

Fix your supply chains and you fix the company (and the economy)

An article by Dr John Gattorna¹ for Supply Chain & Logistics magazine, Greece

When you hear that the CEO of a major organization is cancelling the newspapers, flowers and fruit baskets, as well as catering at internal meetings, and asking employees to travel by public transport rather than taxis, you know that the organization is in trouble. It's in trouble because very clearly the leadership has lost contact with its customers to ever get to this stage of desperation. And it is in trouble because, having got into such a state, it has so few ideas on how to fix the situation. This is a Euro 40bil. Business I am talking about!

If there is one major conclusion that can be drawn from the global financial crisis, and its impact on the real economy, it is that many companies have to quickly find a *new business model* to survive, let alone rise again to their former greatness. What about starting with *'knowing your customers well, and your end users/consumers even better'*. Yet so many businesses have lost sight of this fundamental truth. If you want to survive in the face of the current melt-down in financial and economic activity, go back and make sure you are 'aligned' with your customers and suppliers. All this other stuff about saving costs by taking the soap out of the bathroom is merely posturing, and has little impact if any. Now is the time to stop all the over-servicing of customers that has been going on during the growth years, when many companies were just guessing, and at the same time fix all the under-servicing that has been going on in parallel, under-valuing your most loyal customers.

The new business model I am suggesting to fix many of today's woes is: *dynamic alignment*. In this framework, customers' buying behaviours (or expectations) are accurately identified and segmented. Then, appropriate *value propositions* are prepared and delivered to the range of different buying behaviours identified- for any given product/service category. And underpinning this effort is the on-going re-shaping of the sub-cultures inside the organization that will either propel or hinder these value propositions towards the respective customer groups. And finally, for any of this scenario to have a chance of happening, the leadership style of the top team must be such that it understands intimately what is happening in the served market, and knows almost intuitively how to transform and position the organization to meet customers' expectations. Sounds difficult? Yes it is, but that is no reason for avoiding the challenge.

In reality, companies and their leadership learn very little in times of growth, where the very momentum of high demand sucks the company along in a type of vortex. Bottom-line results appear to be good, so Boards and shareholders do not object or query the methods used by management. But when things turn nasty as they have in many industries across the world over the last 6 months, management teams are left wondering what to do- and in the light of no better ideas they very often reach for the redundancy anti-dote and put off hundreds, sometimes thousands of innocent workers. Innocent because they have not led the company into such a parlous state- it is the fault of the leadership. Interestingly, some Boards have woken up to this and are busily hunting for

new CEOs behind the scenes- people who know how to lead in today's turbulent operating environment, manage the risks involved, and motivate their people.

If we accept the notion that businesses, and business enterprises, are just a conglomeration of the supply chains (or pathways) running through them, it is easy to see why the design and operation of contemporary supply chains has such a pivotal role to play in the recovery process of companies and indeed whole industries and nations during the next few years.

Starting with the marketplace, the new style business leaders mentioned above must appreciate the changes that have occurred there, and exactly how the customer segments have been affected by the current crises. Strategies must then be adjusted accordingly, and work begun on the inside of the enterprise to re-shape capabilities. This means re-jigging the organization structure; re-engineering processes; adjusting the technology; finessing KPIs and incentives; and changing recruitment processes to hire people more appropriate for these times. And above all, the talent we already have in the organization must be retained until things return to some sort of equilibrium.

So, here is a checklist of the 10 most important things to do to survive the current melt-down in economic activity:

1. Develop a *new business model* like the *dynamic* alignment framework- because old models just don't work in new times;
2. Start with re-engaging with your customers; segment them along buying behaviour lines, and reverse engineer back from there;
3. Boards have to step up and review the appropriateness of the current leadership team, and in particular the incumbent CEO; change him/her if necessary to start the re-alignment process;
4. Don't blindly follow 1-dimensional solutions, because this is not a 1-dimensional world any more. Based on what you see in the market place you will be able to configure a small range of responses in the form of supply chain types- *lean, agile, collaborative*, and if necessary, *fully flexible*;
5. Re-visit your original assumptions on out-sourcing; maybe they are no longer valid;
6. Look seriously at changing away from the conventional silo-based organization structure- this is fundamentally flawed for a fast-moving demanding world with uncertain demand patterns; configure multi-disciplinary clusters, focused on customer segments.
7. Identify and retain your best talent through this difficult period;
8. Revisit your business plans, adjust for the recession, and communicate revised plans to all management and staff; this will give everyone confidence in the top team.
9. Do the usual good house-keeping things; taken in the right context these will be accepted, but on their own are hollow and morale-destroying for staff;
10. Above all, avoid across-the-board redundancies; this just tells the world that you are out of ideas and have reached for the panic button.

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