



SUPPLY MANAGEMENT TECHNIQUES FOR IMPROVED SUPPLY CHAIN DESIGN

I argue that supply chains are driven by people and their behaviour, all along the supply chain, rather than just the hard assets and technology that most people seem to think is the case.

“Don’t even try to argue with Dr. John Gattorna that supply chains really just boil down to a system of distribution centres, procurement processes, technology tools, and transaction routes. You won’t win,” says the respected supply chain thought-leaders’ website.

Dr. Gattorna spoke to SmartProcurement Review about viewing supply chains as ‘living ecosystems’ whose behavioural aspects we need to better understand in order to select suppliers.

“We must analyse our supply base from a behavioural perspective, in the same way that we analyse our customers in order to understand their preferences. This is the way forward because understanding supplier preferences enables us to choose different suppliers for different supply situations.”

This is necessary, says Dr. Gattorna, because the movement towards global procurement over the last decade has “been a bit of a disaster, unleashing procurement people at the back-end of an organisation who are

driven by KPIs that have nothing to do with the front-end of the business.”

They have been trying to reduce spend in certain categories, using segmentation methods that “are completely out of date”, for instance, by whether they are buying a commodity or a strategic/key/standard item, and then looking for suppliers who can provide these at a generally lower cost.

Dr. Gattorna argues that one must examine this process from the other direction by looking back into one’s supply base and **categorising one’s suppliers based on their preferences** vs. what the supply situation requires: collaborative value, a transactional approach, an opportunistic response or an innovative solution.

Suppliers who offer collaborative value are those who want a genuinely close working relationship with team work and information sharing; who prefer a long-term partnership with regular business. “This is the type of supplier you will rely on as a stable source of supply for many products, be they commodity, key or strategic,” says Dr. Gattorna.

Suppliers with a transactional mind set do not exhibit the same type of selling

expectations as collaborative-value suppliers. Transactional suppliers tend to have less of a relationship mind set: they do not wish to share information and can at times be quite adversarial. However, they are driven by standard processes and the risk of loss, so they want tight contracts and regular orders. “This is the type of supplier you go to when you have a large order with a long lead time and you will get a low cost from them, mainly because they offer greater volume at the lower cost,” explains Dr. Gattorna.

Another group of suppliers Dr. Gattorna names *opportunists*. This type of supplier has the capability to respond rapidly or might have extra capacity to meet volatile demands. “They are useful when we need a quick follow-up order for products previously bought from a transactional supplier, but which we cannot get from the transactional supplier because it may require a smaller product run, or the transactional supplier may not have the capacity.”

The opportunist offers only their capacity in response to urgent demands; they look to results, do not worry too much about processes and are very commercial, for which you pay a premium – but that might be



African governments are forging new types of economic partnerships in which buyers from these countries provide up-front payments, make infrastructure investments, and share management skills and technology.

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Global procurement over the last decade has been a disaster

quite acceptable to us in the given situation. Opportunists do not want a relationship.

"UK retailer Marks & Spencer (M&S) applied this very successfully in the UK over the years; they had many domestic suppliers to satisfy orders, but if they needed a quick top-up order because items had sold better than expected there were suppliers in that same domestic market that could respond quickly and supply the item." However, when M&S moved all their procurement off-shore to China and India "it was a disaster".

M&S no longer had the opportunity to quickly go back to the suppliers to get top-ups, and lead times became so long that it could be a year from placing the order to receiving the garments, by which time consumer preferences (and the season's fashionable colours) could have changed. "For 'trendy' products with short lifecycles you want to procure from a closer-to-home supplier base. For products that are less seasonal or trendy, that have a longer lifecycle, you can go further afield."

Lastly, Dr. Gattorna's *innovative solutions* type buying behaviour: This type of supplier, probably not one of the previous types, puts greater emphasis on creativity and innovation. "When you have a particular problem – perhaps a technical problem with your product or it may require amendment – you approach this type of supplier for a new design or prototype. Your goal is to solve the problem for your customer downstream so price is of little concern, if a concern at all."

Looking at your supply base in the way Dr. Gattorna has described above differs from "the typical procurement mind set of trying to squeeze price (except for the transactional type). Procurement people seem to automatically assume that their *raison d'être* is to chop the budget and reduce spend. My argument is that understanding the preferences of the players in our supply base enables us to decide which supplier is best suited to a supply situation."

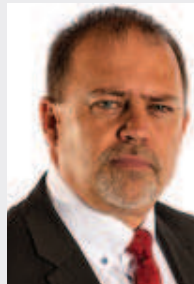
Behavioural segmentation is one of the next developments within supply chain thinking that will improve overall business and network performance, says Dr. Gattorna.

"At the customer/demand end, we need to adopt behavioural segmentation methods to inform supply chain design. Similarly, at the supply end we need to use techniques to better understand suppliers' expectations, and feed this into the network design as well."

"In the middle, we must overcome the complexity of global logistic networks by using **network optimisation modelling** to identify the best pathways for specific product categories to move through the network, from supply-side to customer-side. It is a matter of joining all the dots, even if it involves interdisciplinary thinking, because that is the new reality of business."

"In effect, multiple supply chains (or pathways) run through the enterprise, and taken in aggregate represent the business overall." ■

Dr John Gattorna was interviewed by Dr Ernst van Biljon.



ABOUT DR ERNST VAN BILJON

Strategic Projects:
Commerce Edge Academy

0861 33 4326
ernstvb@commerce-edge.com
www.commerce-edge.com

Ernst holds a doctorate in Business Management specialising in supply chain management, and is a former Professor of Logistics Management at Nelson Mandela Metropolitan University. Over the past decade Ernst has worked on supply chain development projects in Africa as well as on the commercialisation of high-impact technologies in South Africa and abroad.



ABOUT DR JOHN GATTORNA

Dr John Gattorna
B.E. (Melb); MBA (Monash);
PhD (Cranfield);

Executive Chairman:
Gattorna Alignment
Adjunct Professor, University
of Technology, Sydney (UTS)

john@gattornaalignment.com
www.gattornaalignment.com

John Gattorna is one of the most influential contemporary thought leaders in the supply chain domain. In the late '80s, disenchanted with the lack of predictive power of logistics theories and practices, he set out to develop a new business model that would better inform the design and operation of enterprise supply chains. He found it in 'dynamic alignment', and has worked on the model with global blue chip corporations for over two decades.

Many of the best global companies have begun to adopt the dynamic alignment model with significant positive results: a doubling of margins; big increases in sales revenue and lower cost-to-serve.

Dr Gattorna's three most recent books have been seminal: Living Supply Chains (FT Prentice Hall, Harlow, 2006); Dynamic Supply Chain Alignment, Gower Publishing, Farnham, 2009); and Dynamic Supply Chains (FT Prentice Hall, Harlow, 2010).

Visit smartprocurement.co.za/spr for a full biography.