

"News & Views"

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Part 2 of Dan Gilmore, Editor of *Supply Chain Digest*, review of Dr. Gattorna's new book, *Living Supply Chains*.

Stop Wasting Time with Supply Chain Collaboration that Just Won't Work

Is supply chain collaboration a waste of time?

No... and yes.

So says Dr. John Gattorna, of the Sydney Business School (Australia) and Cranfield School of Management (UK).

Two weeks ago, we did [part 1](#) of a review of Dr. Gattorna's new book, "Living Supply Chains," a work I found very interesting. (As a side note, this book, originally published in the U.K. and Australia, is just getting North American distribution. Many readers emailed me looking for how to find the book. I actually do find it when searching at Amazon through their partner sites, and we are told Amazon and other retailers will have it soon.)

To briefly recap part 1, Gattorna says the creating of "Living Supply Chains" can create enormous competitive advantage, and that there are two keys: getting the people/culture side of the equation right, which in nearly all companies is a huge barrier to strategy execution, and "dynamic alignment," in which a company's supply chain organization, capabilities, and services are specifically - but flexibly - linked to customer buying behaviors (with a similar concept for supplier relationships).

Last time, we focused more on the first part - the people side - and will try to explain this week the dynamic alignment part. But we did like this quote from the book: "While the downward force of strategy on an organization to deliver plans is considerable, an even stronger force exists - the upward force exerted by the organization's culture." The organization and culture most often decides which parts of the strategy it will embrace, and which it will ignore, absent some more innovative approaches to driving alignment.

Back to dynamic alignment, and deciding if supply chain collaboration is a waste.

Just as most companies under-serve many customers and over-serve (at great cost) others, Gattorna told the audience at CSMP 2006 that "Too many companies spend lots of effort and resources trying to collaborate with customers that don't want to collaborate." Does that ring a bell?

So the answer to the question at the top is that supply chain collaboraiton is a

waste if you continue to put effort and focus to "entice" a customer to collaborate who simply doesn't value the exercise. In addition, by doing so you suck attention and resources away from those who do.

Gattorna, relying on years of personal experience and research (he's a former Accenture supply chain leader) and much other supply chain and behavior research, says you can (and ultimately must) segment customers (and suppliers) into four types, based on what they truly value in the relationship (customers) and your own supply chain requirements (suppliers) and their capabilities:

Continuous Replenishment: Characterized by predictable demand from known customers, these are generally the ones that both want to and benefit from tight collaboration. High levels of loyalty.

Lean: Mostly consistent demand, main focus is on efficiency and cost.

Agile: Unpredictable demand, opportunistic, need for quick response to new needs

Fully Flexible: Very unpredictable demand, customer looking for lots of customization in product design, programs and services. Values innovation.

Gattorna says that many customers will have characteristics of two of these types, but that one will be dominant. Here further states that almost every company has customers in at least three of these segments, and sometimes all four.

So what dynamic alignment? By first segmenting customers based on these buying behaviors, rather than traditional screens (channel, size, etc..) companies can tailor their relationships, supply chain services and price much more precisely to the total needs of those companies.

Second, needs change over time, based on market changes, different products sold by the company, etc.

So, Gattorna advocates setting up separate supply chain teams, and separate logical and often physical supply chains geared towards meeting each of these types. Each focused on the differentiated approaches, relationships and services the segment requires. When a customer's needs changes, either for the short term or the long term, it should move into this different supply chain group. Indeed, different products sold to the same customers may need to be handled differently.

While the concept of different supply chains for different markets has been around for awhile, Gattorna says it is too often based on the wrong segmentation - for example, by product type, not customer buying behavior and values. Also missing has been the notion that this needs to be dynamically managed.

Finally, he believes (citing several examples of companies that have done it) that this supply chain segmentation approach needs to be the basis for network planning and optimization, rather than the "one size fits all" approach that is often used. Companies often simply optimize inventory, transportation and service trade-offs against basically a universal customer, and as a result develop a single

supply chain strategy.

Again, I've have to a degree only scratched the surface of the thinking here, but believe there is much worth considering. Gattorna writes that this approach will allow companies to "understand, manage, and synchronize" to their advantage. I think he's right, even if you don't take his prescriptions all the way.

Three quick side notes: we think you'll enjoy our fairly new "Supply Chain News Bites" feature at the top of News and Views section. It's a great way to quickly stay on top of relevant supply chain developments. Second, there is still time to enter our transportation challenges acronym contest, and receive a nice prize if you win. Almost 300 entries thus far, and some good suggestions. [Look here](#).

Finally, we're taking next week off. Happy Thanksgiving to those in the U.S. For the rest of our increasingly international readership, we'll see you in two weeks! We think you will also find this week's feedback especially interesting!

What do you think of the concept of "dynamic SCM alignment"? Is segmenting customers based on supply chain needs, and crafting unique supply chain teams and capabilities, the way to go? What would be the downside or other barriers? Let us know your thoughts.

[Let us know your thoughts.](#)

Dan Gilmore