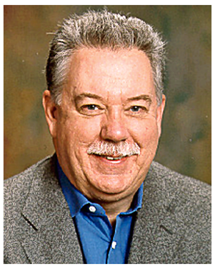
1VISION

Dr. David Anderson from Accenture outlines the supply chain capabilities that will separate future market leaders from followers.

http://anderson.ASCET.com



ASCET: *How would you describe the state of the supply chain today?*

Anderson: We are approaching a major turning point in supply chain strategy. Historically, our focus in North America has been on the "do-it-yourself" (DIY) operating model, in which corporations control product and service flows to customers through supply chain assets that they own (warehouses, trucks, and inventory). Because of significant structural changes in the economy (such as globalization and new competitive needs like the need to further reduce product and service delivery costs, the DIY model simply will not work in the future.

For supply chain strategy, the new focus must be on a codependence operating model. Partners along the supplier-to-customer continuum share key assets – including people, facilities, inventories, and technology – to achieve more cost-efficient, higher-service delivery options, and to increase revenue opportunities for all channel partners through enhanced product availability. This means going back to the basics to redesign shared supply chains and eliminate waste – similar to the just-in-case logistics assets that multiple players own and operate because they haven't developed trusting relationships with their channel partners.

ASCET: *What dangers exist for companies looking to optimize their supply chain performance under a codependence model?*

Anderson: The biggest danger is ignoring the emerging shift in supply chain strategies and believing that you can tough it out under the DIY model. Let me cite an example: you focus on trying to further drive down supply chain costs – the efficiency trap syndrome. Your competitors focus on collaborating with supply chain partners to generate collective revenues and improve market share and competitive advantage. Who's going to win this battle? Will slightly lower costs even be noticed by a consumer more interested in value-added services and product options? As you try to make your supply chain operations leaner, competitors will be working with supply chain partners to create distinctive business models that use new capabilities to fundamentally alter customer relationships.

Think about Amazon and Toys "R" Us. By combining Toys "R" Us's awesome toy-buying power and strategically located inventory with Amazon's proven brand and customer management models, the two organizations provide customers rapid access to many more products and simpler delivery options (such as avoiding mall traffic with home delivery). Everyone wins when supply chain partners collaborate.

ASCET: *What supply chain capabilities do you predict will separate future market leaders from market followers?*

Anderson: There are five areas of innovation that are likely to determine market leadership in most industries:

1. The front-end of the supply chain will be as important as the back-end in maximizing economic yield. Smart companies treat the front-end with much greater emphasis, since companies are getting more demand from different places such as the Internet, through partnerships, or online marketplaces. Paying closer attention to demand and managing it effectively through yield management can pay off handsomely, as it lets a company sell what it has rather than make what it sells. Consider how much money companies leave on the table by servicing orders (or customers) by sequence, rather than by profit potential.
2. As we migrate from internal to external supply chains, collaboration will become the most strategic capability. Supply chains are becoming too complex for any one party to dominate with its own resources, and a few exceptional capabilities are worth more than a lot of good ones. When delivering new offerings or products to your market, it may be faster, cheaper, and more efficient to collaborate with partners than to build the capabilities yourself. Consider Webvan, an online grocer that went bankrupt. If it had partnered with local supermarket chains instead of building its own expensive and underutilized fulfillment network, it might have survived.
3. Assets and functions not core to value delivery will be divested to specialists who can make more money on them. The economic downturn has shed new light on underperforming activities, and when adequately analyzed, many assets and functions fail to be economically viable. The companies that manage their businesses the old-fashioned way (taking orders, buying supplies, building the product, and then shipping it from the warehouse), run the risk of losing out to companies that focus their energies on sales and marketing and outsourcing the rest. Consider Microsoft's new Xbox gaming platform. The software giant has

entered a whole new field without incurring the cost of setting up and operating manufacturing and logistics facilities.

4. More margin will be made after the product ships, when service and support become as important as the product itself. Let's face it – a lot of high-tech equipment has become a commodity, as people seek to buy solutions rather than specific brands or products. Bundling a great product with a strong service offering is the best opportunity for long-term profit potential. That's why companies like Sun Microsystems focus so heavily on promoting long-term problem-solving solutions for customers – solutions that deliver a solid profit to Sun's bottom line.
5. The ability to integrate new and innovative capabilities with your business model will drive higher levels of value creation. A company's ability to adapt and change itself will prove even more critical to its future success; those that can't migrate will be the ones that get left behind.

With the codependence model, companies that can work efficiently with multiple partners will reap the most benefits, while those that are too difficult to work with will be ignored. Rapid, virtual partnering will be key to the new supply chain management strategies as the best "integrators" seek each other out and partner to go after the biggest prizes.

ASCET: *What actions do companies need to take to transform themselves?*

Anderson: Transforming traditional supply chain relationships into strategic, codependent relationships will require companies to demonstrate new levels of leadership, aggressiveness, and risk-taking.

From a leadership perspective, companies need the will to change. For many years, Kmart tried to adopt a Wal-Mart supply chain model without success. It has been unable to make the significant changes required to develop such capabilities, which has contributed to its bankruptcy filing. Making sure your C-level executives are completely on-board and committed to change is a crucial first step in the transformation process.

From an aggressiveness perspective, timid and incomplete change is doomed to fail. Kroger, one of the largest grocery retailers in the United States, was the same size as A&P when it realized that the entire grocery distribution model was shifting to the superstore concept. Kroger invested its cash flow many times during a decade to reconfigure all of its supply chain assets to the new model – A&P didn't. Who's at the top of the grocery business today? With $49 billion in 2001 sales, Kroger operates 3,600 stores under nearly two dozen banners. A&P operates 750 stores, with 2001 sales of only $10 billion.

From a risk-taking perspective, adopting the attitude that supply chain partnerships are too difficult, or that they have always failed in the past, is the kind of negative thinking that will condemn companies to mediocrity. When Wal-Mart wants to partner to improve its supply chain, it takes the lead and brings parties together to work out new ways of conducting business. It understands that it cannot achieve savings and service improvements without significant, fact-based dialogue about what all parties need to improve to achieve supply chain success. Simply wishing for success doesn't make it happen. ■

Dr. Dave Anderson, a partner within Accenture's Supply Chain Management Service Line, oversees the company's supply chain technology solutions. He specializes in supply chain management, logistics strategy, customer service, logistics information systems, and operations outsourcing strategy. Before joining Accenture, Dr. Anderson was vice president of logistics consulting at Temple, Barker & Sloane, Inc., and a vice president of Data Resources, Inc., where he founded the organization's transportation and logistics consulting practice.

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