

# KEY TO SUCCESS IN CONTEMPORARY SUPPLY CHAINS

BY DR JOHN GATTORNA MCIPS



The procurement function on the supply side of contemporary supply chains has a vital role in corporate performance, but its effectiveness is significantly reduced if it is not directly connected to the demand side, which is about facing customers. Sadly, in many modern corporations, this is not the case, because of the way they are structured: in deep, vertical silos that are managed by rote

to a budget rather than designed to satisfy customers' expectations. Because of this structure, many companies are setting themselves up to fail from the get-go, and what's more, they seem oblivious to the problem!

Everything starts from the customer end. Contemporary supply chains have to be designed and operated from the customer back, from the outside in. Across many product and service categories, our researchers have found that the best way to start is to segment customers according to their buying values and behaviours. The good news is that because customers are human, they exhibit patterns in these buying behaviours over time. We all thought things were more chaotic than that; no so.

Indeed, based on 20 years of field work, we can now safely say that for all product and service categories – and there are no exceptions we are aware of – never more than three or at most four dominant buying behaviours are discernable in any given marketplace. Together, these constitute more than 75 per cent of customers in that marketplace. This is breakthrough thinking, because we are immediately informed of the existence of the equivalent number of discrete types of supply chain – no more; no less.

On this basis, we can immediately discard the old convention of 'one size fits all' as well as the concerns about how many segments we need to recognise and manage in practice. Three, or four maximum, are very manageable. From our experience, the most usual combination of behavioural segments is as depicted in Figure 1.



Figure 1. The four most common dominant buying behaviours.

## The future lies in multiple alignment of supply chains

Once we acknowledge that no more than three or four generic types of behavioural segments are evident in any product or service market, the rest is logical: we simply reverse-engineer from these segments into our organisation and beyond to our source markets. The demand side of this multiple-alignment equation looks something like the one depicted in Figure 2, and the four generic supply-chain types are depicted in Figure 3.



Figure 2. Multiple supply-chain alignment on the customer side.

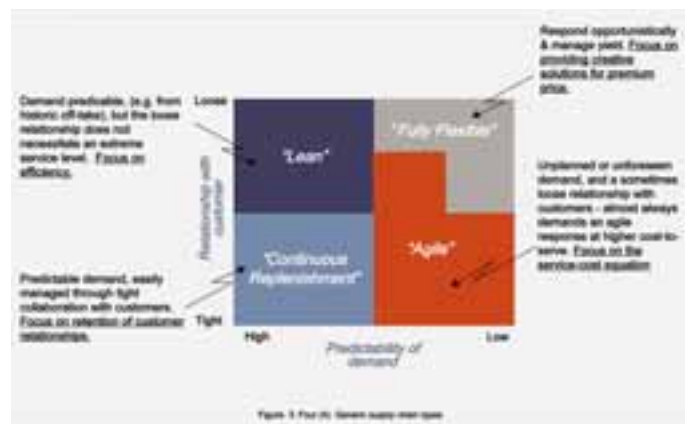


Figure 3. The four generic supply-chain types.

However, this is just the top half of the overall supply-chain equation. Armed with much better information about our sales markets, we can then reverse-engineer the procurement strategies into the source markets as depicted in Figure 4 and can define the corresponding types of generic supply-side supply chains with correspondingly different procurement strategies.

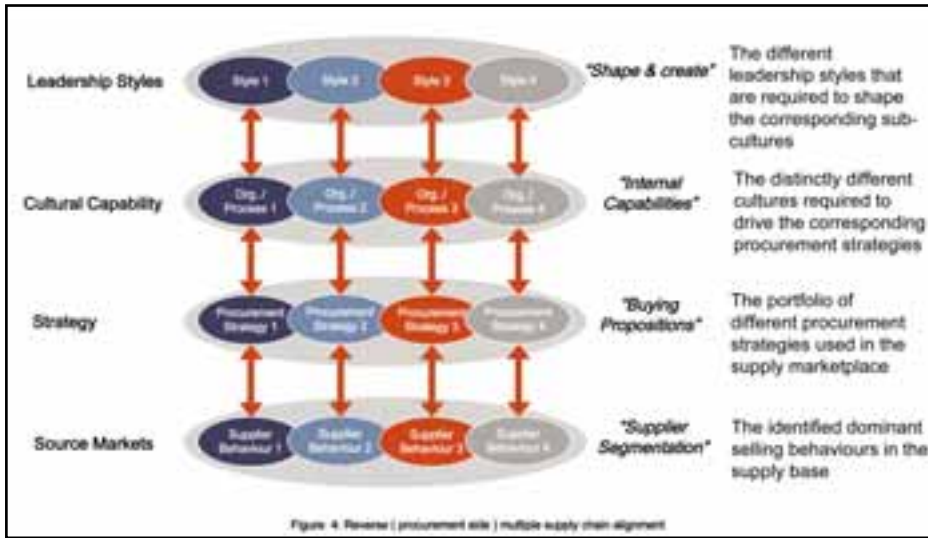


Figure 4. Reverse multiple supply-chain alignment on the procurement side.

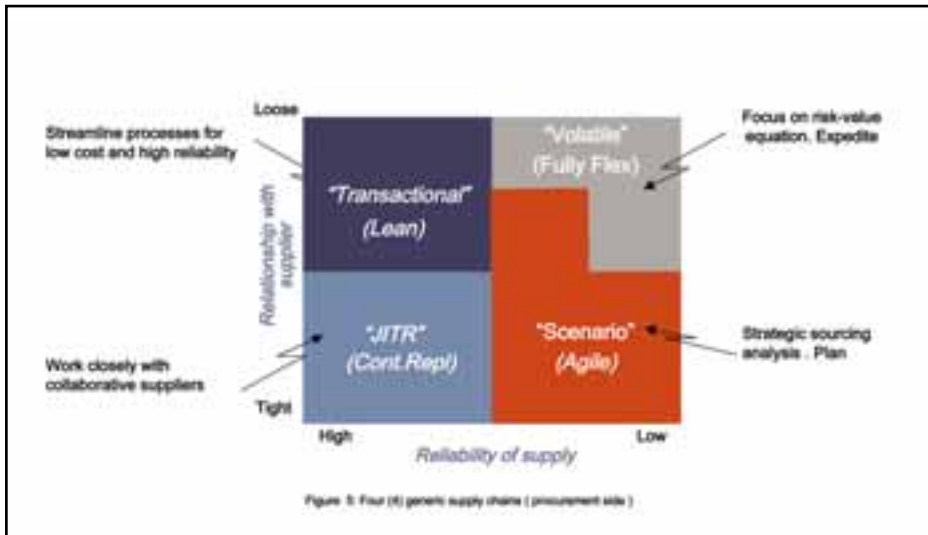


Figure 5. The four generic supply chains on the procurement side.

**The secret is in the combinations**

Successful strategies are usually not of a single type; they are hybrid in nature. This applies to supply chains. It is possible to have any combination of the four demand-side supply chains and four supply-side supply chains. For example, the very successful Spanish fashion retailer Zara uses transactional – or lean – procurement strategies, whereby it buys its material in low-cost source markets and moves it to places located close to European manufacturing points. Then, when it chooses specific designs to produce, it takes only 15 days to draw material from stock, cut it, manufacture the product and deliver the finished product to company stores around the world – an extremely agile process, which would not be possible if the company did not use postponement techniques.

**Making it all work**

Such companies ‘own’ their relationships with their suppliers and are in very close touch with their customers. They organise themselves into multi-disciplinary ‘clusters’ that are run like project teams in parallel with the conventional silos. Procurement personnel work closely with representatives of the other functions. All are locked together with joint KPIs, and focus on a specific customer segment. Communications are improved immeasurably, processes are re-engineered, and personnel are selected not only for their technical skills but for their mindset. Likewise, IT is tailored to the requirements of each cluster, which in effect is management of one of the aforementioned generic supply-chain types. This is a glimpse of the future.

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