

# The Business Problem

## CHAPTER | 1

*“If I had an hour to solve a problem, I’d spend fifty-five minutes thinking about the problem and five minutes thinking about solutions.”*

**—ALBERT EINSTEIN**

If there is one thing we have learned as business leaders, it’s that people do not spend enough time trying to understand the problems they are trying to solve. This lack of problem-solving discipline leads to frequent changes in strategy and leadership meddling in the day-to-day business, resulting in confusion and frustration at all levels of the organization. Therefore, it is important that we first understand the problem we are trying to solve through Supply-Chain Advancement (SCA).

A premise of Supply-Chain Advancement is that enterprise-wide business improvements will not be realized until leaders and managers collaborate across the entire business in order to connect core processes, drive customer value holistically, and eliminate waste systematically.

But why is this so important, and why is it important now? To answer these questions, we need to explore today’s business problems.

## THE CUSTOMER AND THE EXTERNAL ENVIRONMENT

In business, no matter what problem we are trying to solve, we should always start with our customer. Listening to the voice of our customer is key to finding optimum business solutions. By doing so, we will solve problems in ways that generate the *maximum customer value at the lowest possible total cost to our organization*.

Customers now want *more value for less*. This may seem unrealistic to sustain in the long term, but it is a harsh reality in all industries. Here's a short list of today's customer expectations:

- \* Constantly higher value and lower prices
- \* Superior and increased quality
- \* Faster innovation cycle for product features and performance
- \* Increased personalization and product customization
- \* Extended service offerings and lifetime product support
- \* Reduced delivery times and no-hassle return policies

There was a time when providing such additional value could command a premium. Those days are over. The above list of customer demands is simply the price of admission in many markets. How have businesses responded to these ever increasing customer expectations?

If we consolidate our reactions and solutions to these increasing customer expectations, it comes down to two words: *increased complexity*. We have made our businesses more and more complex in order to meet customer expectations while attempting to remain profitable. This complexity has created a long list of unintended consequences and unplanned waste in the business system wide.

Let's look at a few of the customer demands and our responses that have created turmoil inside our organizations and demonstrate how our development of people and processes has failed to keep up:

- **Lower Prices:** The market determines the price, so profit is now a function of our ability to design, source, make, and distribute products at the target cost respective to the market price. In order to achieve this, we have globalized our supply chains in pursuit of cheaper inputs and lower production costs. This globalization has resulted in increased lead times and greater overall management oversight. Our people and processes were not ready for

this additional supply-chain complexity, and the result has been increased inventories, reduced customer-fill rates, and, potentially, higher overall operating cost. We say potentially because we are less aware of our costs today as the increased complexity has reduced our ability to understand total costs.

- **Endless Variation:** Customers expect more—more features, more options, more benefits—but they don't expect to pay more. In response our product-development functions create more products with more features and more options. This has resulted in product proliferation that exceeds the ability of our people and processes to manage it. As a result our supply chains and order-fulfillment processes have become more complex in the form of increased inventory and greater variation in production processes. We may believe we have done the right thing and that we are still making money with all of these new products. However, once again, we aren't entirely sure because the additional complexity has exceeded our ability to capture profit contribution by product.

In addition, because our product-development cycles are moving so fast we are unable to collaborate well across

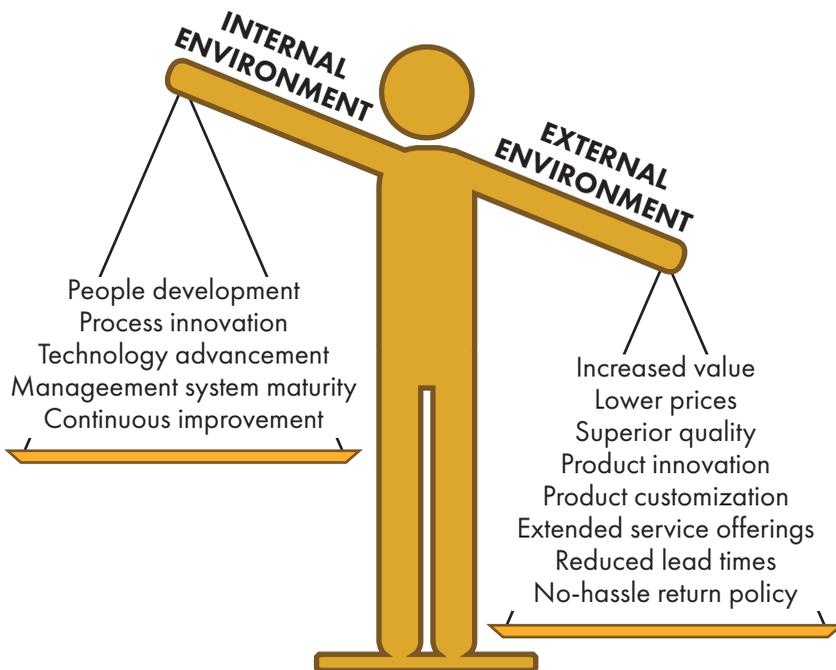
core functions of the business. This results in new-product launches that fail to hit sales targets, field failures, and overall confusion and frustration within the organization. In short, we have tried to provide additional variety and services to our customers without sufficiently developing the necessary core competencies for doing it well, resulting in wasted resources, excessive costs, and poor financial performance.

- **Reduced Lead Times and Enhanced Flexibility:** Today's customers expect ever faster delivery and response times. What's perplexing is that our efforts to chase lower supply and production costs have accomplished the exact opposite. Global supply chains have extended lead times, increased process and management complexity, increased process variation, reduced supply-chain responsiveness, increased inventories, and expanded overall operating

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costs. Many organizations have implemented lean manufacturing techniques in an attempt to reduce lead times, but most of these lean initiatives are not connected to the outbound supply-chain and order-fulfillment processes, so any gains the customer would care about have not been realized. In other words, we have built new on-ramps to a freeway that is gridlocked. It's no wonder that such efforts haven't produced the significant enterprise-wide business results that lean thinking is capable of achieving.

*Figure 1 – Customer and External Environment*



In summary, our attempts to meet changing customer demands have created increased complexity (much of it unplanned and wasteful) by introducing excessive product variation, long lead times between suppliers and manufacturing locations, and new service offerings without sufficient fulfillment competencies. Our management systems have not kept up with this additional complexity; our people's knowledge has not kept up. This has resulted in an abundance of operational waste and missed opportunities relative to meeting customers' needs. Simply put, we are missing revenue opportunities while adding costs to the business. This is a problem, as an equation of reduced revenues with rising costs is not sustainable.

Now, are we saying that we should dismantle the global supply chain? Are we saying customers should temper their expectations? Are we saying that we should stop creating innovative and creative products?

Absolutely not.

As authors and business leaders, we are saying that this new world requires a different type of thinking. This new business environment requires business decision makers to understand the intended and unintended consequences of business decisions and the resulting planned and unplanned complexity. Proactively we need to understand and reduce the risk of unintended consequences and unplanned complexity of our decisions. We need very specific goals, operating principles, and a management system that will support this new world of supply-chain complexity. Core business processes need to collaborate, managers need to think from a business-wide system point of view, and everyone needs to understand that all decisions will manifest themselves as either customer value or waste.

## REALITY CHECK

Before we move to the next chapters and begin outlining Supply-Chain Advancement, you need to know that we understand the challenges that senior business leaders face today. We do not underestimate these challenges. Running our own businesses and spending time with other executives from a variety of industries, we find many of the same concerns. We know that as a business leader:

- You have great products and services and effective strategies, but revenue growth and margins are below your expectations.
- You want to build on current strategies but do not want to change directions or restructure your organization again.
- You are not afraid of complexity, but your business is becoming more complex faster than your management system is able to accommodate it.
- You don't like unpredictability, but you are continuously being surprised, which disrupts your ability to focus on the long term.
- You want your business managers to focus on innovation and high performance, but they seem to focus more on cost reduction within a single process and preventing service failures from happening.
- You want to see clear, measurable, business-wide results from your strategic

initiatives and operational improvement efforts, but you struggle to see visible bottom-line results from your investments.

It's time to address these challenges. As business leaders we need to move toward our long-term visions while still producing short-term results. We need our organizational structures and management systems to drive collaboration and cross-functional decision making. We need process improvements to become institutionalized into our management systems, and we need a simple way to benchmark, measure, and assess performance.

In an attempt to achieve these goals many companies have been reorganized and restructured, usually more than once. In the end, however, the anticipated collaboration, enhanced efficiencies, and market responsiveness do not materialize. Organizational structure isn't the issue. It's not about who reports to whom.

To improve collaboration and drive business-wide systems thinking, you don't need to restructure your organization. You need a simple roadmap that everyone in the organization can align around to move forward. This is what SCA provides.

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Will Supply-Chain Advancement be easy to accomplish? Perhaps not, as it requires people to look at the business from a new perspective, and it requires leaders and managers to work collaboratively towards a common set of objectives. This means we need to view the organization holistically and connect and relate the core business processes of Business Strategy, Product Life-Cycle Management, Sales and Marketing, and Supply-Chain Operations.

This connection of these four core business processes is the most significant business opportunity organizations need to pursue. It is the last frontier for meaningful business

improvement and the management of all the disruption around us.

Whether your organization is fighting for survival or is healthy and looking for innovative ways to produce additional value, Supply-Chain Advancement is the methodology that provides the path forward.



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## LEVERAGE YOUR SUPPLY CHAIN AS A COMPETITIVE WEAPON

*A conversation with Charles Armstrong, Partner, Orion Advisors Group.*

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### **Q: CAN YOU TALK ABOUT WHAT SUPPLY CHAINS LOOK LIKE TODAY AND HOW THEY NEED TO PERFORM?**

Years ago we talked about having the right product at the right price and being able to supply from anywhere and ship to anywhere at any time. Those were conceptual conversations at the time, but in the past decade we've rapidly moved toward that vision.

Now we can theoretically manage inventories around the world and have visibility into everything that's on order and in production. Consumer expectations today are exceeding many organizations' capabilities because of the speed at which changes have occurred.

The need for integration between departments is higher because of the speed and the rate at which things can change. It also requires a level of planning that, quite frankly, didn't exist in the past.

## **WHAT ARE SOME OF THE BARRIERS TO MORE EFFECTIVE SUPPLY-CHAIN PLANNING AND INTEGRATION?**

The traditional supply chain optimized the individual components: procurement, transportation, inventory, planning, distribution, operations, and delivery to stores. Inventory moved through that supply chain in a series of starts and stops. At each point in that process, there was wasted time, wasted cost, wasted handling, and wasted space. That's the opposite of a lean supply chain that operates with minimal lead times and minimal variances on a consistent basis.

One side effect that we're seeing are DCs and supply chains that are out of capacity because of the rate at which organizations are creating new SKUs. No one is accountable for the capacity or the expense associated with the infrastructure for holding on to all those SKUs: the new, the old, the obsolete, and the dead. As a result, you end up with a supply chain that has capacity problems, velocity problems, and an inability to fulfill customer orders because of a lack of timing, a lack of planning, and poor integration.

## **CAN YOU DESCRIBE SOME OF THE SOLUTIONS TO THESE SUPPLY-CHAIN CHALLENGES?**

In order to carry as many SKUs as possible and maximize customer service you have to carry as little inventory as possible of any given SKU. That requires sophisticated forecasting and planning that integrates lead times throughout the supply chain. A synchronized planning process determines what levels are required to meet service levels in the stores. Manufacturers' lead times, transportation times, transit time through distribution, and fulfillment transportation time are all taken into consideration.

By reducing the cycle time, we reduce the peaks and valleys, eliminate excess and under inventory, and maximize service levels. That maximizes inventory turnover at the minimum cost.

Today, most distribution centers are, or should be, operating with a paperless receiving process. They pre-receive product prior to its actual arrival and are performing some form of dynamic reallocation of inventory prior to receipt. That didn't occur in the past because there wasn't a need for it, and the information wasn't there.

## **HOW CAN COMPANIES LEVERAGE THEIR SUPPLY CHAINS FOR A COMPETITIVE ADVANTAGE?**

Using your supply chain as a competitive weapon only occurs when every part of the organization works together on a synchronized basis. That means creating an understanding throughout the organization on how the various components of a supply chain are integrated with each other and how they need to share information in order to maximize the benefit. That never occurs unless leadership at the highest level endorses an end-to-end way of doing business.

## **SO IT ALL COMES DOWN TO LEADERSHIP?**

In my last corporate role, the greatest contributing factor to the success of our supply chain transformation was an end-to-end commitment from senior management on down. Everyone was committed to creating a supply chain that improved lead times, reduced in-transit times, and operated in a more cost-effective manner. If it weren't for those common goals, we would not have been successful.

