

Design your supply chain according to customer behavior

The headline may sound obvious, but it's far from it. At least if you ask John Gattorna, who has been involved in SCM and logistics since the mid-70s. He believes that most supply chains are designed as one-size-fits-all and with an inside-out perspective. And that's not good.

“Most supply chains have for decades been based on pure guesswork, and most work with business process reengineering, lean, and other concepts has largely been a waste of time. These well-known concepts take an inside-out approach, which never leads to customer-centric supply chains”, says Australian John Gattorna at a webinar organized by supply chain tech supplier Optilon.

He has contributed to the development of modern SCM as a consultant, lecturer, researcher and author throughout his career, which began in the mid-70s. And he still bites off with razor-sharp analyzes, great overview, lots of tools, and provocative messages.

He presented the webinar with a superb overview of developments over the past 50 years.

- 1975: The discipline was called PDM, physical distribution management, and the main focus here was to cut costs, and it was all about outbound logistics.
- 1985: The term “Logistics” was introduced, and the era was characterized by low integration between systems, functions and actors. Organizational design stood in the way of development. Designers began to look at both the in- and outbound flow of goods.
- 1995: The Internet and the Dot.com wave highlighted the importance of backend and how bad the front-end connection was. Fulfilment could not keep pace with the front-end order taking.
- 2000: SARS epidemic. During this period, the concept of supply chain management developed and focus on end-to-end begins.
- 2010: The global financial crisis, it seriously shook companies and the entire financial system - and sharpened awareness of stockpiles, working capital, and the importance of the supply chain for corporate financial health. Early digitization efforts start; networks are still thought of as "linear".
- 2020: Covid-19 creates extra volatility in a world that was already volatile. Digitization is really gaining momentum, the concept of networks is being expanded, and work is gradually beginning on working with customized supply chains.

It all starts in the market

“Everything starts in the market, and it is therefore also necessary to design the supply chain based on the market and target customers. There are many who talk about customer orientation, but there are actually very few who have implemented a genuine customer orientation in their practical supply chain operations. Most supply chains are designed ‘inside-out’ rather than ‘outside-in’. They are based on the company's own world, its own perspective, and its own resources and competencies - not the customers' needs and behavior. This has been the case for decades, and unfortunately it is still the case”, says John Gattorna.

He argues fervently and insistently on at least three things:

1. The customer-oriented supply chain starts by really understanding the customers and the underlying driving forces that are at play when customers shop. Here it can be useful to make use of tools and methods from sociology, psychology, and anthropology.
2. The supply chain consists of market, strategy, culture and leadership. It is necessary to think at all four levels coincidentally to ensure that there is a dynamic alignment between all the moving parts. Supply chain management is not just technology, costs, targets, and flow of goods. It is also management, culture, and flow of information. John Gattorna has launched the model "Dynamic alignment", which describes in more detail how to work to create the desired coherence.
3. One-size-does-not-fit-all: Customers' needs and buying behaviors are different, and therefore need to be treated differently with supply chains that are designed to accommodate these differences.

Four to five supply chains cover most

“The big question, then, is how many types of buying behaviors are there in a given product-market combination, and how many supply chains are needed in an effort to meet the different customer types and behavior patterns? I and my co-authors have found that the answers are: We can boil it down to the fact that there are 16 possible purchasing behavior types, and four or five of these tend to dominate in a particular situation. So the answer is four or five supply chain types will provide up to 80 percent coverage in the target market,” he says.

John Gattorna and his fellow researchers name and describe the four to five supply chains types as follows:

- The ‘collaborative’ oriented customer requires a ‘collaborative supply chain’. These are customers who focus on long and close relationships with their supplier, a high degree of information sharing and win-win setting;
- The ‘transactional’ customer wants low prices and offers stable order flow and high predictability. The answer to this type of customer is a ‘lean supply chain’.
- The 'project-oriented' customer wants complete deliveries that are typically engineered and 'packaged' to a specific location in a limited period of time, with high predictability. The answer here is a 'project-oriented' supply chain that we call ‘campaign’.
- The ‘dynamic’ customer is unpredictable and requires rapid responsiveness to unknown demand supply. The answer here is an ‘agile’ supply chain.
- The 'innovative' customer is extremely unpredictable and often has the characteristic of an 'emergency', where the customer desperately needs help, a new innovative solution or something special from the supplier. The answer here is a 'fully flexible' supply chain that can work lightning fast and is solution-oriented, perhaps with the development of new tech-based solutions for new market developments, or perhaps in response to radical disruptions from earthquakes, terrorist incidents, pandemics or other events.

Requires empathic leadership

For a company to support three, four or five different supply chain types, it requires building different subcultures inside the organization that can service the different customer cultures on the outside - and this is both demanding and new to the traditional supply chain function, which typically consists of male employees who are trained engineers and are used to thinking rationally and technically.

"One of the major barriers to developing 'dynamic alignment' and supply chains that are on aligned with the market and customers is that strategies of all kinds are not always translated into action on the ground. Not because of external competition, but because there is often internal resistance to change inside the company's own organization - and that resistance is not and will not be addressed by management. Dynamic alignment and genuine customer orientation require leaders and managers who are empathetic towards both customers and their own organization. What happens in our own ranks, what do our employees think and feel, are they equipped to understand and communicate with each other and with customers, etc.?" says John Gattorna.