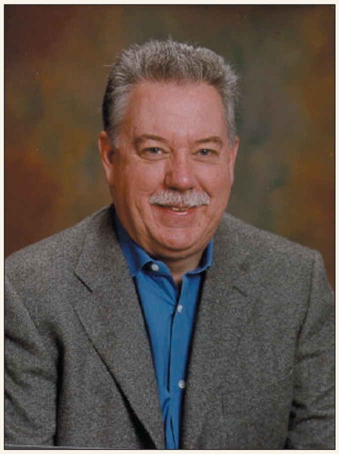
INTERVIEW



David L. Anderson
Former Accenture partner

Dr. David L. Anderson is a recently retired Accenture partner who was instrumental in developing the company's supply chain management capabilities. He has led scores of engagements in logistics strategy, customer service, logistics information systems, and operations outsourcing strategy, and is a recognized expert in the electronics and high-tech industries. He can be reached at david.l.anderson@accenture.com.

Dr. David L. Anderson, a recently retired partner from the Accenture Supply Chain Management service line, explains why integrated operating models are at the fulcrum of a balanced supply chain.

ASCET: *What is the new hot topic in supply chain management?*

Anderson: Traditionally, companies have developed their operating strategies in two stages: First, they focus on broad corporate strategy development, and then they create a detailed process design to support the strategy. What we're discovering is the need for a critical interim step – the design of an integrated operating model. Without the model, supply chain performance is easily compromised because operations people are not well-connected to the company's strategic thinking. In practice, that means organizations may be unable to increase the speed and efficiency with which they deliver products and services to customers. The ability to incorporate new (for example, Web-enabled) channels may also be hindered.

ASCET: *Integrated operating model. That sounds suspiciously like consulting speak.*

DA: It may sound that way, but the importance of integrated operating models is becoming more evident. For example, Accenture collaborated with INSEAD and Stanford University to conduct a global multiyear study that revealed that most supply chain leaders – companies demonstrating superior financial and supply chain performance across two study periods (1995-1997 and 1998-2000) – possess a clearly defined operating model. These companies also were found to have senior executive teams that understand the model and work to drive high levels of performance throughout their organizations.

ASCET: *So what, exactly, is an integrated operating model?*

DA: An integrated operating model delineates how companies will apply their supply chain management capabilities to maximize competitive advantage and achieve mastery. That means they consider:

- Channel relationships, channel and network strategies, product flow, and the degree of operating model integration with channel partners;
- Inventory and service strategies across the extended (partner, customer) supply chain; and
- Linkage with pricing and product/customer development.

Look at it this way: The key difference between old-school strategies and ones that include an integrated operating model is the ability to use supply chain management to strategically extend channels and services to customers. Our research found that, although many companies have completed bits and pieces of an operating model design, most fall short of integrating it with overall corporate strategic initiatives, such as faster product introductions, new channels, or new customer segments. The research results speak for themselves: Supply chain leaders – the group most likely to deploy integrated operating models – demonstrated market cap compound average growth rates that were between seven and 26 percentage points higher than their industries' average.

ASCET: *What are some examples of companies with successful operating models?*

DA: With its build-to-order operating model, Dell continues to be the gold standard for supply chain operations in the computer industry. Additionally, Wal-Mart defines its operating model around everyday low prices, which closely links supply chain operations to suppliers and thereby ensures that stores have the products they need at the best available prices.

Other supply chain masters are less well known. European clothing manufacturer/retailer Zara, for example, recognized that advances in communications and manufacturing could help it make a quantum leap in the variety of styles it develops and the speed with which it responds to changing consumer tastes. The result was an integrated operating model that delivers moderate prices and up-to-the-minute fashions – 11,000 different styles every year.

FreshDirect, an online grocer in New York City, uses an innovative supply chain anchored by state-of-the-art order management technology to custom-make each order, at prices as much as 35 percent below competitors.

ASCET: *Can companies that are not supply chain leaders change or enact integrated operating models?*

DA: Our research shows that enhancing supply chain operations can have a substantial impact on growth in market capitalization. In fact, many of the companies we studied worked hard to develop innovative operating models between the research effort's first and second study periods (1995-1997 and 1998-2000). Most of these transformers caught up with – and in some cases surpassed – supply chain leaders that failed to continually improve their capabilities.

ASCET: *How did they accomplish this transformation?*

DA: Most of them focused their transformation programs on four design parameters, each of which is critical to developing an integrated operating model:

- A documented **business case** details how operations will help boost the company's competitive advantage. For example, the business case can include financial models of total delivered supply chain costs for major channels and product categories.
- **Channel relationships** encompass channel, network, and outsourcing strategies, as well as product flows and degrees of operational integration with channel partners (including agreements with channel partners that describe shared functions, performance measures, and financial arrangements).
- **Supply and service strategies** involve the setting of channel inventory and service-level definitions across the supply chain, including network stock positioning of materials, parts, and finished goods from suppliers to retailers.
- **Pricing and customer development** activities address the creation of processes for linking daily product pricing decisions by channel to supply and product lifecycle considerations. These activities also help explain how target customers and channels can be integrated into the operating model, through insourcing or outsourcing strategies.

Three other factors also are worth noting:

- **Ongoing discussions and negotiations** involve senior executives and functional groups, such as product development, sales and marketing, supply and demand planning, and customer development. The idea is to define how these groups can best work together in the integrated operating model environment.
- **Strategies and plans** for leveraging new(er) technologies usually emphasize the upgrading of supply chain management systems to support Web-enabled decision making (e.g., communications, planning, and optimization) between the company and its customers and suppliers.
- **Careful design of metrics** focuses on improving the operating model rather than individual functional areas. Basically, the need is for data that span the enterprise, so metrics management should be led by a corporate-level organization that can see the big picture.

ASCET: *Can you conclude with a few more examples?*

DA: Certainly. Continuous enhancements to its supply chain enable Nokia to adapt swiftly to fast-changing consumer preferences. All nine company plants can switch product lines exceptionally quickly, and with operating costs that are up to 18 percent lower than rivals. In fact, a commitment to ongoing supply chain transformation is part of the company's fabric – rigorously maintained internal benchmarks and audits are used to compare investment priorities with high-tech competitors.

Another example is Saturn, whose success depends on its ability to integrate service operations and parts-supply processes with its retailers' demands. Every night, for example, all transactions for all SKUs at each retailer's site are sent to Saturn's central system via satellite. The system then uses basic cost/volume rules to make replenishment decisions for each SKU and retailer. Individual retailers then can accept, reject, or modify the suggested replenishment plans.

These leaders show how high performance companies outrun the competition by positioning their supply chains as a strategic capability. Their supply chain mastery enables them to improve their businesses and innovate continuously. ■