

outsourcing

*electronic
commerce*

**FOCUS
STUDY**

total cost

ethics

*supply chain
management*

strategic alliance

global sourcing

*purchasing
consortiums*

*operational
resource management*

minority enterprises

Achieving World-Class Supply Chain Collaboration: Managing the Transformation

by

Stanley E. Fawcett
Marriott School of Management
Brigham Young University

Gregory M. Magnan
Albers School of Business and Economics
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Jeffrey Ogden
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CAPS Research
2007

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Acknowledgments

The authors would like to thank the executives at the following organizations who took time to share their experience and expertise to help us gain a better understanding of winning supply chain strategies.

2001 Participant Companies			
<i>Service Providers</i>	<i>Materials Suppliers</i>	<i>Finished Goods Assemblers</i>	<i>Retailers</i>
Allegiance Aspen Distribution Boeing - Shared Services Corporate Express Modus Media MSCarriers Schneider National ServiceCraft Wencor West	Allied Signal Detroit Diesel Donnelly Dyno-Nobel Hermetic Seal Honeywell Intel Lucent Technologies Monsanto Motorola Nypro Incorporated Rockwell Collins Siemens Tri-State Hospital Supply TRW	Black & Decker Boeing Hewlett-Packard IBM John Deere Kellogg Nabisco Oxford Paccar Savane Steelcase Union Bay Whirlpool	Amazon.com American Stores Associated Foods Costco Dillard's Eddie Bauer Fred Meyer Lands' End Payless Sam's Club Sears Starbucks Wal-Mart
2007 Participant Companies			
<i>Service Providers</i>	<i>Materials Suppliers</i>	<i>Finished Goods Assemblers</i>	<i>Retailers</i>
Aspen Distribution Associated Foods Corporate Express DHL Exel Logistics Expeditors International Galaxis High-Tech Engines LDS Church Schenker Logistics States Logistics	Darigold Dyno-Nobel Georg Fischer Honeywell Intel Kaysun Limmatdruck Netstal Rockwell Collins Robbins Manufacturing Siegwerk Spectra Symbol Tri-State Hospital Supply Weyerhaeuser YKK Zippers	Avail Medical Avery Dennison Boeing Franklin Connections Hewlett-Packard Icon Fitness Intermec John Deere Medtronic: ERS Nestlé O.C. Tanner PACCAR Pepsico Phillips Sonicare Phillips Ultrasound Procter & Gamble Russell-Newman Steelcase Usana Whirlpool Woodgrain Millworks	Alaska Airlines Amazon.com Cingular Costco Flying J Lands' End Limited Brands Manor Migros PetsMart Sportsman's Warehouse Swisscom UBS Virginia Mason Wal-Mart

We also express appreciation to the hundreds of purchasing, logistics, manufacturing and corporate managers who filled out the survey that provided the starting point in the data collection effort. We also wish to thank Christine Roundy and Dee Fawcett for their help in managing the survey process.

Finally, we are grateful to the Skaggs Institute at the Marriott School for providing seed money to get the project started, as well as to CAPS for its generous financial and publication sponsorship of this research.

ISBN 0-945968-69-8

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Preface

Companies are just beginning to learn what nations have always known: in a complex, uncertain world filled with dangerous opponents, it is best not to go it alone.

— Kenichi Ohmae

In 2001, we noted, “Today’s marketplace is more fiercely competitive than ever before. Globalization, technological change and demanding customers promise to make mediocrity an endangered species.” A little over five years later, not only has the performance bar continued to rise, but the world has also, literally, become a more dangerous and risky place in which to do business. Today’s global supply chains are only one terrorist attack, one bird flu pandemic or one not-yet-envisioned threat away from disruption and potential chaos.

Despite the new threats, unrelenting competition has forced companies to risk going global as they seek access to low-cost, high-quality resources that will help them meet the needs of demanding global consumers. Companies have also been forced to rely more extensively on SC partners to manage their complex, global supply chains. The best of the best are learning to collaborate in new and exciting ways in their quest to increase productivity and capture global market share. Unfortunately, most companies have yet to define all of the pieces of the collaborative puzzle that is SCM. They are even further behind when it comes to understanding how the pieces fit together.

The possibilities of an SC-leveraged business model are astounding, but the challenges that lie along the path to SC excellence are formidable. Perhaps the greatest challenge is managing the transformation process. Companies have struggled for years to learn how to integrate processes within their own four walls — most still do not! Learning how to build a collaborative team of companies in a world motivated by short-term

financial results is a far more daunting task. The question, “What’s in it for me?” echoes loudly at every juncture along the SC transformation journey. This reality forces managers to experiment and document. Only then can they say with certainty, “Look! The effort is worth the pain. We can collaborate and win!”

This focus study examines how the SC world has changed in recent years. The experience of SC leaders is dissected and then put back together again to create a transformation roadmap to guide managers as they pursue their own SC transformation journey. One caveat should be shared: Experience suggests that there are no shortcuts on the path to SC leadership. Take one component of the roadmap away, and companies tend to run into an immovable barrier. Their progress stalls as they become mired in the mind-set of resistance to change. We hope that the discussion and roadmap developed over the years of the study provide some useful insights to help guide managers as they and their companies endeavor to make headway along the arduous journey to SC leadership.

Executive Summary

Supply chain management (SCM) has been called the company's ultimate core capability and the enabler of winning business models. But SCM has never been an easy answer to the tough competitive dilemmas today's managers confront. The question arises, "How does a company turn the promise of SCM into real competitive advantage?" Our efforts to answer this question begin with our definition of SCM.

Supply chain management is collaborative process and project management to meet the needs of the end-customer efficiently and effectively.

Unfortunately, the findings of our focus study suggest that while managers spend more time today than ever evaluating SC-enabled business models, most have not learned how to work together as members of a cohesive team. This is not to suggest that managers are not talking about collaboration. They are! Collaboration has become a common word in the SCM lexicon. But few managers fully grasp the nature of collaboration and what it takes to achieve a true collaborative capability.

As our definition above suggests, SC collaboration is defined here as the ability to work across organizational boundaries to build and manage unique value-added processes to better meet customer needs. SC collaboration involves the sharing of resources — information, people and technology — among SC members to create synergies for competitive advantage. Collaboration goes beyond managing transactions for efficiency to managing relationships for creativity and continuous improvement. The collaborative goal is to work cooperatively together to devise and implement better approaches to solving problems and delivering the value customers expect.

Research Questions

To better understand the core issues related to SC collaboration, we investigated the following four sets of research questions:

Research Question 1: How do companies define SCM today? Are they proactively engaged in SC collaboration? Are they satisfied with their SC collaboration initiatives?

Research Question 2: What internal and external driving forces are leading companies to seek greater SC collaboration?

Research Question 3: How well are companies managing the collision between driving and resisting forces to change their organizational cultures and structures and thus achieve higher levels of creative collaboration?

3a: What are the most important benefits of greater SC collaboration?

3b: What resisting forces or barriers present the greatest impediment to progress?

3c: What are companies doing to bridge or overcome these barriers?

3d: How extensively are SCM practices being implemented? Are companies figuring out how

to bridge the barriers to change in order to benefit from collaboration?

Research Question 4: Can the experience of SC leaders be synthesized to develop a roadmap to help companies manage the transformation from company-versus-company to collaborative supply-chain-versus-supply-chain business models?

Research Methodology

To answer these research questions, we sought the insight of industry leaders. For the current update, a total of 794 (response rate of 16.7%) purchasing, manufacturing, logistics and senior corporate managers completed a two-page survey. Detailed interviews were conducted with 63 companies across four channel positions in the supply chain: retailers, finished goods assemblers, suppliers and service providers. The surveys provide a snapshot of industry practice regarding SCM. The interviews provide needed context to interpret the survey findings as well as an opportunity to explore the dynamics of SC collaboration and identify innovative, leading-edge SC practice.

Conclusions and Implications

Looking at all of the evidence, one might observe that SCM stands on solid ground as an accepted discipline in today's business world. Without doubt, the allure of SCM's philosophy of collaborative competition — that is, competing as allied teams of companies — resonates with corporate leaders. Yet, despite SCM's appeal and the publicity surrounding it, many managers remain unsure about what it really is. Moreover, SC collaboration remains ad hoc and fragmented in all but the most mature SC relationships. Those companies that have embraced the SC concept have adopted some key practices, but they are not quite sure how to piece them together into a coherent strategic plan. The result: the cohesive SC team has yet to materialize. The following bullet points highlight specific findings:

- 1) SCM is the theory of comparative advantage applied at the corporate level. To succeed, companies must use their own resources to build a valued competency, identify other companies that possess complementary capabilities and define a business model to bring these complementary competencies together to serve customers better than competing supply chains.
- 2) The gap between SCM rhetoric and SC practice has not been significantly closed since the 2001 study. True, the barriers are being mitigated and real progress has been made, but no company is managing the entire supply chain from supplier's supplier to customer's customer. There is no silver "technology" bullet. SC collaboration requires a change in the way companies do business.
- 3) Managers up and down the chain as well as across industry segments view SCM as a critical strategic initiative. However, they note that skeptics abound — within their own companies as well as at partner companies. As long as companies are preoccupied with cutting costs, companies will be double-minded. They will talk the SC talk and then reward the cost-cutting walk.
- 4) Most managers are satisfied that their companies are headed successfully down the SC path. Most note that they have a long way to go. Others acknowledge that they are merely crawling. They all express a desire for a more certain roadmap.
- 5) A demanding world is forcing managers to pursue higher levels of SC collaboration. Some companies are adopting a defensive SC strategy, seeking greater efficiency to stave off the challenges of fierce competition. Others are going on offense in an effort to get into the minds of customers and capture their hearts through higher levels of service. Selling the dual impacts of increased revenues and greater efficiency can help solidify support for needed changes and investment.
- 6) The longitudinal nature of the study brought added emphasis to the need to identify, understand and communicate regarding the forces driving change. One clear lesson from the research: SC champions must not underestimate the challenges to change. They need to use every tool at their disposal to dislodge the organization from its status quo behavior.
- 7) After carefully considering the data, the realistic answer to the question, "How well are companies managing the SC transformation?" is "Not particularly well!" On a scale of 1 to 10, the typical company is achieving a solid middle-of-the-road 5. SC leaders, by contrast, are making real inroads in building the cultural and structural foundations needed to support outstanding collaboration.

- 8) SC leaders are beginning to obtain breakthrough benefits from their collaboration initiatives (see summary table below). They are reducing costs, increasing responsiveness and better serving customers. Equally important, SC leaders are learning to build a proactive, team-based, problem-solving environment. The intangible benefits of better communication, more insightful analysis and higher levels of trust are yielding more ideas, faster learning and momentum toward a virtuous cycle of success.
- 9) SC managers encounter seemingly endless detours and roadblocks on the journey to winning SC collaboration. Organizational structure and turf conflicts present the most immovable barrier. Human nature, including the desire to avoid change, reinforce traditional organization and practice. Add in poorly aligned measures, a lack of trust, low levels of managerial support and inadequate information sharing, and the barriers begin to take on insurmountable proportions. Real leadership is needed to bridge these barriers. Lamentably, such leadership is in short supply.
- 10) Bridging the barriers to collaboration success might be viewed as a complicated construction project. No single practice or technology can span the existing barriers. As in 2001, much of the effort is targeted at mitigating specific barriers through the establishment of mirror-image infrastructure. However, the longitudinal research reveals that managers must take change management more seriously if they hope to succeed. The interview findings intimated that the cycle of change consists of five core building blocks: leadership, change events, credibility drivers, structural enablers and learning loops. SC leaders have discovered that this is an effective path to bridge building.
- 11) Certain behaviors and practices, properly sequenced and executed, lead to the development of an SC-enabled, collaborative business model. When assembled appropriately, these practices provide a roadmap to collaborative success. Now a warning: the SC transformation roadmap describes a process of comprehensive change management. If the goal is a collaboration-enabled business model, managers cannot pick and choose which practices to implement. Take away any building block, step

Top Ten Benefits, Barriers and Bridges to Supply Chain Management (2001 and 2007)

2001		
Benefits	Barriers	Bridges
Increased customer responsiveness	Inadequate information sharing	High levels of managerial support
More consistent on-time delivery	Poor/conflicting measurement	Open and honest information sharing
Shorter order fulfillment leadtimes	Inconsistent operating goals	Accurate, comprehensive measures
Reduced inventory costs	Organizational culture and structure	Trust-based, synergistic alliances
Better asset utilization	Resistance to change — lack of trust	SC alignment and rationalization
Lower cost of purchased items	Poor alliance management practices	Cross-experienced managers
Higher product quality	Lack of SC vision/understanding	Process documentation and ownership
Ability to handle unexpected events	Lack of managerial commitment	SC education and training
Faster product innovation	Constrained resources	Use of SC advisory councils
Preferred and tailored relationships	No employee passion/empowerment	Effective use of pilot projects
2007		
Benefits	Barriers	Bridges
Lower costs and higher quality	Organizational structure and turf	Relationship-building skills
Improved customer satisfaction	Resistance to change	Collaborative organizational culture
Higher value-added relationships	Poorly aligned measures	Process redesign
Better inventory performance	Lack of trust	Change management
Faster responsiveness/velocity	Lack of managerial support	Information sharing
Broader product offering	Poor information-sharing capability	Aligned goals and metrics
Enhanced SC visibility and coordination	SC complexity	Training and learning
Being preferred customer/supplier	Lack of employees with needed skills	SC rationalization
Lower logistics costs	Lack of SC vision/understanding	Total cost perspective
SCM as a strategic opportunity	Lack of process transparency	SC champion

or element from the roadmap and the company's journey along the SC path becomes a perilous expedition of half measures that cannot quite remove the immovable barriers. Rigorously followed, the SC roadmap can help companies make the leap to collaborative advantage.

The State of SC Collaboration — A Roadmap Perspective

How mature is SC practice today? Focusing on the SC roadmap, which depicts a three-stage process of building a winning SC team, we can assess the maturity of SC collaboration with a degree of granularity. The question is, "How well do companies manage each of the 12 components of the SC roadmap?" The first stage, Introspection, emphasizes the company's orientation and philosophy and consists of two building blocks: customer orientation and systems thinking orientation. The second stage, SC Design, consists of five steps: scanning, mapping, costing, competency/outsourcing management and rationalization. The goal is to identify the right players and define the right relationships with each member of the team that will help individual team members perform their roles and responsibilities excellently. The third stage, SC Collaboration, transforms the assembled players into a team capable of achieving collaborative success. The practices employed to drive the transformation include relationship alignment, information sharing, performance measurement, people empowerment and collaborative learning. Four important implications emerge from a maturity analysis of the SC roadmap.

- 1) Companies are making progress. Both dominant and leading practice are maturing. Despite these improvements, dominant practice remains rooted in Stage 1: Functional Focus. Improvements in leading practice were more broadly based. These advances place SC leaders firmly in Stage 3: External Collaboration. Conclusion: some companies are clearly winning the collaboration game.
- 2) The distance between dominant practice and leading practice has grown wider in recent years. SC leaders are committed to improving collaboration and are investing the time and money to learn how to collaborate effectively. Their dominant-practice counterparts have not broken the hold of inertia and risk being left behind.
- 3) The soft side of SC collaboration — systems thinking, relationships, measurement, people and

learning — lags behind the analytical or technological side of SCM. Although the lag is true for both dominant and leading practice, it is particularly pronounced for dominant practice.

- 4) Achieving the goal of fully mature collaborative innovation is extremely challenging. It requires the equivalent of an "extreme makeover." Nonetheless, a few companies appear to be within striking distance. As they continue to make progress, perhaps their biggest challenge will be to find SC partners with the same vision and determination that they have.

A Benchmarking Diagnostic

To help managers successfully navigate their SC journey, we identified best practices and compiled them into a benchmarking diagnostic (see pages 98-105). The best practices are organized along the lines of the SC roadmap. This study's most successful SC companies take a balanced approach to SC collaboration. Even these SC leaders, however, could find many opportunities to progress down the path to SC excellence by benchmarking their practice against the practices identified in the diagnostic. In fact, most SC leaders obtain only about two-thirds of the points possible.