

# Wake-up call



**Supply chain thought leader and author, Dr John Gattorna, says we need to find a better way to deal with an operating environment for global companies that is increasingly unpredictable**

The 'new normal' operating environment for global companies will be characterised by volatility, and in extreme cases, sudden and unpredictable disruptions. If we accept this proposition, then we have to accept that the conventional ways of designing and operating enterprise supply chains is seriously flawed; we simply have to find a better way.

Indeed, what is urgently needed at this point in our commercial history is a new supply chain business model – one that will help us survive the shocks and uncertainties in the marketplace, and allow us to find profitable growth where and when growth potential exists. Such a model must have embedded 'dynamic' properties designed to cope with increasingly demanding and changeable customers. The old 'set-and-forget' design methods, focusing on 'one-size-fits-all' are a dead and buried thing of the past.

The transition won't be easy. We will need corporate leadership with an innovative mindset and extended vision to make this a reality, with a firm focus on customers rather than becoming transfixed by competitors. We need leaders to lead, and let the competitors follow if they dare.

## It's people, stupid

Although many company executives remain in denial, it is a fact that supply chains are actually driven by people and their behaviour. People are arrayed along the supply chain in various forms, for example: customers, consumers/users, suppliers, and company staff and management.

Processes, technology, and infrastructure assets are the inanimate enablers that people use to drive products and services through multiple supply chains every day. These enablers cannot propel supply chains on their own. What do company executives really know about the people in different parts of the supply chain? On the whole, very little, and therein lies the problem. We can't take enterprise supply chains to the next level of operational and financial performance until we get on top of this 'hole' in our knowledge.

## The starting point

The critical link between the business enterprise and its marketplace is provided by properly segmenting the customers in that target marketplace. This is where we should start – reducing complexity in the market and then reverse engineering everything

back from there into the inner depths of our own enterprise. This is what we call 'outside-in' thinking, which is very different from the predominantly 'inside-out' method so widely practiced today.

Of course, segmentation has many traps, and there are any number of ways to bamboozle the uninitiated, such as institutional segmentation; geography; industry sector; size; profitability, and many more. As much as you may hate it when I tell you, the reality is that these methods of segmentation do not help in any way when it comes to designing and operating enterprise supply chains. There is only one method that does inform our designs, and that is *behavioural segmentation*, where we seek to understand the attributes that influence why people buy our products/services and how they wish these to be packaged up and delivered.

Put bluntly, behavioural segmentation of the target marketplace provides the missing frame of reference so critical to guiding our supply chain designs in the first place and for subsequent day-to-day management. It is the fundamental starting point for dynamically aligning the enterprise with its customers. It has been there and available to us all the time, hiding in full sight, but we have failed to grasp its significance. I call it the *Bin Laden effect*.

Behavioural segmentation of customers can be undertaken using conjoint analysis research techniques, but much the same result can be achieved by analysing the 'coefficient of variance' of demands placed on the company's supply chains, or by using other data mining techniques to understand underlying patterns. It is patterns we are looking for, because only then can we organise matching supply chain configurations.

The good news is that the more we study the marketplace, the more we see similarities rather than difference. It is true that people the world over are more similar than first thought, and that holds for people across several different countries, as studies in country cultures have shown.

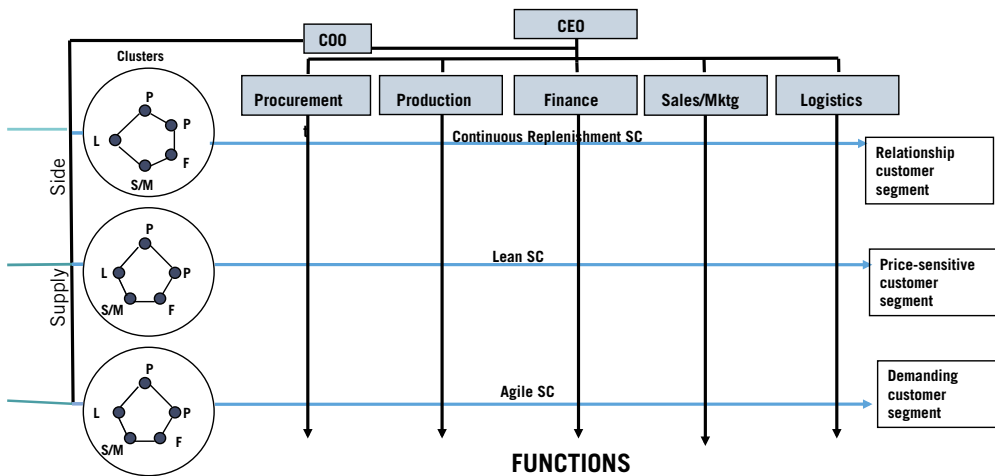
The outcome of our work in the field over two decades was to identify up to 16 different buying behaviours across all possible product/service categories. This is clearly too many to manage. However, the even better news is that usually that sixteen will reduce to no more than three or four dominant buying behaviours to give a fit of around 80 percent to any given market. This in turn means no more than the equivalent number of supply chains. At last we have escaped the single supply chain syndrome.

## Now for the internal world

Once we have re-interpreted the marketplace by listening carefully to customers, we must then turn our attention to the internal world of our own enterprises, where very often the forces of darkness are arrayed to frustrate and block change. In particular, we must review how we configure our own internal organisation structure if we want to achieve the results of a finer alignment with customers on the outside.

Unfortunately, current designs, which are predominantly functional in format, are fundamentally flawed because they are 90 degrees out of phase with the way customers want to be served. Functional designs see the business managed vertically around departmental budgets, while customers buy horizontally,

Figure 1: Supply chain clusters and customer segments-overall view



Note 1: Account teams/clusters configured with a particular mindset / bias  
 Note 2: Individual team members regularly return to their respective functions for specialist training

aggregating elements of procurement, finance, operations, logistics, and sales and marketing into a finally delivered product or service.

We lived with the discrepancy in orientations for several decades post-Industrial Revolution but this all came to an end in the early 1990s with the advent of the Internet, which has empowered customers and consumers and made them increasingly difficult to deal with. On top of that, external events have increased the volatility in many markets, so here again we need something new and innovative on the inside of the firm to manage the increasing turbulence on the outside.

The answer is to develop a dual organisation structure, with elements of the vertical functions remaining, supplemented by the formation of multi-disciplinary clusters to manage the customer interface. The two formats are designed to co-exist and remain in synch. See Figure 1 for a pictorial representation.

The clusters are compiled by looking at the particular behavioural segments that are to be served. Personnel are seconded to the various clusters on the basis of their technical skills and experience, and also their mindset. So, for instance, in the cluster serving the 'Relationship' segment via the *Continuous Replenishment* supply chain configuration, the net bias of all the personnel

must be a 'relationship' bias. This does not mean everyone has to have this mindset, just the majority. We still need to worry about cost, results, growth, and innovation!

These clusters can run both the supply-side and demand-side elements of enterprise supply chains and collaborate when there are requirements for hybrids, for example, Lean on the supply side, and Agile on the demand-side, such as Zara operates.

See Figure 2 for a diagrammatic representation of the 16 possible 'hybrid' supply chain combinations.

**The net effect**

The net effect of this finely tuned alignment between customers and the internal organisation structure is to eliminate under- and over-servicing. This in turn leads to higher revenue off the back of improved customer satisfaction, and at the same time drives down the cost-to-serve. Margins improve, and everyone inside and outside the company is happier, as are the shareholders when they see the positive impact on the bottom-line.

*Dr John Gattorna is author of Dynamic Supply Chains, FT Prentice Hall, Harlow, 2010*

Figure 2: A new and dynamic organisational model for supply chains of the future

