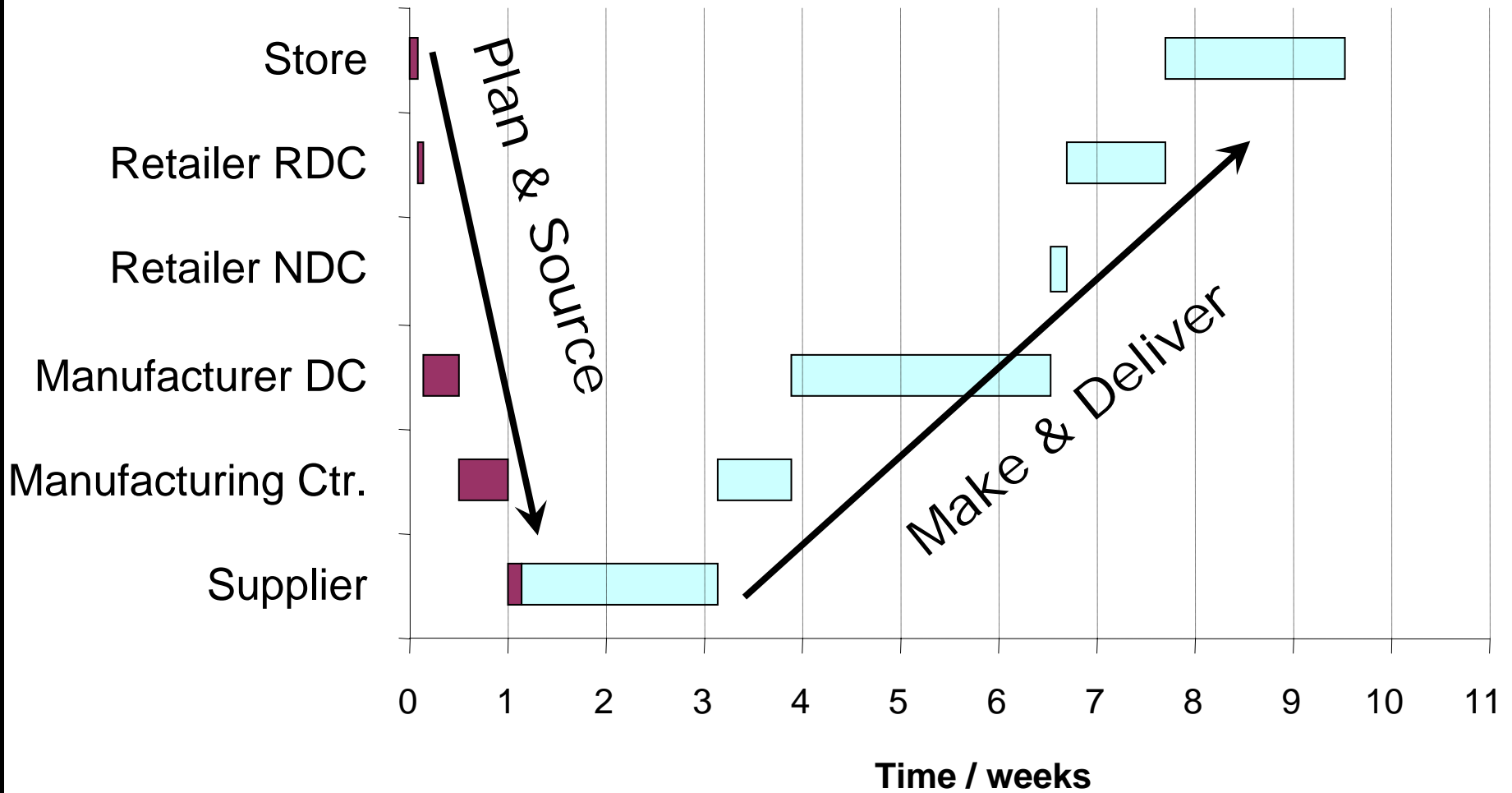
End-to-end Big Picture



End-to-end Big Picture



Supply Chain Map



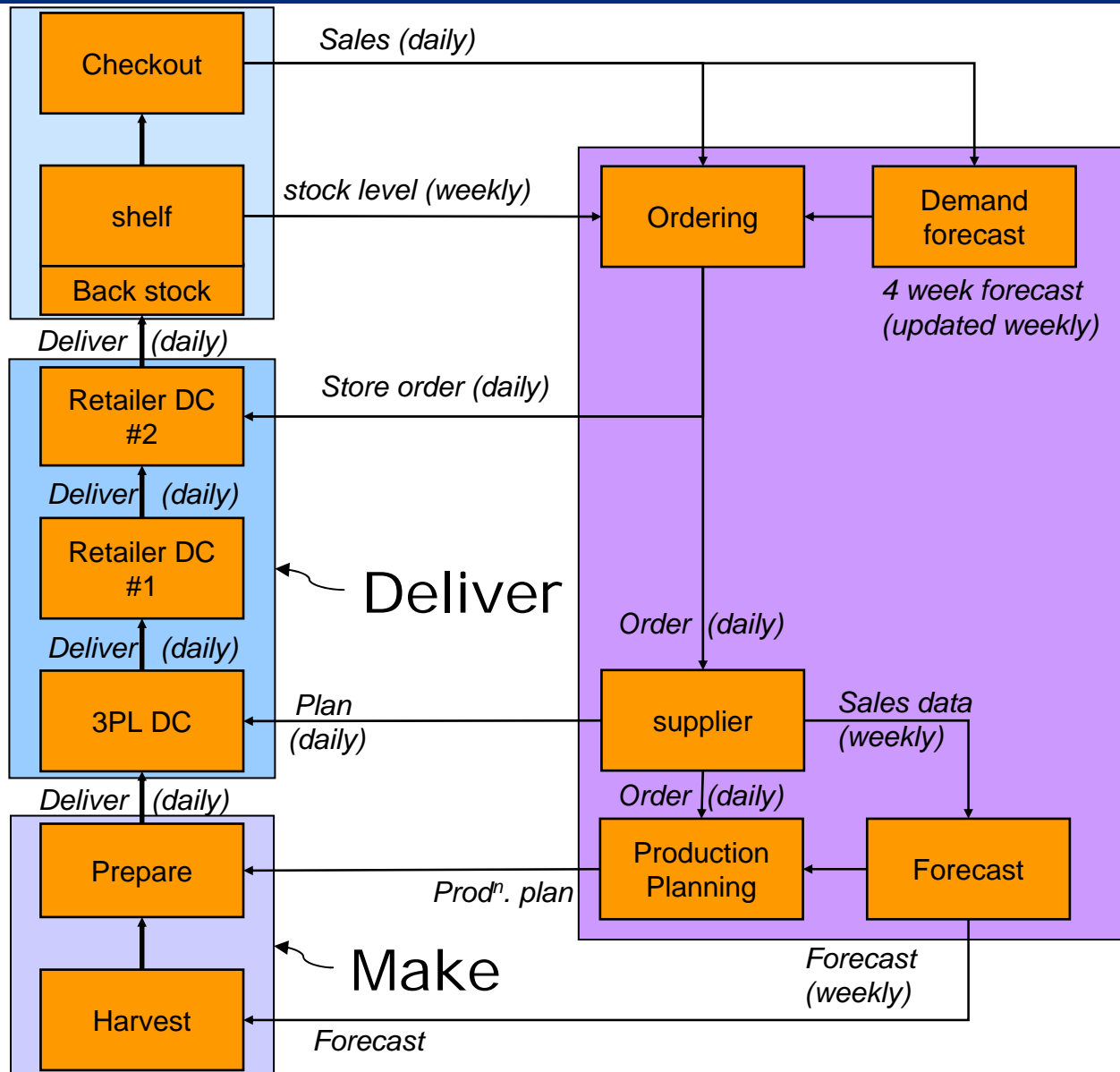
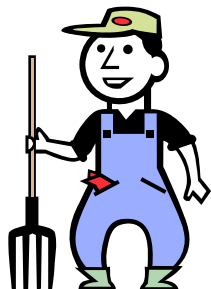
- Total lead time of 9 ½ weeks (over 2 months!)
- Touch time of 14.4 hours = 0.9%
- Value adding time of 33 minutes = 0.03%

Project Review

- Achievements:
 - Visibility of end-to-end supply chain
 - Used time as a key measure of supply chain performance.
- Opportunities uncovered:
 - Develop a collaborative stock holding policy between manufacturer and retailer;
 - Improve visibility of demand up the supply chain;
 - Reduce or eliminate batching of information;
- Actions arising:
 - De-stock the retail stores, reducing inventory and releasing stockroom space to use as additional sales floor
 - Transform lean manufacturing from push to pull
 - Targeting 50% inventory reduction across supply chain
- Aiming for:
 - Reduced out-of-stock and increased sales
 - Reduce supply chain costs for manufacturer and retailer

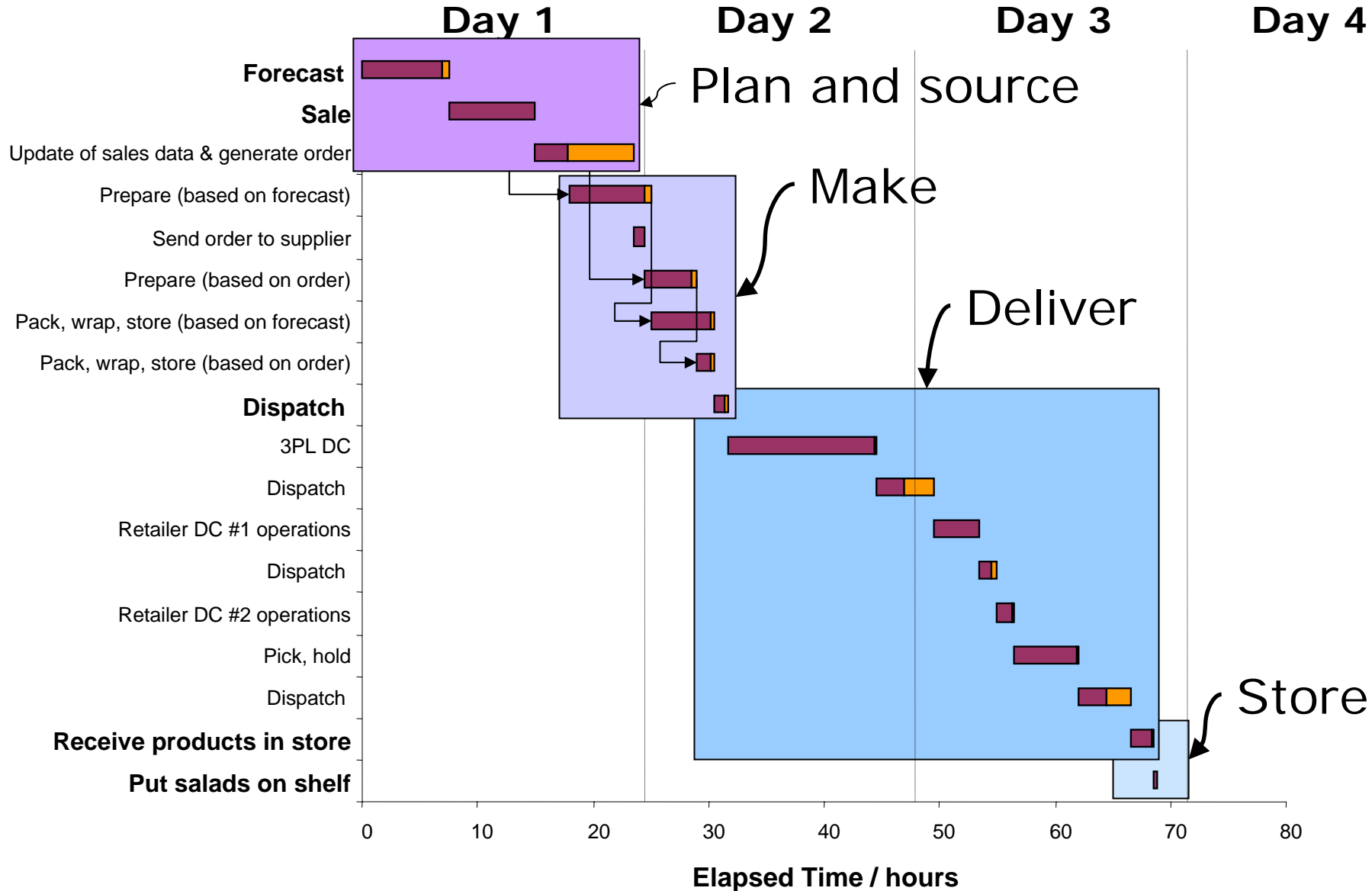
- Focus:
 - high selling, own brand fresh bagged salad
- Scope:
 - Large grocery retailer
 - Logistics service provider
 - Salad packer
 - Farmer

Supply Chain Big Picture



Plan and source

Time Based Process Map



Project Review

- Findings:
 - Total lead time of 68 hours (2.8 days)
 - Activity time of 14 hours (20% of total)
 - Value adding time of 1.3 hours (2% of total)
- Achievements were to identify:
 - How much total cycle time is spent creating value for the customer.
 - Opportunities for improving supply chain performance, specifically the reduction of total cycle time by one day.
- Action Plan:
 - Schedule production using consumer demand
 - Use logistics as a competitive advantage
 - Take holistic view of the supply chain and not individual processes
 - Focus on reduction of the lead time above improving forecast
 - Work closer with suppliers and share information

DDSC: Implications for Shareholder Value

Impact of DDSC on Shareholder Value

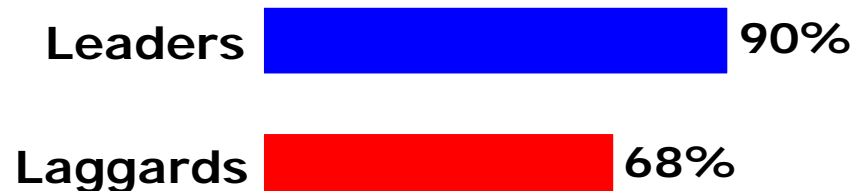
- Business success is determined by **enhanced** or **accelerated** cash flow
- Enhancing cash flow:
 - Sell at first price to improve margins
 - Only make what will sell to improve return on capital
 - Reduce inventory to recycle working capital efficiently
- Accelerating cash flow:
 - Rapid introduction of desirable new products to recover R&D investment
 - Perfect order + perfect invoice to shorten the cash-to-cash cycle

DDSC leaders enjoy:

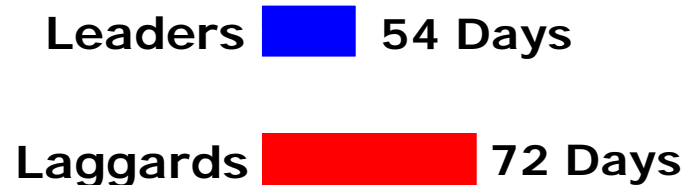
- Study format:
 - Comparative evaluation of a peer group of consumer product companies
 - Assessment of:
 - **Enabling practices, capabilities and technology**
 - **Operational performance metrics**
- Key Finding: Demand driven supply chains deliver superior financial performance:
 - 60% better profit margins
 - 65% better earnings per share
 - 200%-300% better return on assets

Demand driven supply chain leaders ...

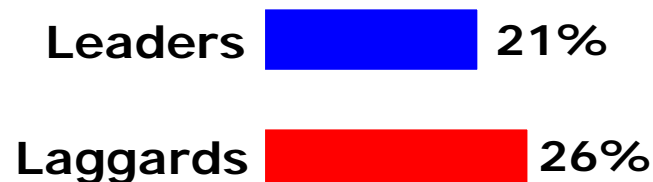
... deliver 20%
more perfect
orders...



...hold a third less
inventory...



...and have lower costs
equal to 5% of revenue



Demand Driven Supply Chains:

New Models of Leadership and Technology

- The demand driven supply chain:
 - Key contributor to increased shareholder value.
 - Converts the threats of a 'networked world' into opportunities
- Leadership is essential:
 - develop / deliver / sustain
- The journey towards being customer focussed and demand driven starts with a simple question: "Why did we forget about the customer"?
- Make realisation of DDSC the key criteria for allocating your technology budget.

Demand Driven Supply Chains:

New Models of Leadership and Technology

Four ideas for you to take away:

1. Rediscover your affection for consumers. Put them first in your heart and your thoughts.
2. Develop the new leadership capabilities and mindsets necessary to thrive in a networked world.
3. Find out how consumer demand influences your supply chain - walk the walk.
4. Make enabling the demand driven supply chain the criteria for IS spending.

We welcome your thoughts, get in touch:

Dr Paul Chapman

Cranfield School of Management
Cranfield University
United Kingdom

Tel +44 1234 751122
paul.chapman@cranfield.ac.uk
www.cranfield.ac.uk/som

Dr Andrew White

Saïd Business School
University of Oxford
United Kingdom

Tel +44 1865 422500
Andrew.white@sbs.ox.ac.uk
www.sbs.ox.ac.uk

Beth Barling

AMR Research
United Kingdom

Tel +44 20 8822 6781
BBarling@amrresearch.com
www.amrresearch.com