

# From Supply Chain to Value Networks

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## Introduction

Supply Chain Management has become a must in most multinationals; this was not the case five years ago when this concept was seen as a major driver for a competitive edge by Leaders, a sophisticated and cumbersome logistic exercise by the silent majority, and another consultant fad by followers. At that time, some even said « Supply What ? ». They are out of the business now. However, the concept of Supply Chain is not really new. It first appeared in June 1982 in a Financial Times article. 3 years later, Michael Porter introduced his famous concept of « Value Chain ». Still today, Supply Chain Management continues to suffer from a range of definitions and perceptions and very few make the link between Supply Chain and Value Chain. This 'gap' undermines the strategic dimension of Supply Chain, and ultimately that it is a core competence and potential source of increased business value for companies across industry sectors.

## The Dark Ages

Supply Chain is now a healthy grown-up promised to a bright future. So, why such a difficult childbirth? We believe the original sin is in the 'label' itself and where in the business it was led from:

- 'Supply' makes Marketing & Sales people believe they are not involved and Purchasing people feel threatened,
- 'Chain' sounds like constraint and linearity, not the best way to get entrepreneurs on board.
- Much of the early work on Supply Chain was driven from the logistics/planning functions in the business, which reinforced this as a functional 'supply initiative' rather than a 'business' issue
- Service companies immediately thought it was nothing to do with them.

This created ignorance, distrust or confusion. The 'MRP2 syndrome', to some extent. One thing became evident: Supply Chain deals with the overall management of the flow of material & goods from suppliers to customers throughout the company. Software vendors understood the consequence and the opportunity: the Supply Chain was gluttonous of information and they marketed it well ! 'ERP will do it for you' was the motto in the 80's, 'APS ('Advanced Planning System') - rebranded Supply Chain Software) will do it for you' the one of the 90's, 'Internet will do it for you'...until mid 2000 !

Supply Chain was therefore reinforced as a 'technical issue' and delegated to middle management (which High Flyer would like the responsibility of implementing a software ?) and surprisingly, millions of euros were spent with little results compared to the promise. This gave Supply Chain the reputation of a « gas factory » system ; the flavour of the month was « Make it Simple », at that time some general managers were proud to say they had « unplugged » their supply chain system !

Later on, companies realized they had to change their business processes before changing the software, but because the subject was in the hands of experts, they thought the best way was to do it through « best practices » asking the experts to write down the procedures for them.

As a supply chain manager, you felt guilty if you did not implement CPFR or Lean Supply Chain in your company, since the experts had said that CPFR or Lean Supply Chain was « The Next Big Thing ». One senior operations vice president recently told us: I have designed Supply Chain best practices, but people don't want to apply them !

## People and Strategy first

We are convinced that these stereotyped approaches, at best, put you at the level of the competition (i.e. the negation of a competitive edge) and at worst, lead you to make the wrong choices for your business. You may have the best system and the best processes in the world, but these alone do not create a 'barrier to entry' for others – they can be bought or replicated. It is the way your organisation takes these resources and 'brings them to life' that makes the difference. If you have not energised your people and aligned them with your values and behaviours, any advantage will be brief and the sustainability of results questionable. To change your people values and behaviours, you must be clear on the « why's » before jumping in the « what's » and the « how's ». This may mean some time for education and communication, but it is essential.

The first step is to have a clear and coherent strategy that includes the opportunities and consequences for your supply chain. This means that the right approach is to design your supply chain according to your value proposition and your strategic direction. Business processes and their supporting systems are a consequence of your supply chain design, not the opposite.

To illustrate, if your strategic direction is customer intimacy, a high service level with a demanding measure (e.g. percentage of orders on-time in full or 'perfect order' preferably to case fill) should be more important for your supply chain than low inventory levels. The top managers want both : this may mean you need an agile supply chain, but with a higher cost base. The top managers want a high customer service level, low inventories AND low costs ! This is still possible, but you will probably need to negotiate the commercial lead-times with your customers. Your supply chain will be designed with a make-to-order policy. The top managers want high customer service, low inventories, low costs, AND products immediately available. This is becoming tricky, but it is still possible to design your supply chain accordingly, with a lean portfolio. Top managers want high customer service, low inventories, low costs, products immediately available, AND a wide portfolio ??

Maybe it's the time to ask them what is the strategy of the Company !

Leaders realize that universal excellence is a myth, and that strategy is about making choices, therefore saying NO to something. These simple examples show that Supply Chain design has a major impact on companies' performance, which goes much beyond the traditional view of Supply Chain which is about managing the current reality. Designing your Supply Chain strategically, implies that you answer to some simple but fundamental questions : What Customers do you want to serve and How ? What Products do you want to sell and how ? What Processes do you want and how do you relate them to your product design ? What information flow do you need to manage your Business model (Customers/Products/Processes) ?

When DELL decided to have NO distributors in its business model, it was a simple Supply Chain design decision, but with a major impact on the overall company performance, which makes it a worldwide leader. Understanding the cost-to-serve your chosen markets and customers with a changing product/service portfolio is key to managing these paradoxes. Developing your unique proposition will require you to understand the distinctions and make your choices – avoid the tempting solution of ‘One Size Fits All’.

### **A Top Management issue**

One thing is clear : these fundamental questions need to be answered by the top management, including ALL the functions of the company. To paraphrase Georges Clémenceau who said « War is too serious a business to be left in the hands of servicemen » we believe that « Supply Chain is too serious an issue to be left in the hands of supply chain managers »

Some people may argue that what we describe is not Supply Chain, but a critical element of Business Strategy. We will not play with words : we already said at the beginning of this article, that the word « Supply Chain » was not the best choice to promote a transversal Business philosophy. Supply Chain has a strong industrial connotation which carries scars from the old paradigm : maps, mechanical thinking, the Big Picture, conventional warfare, specialization, answers, hubris,... The economy is more and more intangible and uncertain ; the new paradigm is about : compasses, biological thinking, the Big Story, Terrorism, deep-generalist, discerning questions, humility.

The next stage of evolution of the Supply Chain may be what we call the Value Networks. Another buzzword ? We don't think so. With our concept of Value Networks, we keep the systemic approach of the Supply Chain, and give it a broad business perspective. By using Value Networks, everybody recognizes it is not anymore only an industrial issue. It reconciles the Supply Chain with Porter's model.

By broadening the scope to ‘Network’ we raise the need for more collaborative and interdependent behaviours. Collaboration has undoubtedly become a very hot topic, not just in the world of supply chain management but also in the boardrooms of major businesses. For many, collaboration is just a web-enabled method of squeezing suppliers, a one off exercise in price reduction ( if so, how is there any possibility of sustainable competitive advantage?). To truly extract value from the network a new level of interdependent, rather than independent, behaviours must prevail. A cursory or superficial understanding of interdependence is the ‘needing or depending on each other’, which misses the point. A deeper understanding emerges from examining the prefix ‘inter’, which relates to that which exists ‘between and among’ discrete entities. Beyond merely depending on each other, we depend on what we can create between and among us, thus emphasising what is more possible together.

The potential of Supply Chain knowledge on the Service industry is huge : when you analyse the cumulative lead-time of a criminal investigation, you discover you can collapse this lead-time by simply applying Supply Chain techniques used in the traditional industry many years ago. Despite the opportunity for ‘quick wins’ from transferring Supply Chain knowledge across sectors, it is also important to learn from the experience in the manufacturing sector and ensure that the opportunity for Value Networks is given an appropriate ‘share of voice’ at the strategic level.

Networks with an « s » clearly highlights that the approach is not anymore linear, unique or stable.

## About Complexity

Complexity is an issue for every company : most of them answer the problem by simplifying it ! Decrease the numbers of sku's is an obsession for many supply chain managers. One of them once told us that 100 000 sku's was insanity for a business. His personal utopia was 100 sku's. 100 000 sku's may be the right number for your business model. Would you go on Amazon.com, knowing they have 100 sku's ? At the general manager level, simplification means asking Supply Chain to take care of cost cutting, and Commercial to take care of growth. This has a name : cash for growth, path to growth or...fuel for growth. Whatever the slogan the approaches are similar : generate cash through cost cutting or assets decrease and use this cash for commercial plans. We believe these approaches, which come from a mechanical thinking, don't work anymore in the new paradigm.

We believe, there are some different ways to tackle complexity smartly, and these need to start by creating a new frame of reference, a new way of thinking about the opportunities:

1. Driving a 'joined-up' approach - Most of the 'traditional' approaches look at complexity from just one dimension or perspective. Conflicts of interests between the different functions in the organisation are often made worse by functional performance measures, reward and recognition systems, which lead to defensive arguments between the different parts of the organisation.
2. Simulation (or game). Regarding games, we continue to be amazed by the revelation caused when adults learn through game play. If you have experienced the famous 'Beer Game', you will undoubtedly have remembered the insight it gave to the phenomena of the 'Bullwhip Effect'. In the same way, we found by designing a tailored supply chain game called "Value Nets", we helped managers of different companies, to «play » with the different components of their value proposition and decide for their business what is the best value mix, now and for the future.

### 3.Thinking biologically:

In the movie « Master and Commander », Physician Stephen Maturin shows to Captain Jack Aubrey a phasmid, an insect which looks like a twig to capture its preys more easily. This gives Aubrey the idea to camouflage his war ship into a whaler to deceive the enemy ship (regrettably a French ship) twice as strong as his. We should all think like Aubrey when we are confronted to complex problems where we can't find simple and easy solutions.

Life has learnt to cope with complexity for some millions years. Biology especially through Biotechnologies, Bio-Information technology and nanotechnologies, will be the science which will make the biggest progress in the coming decade. Therefore we need to start to think biologically instead of mechanically. For our today topic, we call it the organic supply chain. Organic thinking is not new : Da Vinci flying machines were inspired from birds or maple fruits, Crystal Palace dome has the structure of lilies leaves, some torpedoes were designed according to dolphins' spongy skin to facilitate a smooth penetration in water. The organic Supply Chain has to be invented, but we already see its premises. Charles Fines in his breakthrough thinking book « Clockspeed » suggested to study the Supply Chains of the Future by studying industries with the fastest clockspeeds (Infotainment, Computers) very much like genetic researchers have studied the laws of genetics on flies, as these marvellous creatures have a fast reproduction cycle. The MIT is currently developing advanced RFID devices programmed from a study on ants' movements!

## Think Local, Act Global

Most of the companies with a global organisation, face the dilemma “strong global leadership/coordination” versus “strong local autonomy”. The two options are seen as antagonist. This way of thinking is a logical consequence of traditional slogans coming from the 80’s or the 90’s: “small is beautiful” and “think global, act local”. Both business models have demonstrated their limits.

We are currently experimenting with one of our customers, a new model. It is a highly successful multinational with strong autonomy of the local units. We have been asked to help them design their European supply chain, but respecting their “local” culture. “Tell us what the best practices are, and we will implement them” was the second instruction of our mission: It sounded like attempting the impossible!

We first convinced them that copying best practices would at best make them good followers, which was certainly not their Leaders role. Secondly we insisted that the only way to be different from their main competitors was to design a “business minded supply chain” as opposed to a “cost focused supply chain”. Once they agreed on these principles, we helped them design their customized solution at local level, and then shared these experiences across the different countries, which enriched the solutions with their local culture.

In this unique model, we acted as a “virtual headquarter”, respecting the “local” business philosophy of our customer, but making sure they develop their European project in a coherent way. This is not far from Adam Smith’s invisible hand !

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StrataBridge is a leading edge consulting firm helping organisations achieve sustainable growth in unpredictable circumstances. StrataBridge focuses on helping organisations align their business activity to strategy and understand the critical choices faced.