

The Telegraph – 21 May 2008

The CEO's Stamp

How far have CEOs grasped the changing nature of supply chain management, asks Andrew Cave?

In this series, we have discussed how building trust and dependency within supply chains can lay the foundations for collaborative arrangements that go well beyond the simple functions that supply chains were initially designed to fulfil.

We saw how such collaboration could overcome traditional boundaries between companies and suppliers, businesses and their customers and even companies and their commercial rivals.

This type of co-operation, including the sharing of proprietary information to competitors could break down barriers between design and manufacture, retail and distribution and storage and transportation to produce worthwhile cost savings. At the same time, it could liberate departments, staff and contractors to think in new ways and encourage innovation that benefited all sides of such an arrangement.

We explored varieties of collaboration, how to manage and control the chain and looks at where the main risks lie. Then we examined how far up the boardroom agenda supply chain management has progressed and how much time, attention and resources it is given by the most senior executives in an organisation.

Now, there's a final important question to consider.

Academics and supply chain experts may wax lyrical about the potential that supply chains possess to break free of their traditional constraints with the aid of technology and modern strategies and transform the way that businesses function. But has anyone told the chief executive and does he understand the concept? Are top bosses fully cognisant of the powerful agents for change that their supply chains could become? And do they comprehend that the most effective conduit of this change is through the transforming energy of collaboration.

"No" is the simple answer of Alan Braithwaite, chairman of specialist supply chain consultancy LCP Consulting and a visiting professor at Cranfield School of Management. "Collaboration is exceptionally difficult for chief executives," he says. "There are a whole suite of levels of it.

"There is some very good research on collaboration but it is very difficult to do it because of the fact that the more you collaborate, the more you have to design how to share the benefits. That's why it's very uncommon.

"Our observation is that it needs a particular type of person: someone who is very visionary on the one hand but also very focused on the benefits that can accrue for everyone.

"People talk about 'win-win' solutions but a lot of times they are just talking about something quite small but the benefits that can be gained through collaboration are potentially very large."

Braithwaite says there are a number of barriers to be crossed before genuine supply chain collaboration across traditional boundaries can take place. One is about mindset and willingness to change age-old practices.

"People read the contract and what the contract says always demand the ability to change," he says. "You always need to be willing to change stance or direction.

"Most people's ability to share information during collaboration at the financial level is very low. In a joint venture you track the joint venture but you are actually tracking your joint venture partner as well. It is a very fraught area.

"We recommend clients to obtain much more clarity in the planning process so more information-sharing can take place because without the sharing of financial information there cannot be collaboration."

The stakes are high, says Braithwaite, because the benefits of collaboration are so great. "You can take 30pc of stock out of inventories and you therefore take 30pc of costs out of the supply chain because you don't have all this stuff sitting in warehouses.

"If you can collaborate through the supply and distribution chains you can see major transformation."

A key factor in this journey is the chief executive's perception of risk and how that affects the culture within an organisation. Does it encourage sensible risk-taking and a willingness to change or does his or her risk aversion stifle innovation and prevent the benefits of collaboration from ever seeing the light of day?

According to Dave Food, business development director of supply chain applications at software group Oracle, a chief executive's validation of collaborative supply chain ventures is a key sign to the staff who are going to have to make the idea work that their company is really committed to it.

"Validation from the chief executive is vital," he says, "because the top 10-15 managers in the supply chain really need to own it."

There will also be some extremely tough challenges to overcome. One will be changing the perception that the supply chain is something to be squeezed for the benefit only of the key player. Large retailers, for example, have increased margins in the highly-competitive supermarkets sector in recent years by putting pressure on suppliers to cut their prices and to be more efficient in the supply of groceries.

More recently, however, more enlightened thinking about collaboration is starting to influence some supermarket groups, who are working with suppliers in a way that benefits suppliers too.

One example of the way that this is changing is the carbon reduction effort. The Carbon Disclosure Project, a charity devoted to bringing corporations to account for what they are doing to reduce mitigate their emissions, has for the past six years sent out questionnaires to more than 1,300 companies worldwide.

It has achieved very high completion rates of the questionnaires and published the detailed answers on its website. However, it has now teamed up with 27 large purchasing global organisations including Dell, HP, L'Oreal, PepsiCo, Reckitt Benckiser, Cadbury Schweppes, Imperial Tobacco, Nestlé, Procter & Gamble, Tesco and Unilever to create the CDP Supply Chain Leadership Collaboration.

Carbon Disclosure Project chief executive Paul Dickinson says the project will later be rolled out across more of the companies the charity works with and is aimed at helping companies and their suppliers collaborate to develop strategies to reduce their carbon footprints. Some members will work with suppliers at national level, while others will work internationally. The targeted goal is to create one single standardised approach to provide key climate change information throughout supply chains.

Dickinson sees the project eventually bringing tens of thousands of new suppliers into the carbon disclosure process, extending disclosure globally. He says: "The Supply Chain Leadership Collaboration is a key step towards a unified business approach to climate change.

"By bringing together the purchasing authority of some of the largest companies in the world, CDP will encourage suppliers to measure and manage their greenhouse gas emissions."

In this example, Dickinson says companies benefit because working with suppliers enables them to measure their total carbon footprint - the first step to managing and reducing it and reaping cost, regulatory and reputational benefits. And suppliers benefit too by gaining from the experience that larger companies have already gained in the carbon reduction effort.

Food says similar win-win solutions can be achieved through supply chain collaboration in innovation, such as companies working together with suppliers on product launches and on major change management initiatives. Suppliers can play an important role, he says, because their place in the chain gives them unique insights on areas where costs can be taken out, quality can be improved and where companies can gain competitive advantage over their competitors.

Some companies already work like this in practice. Mobile phone airtime providers commonly work extremely closely with the providers of their handsets because, at the end of the day, end customers are often more concerned about the features on their latest phone than they are about the intricacies of the network that their provider enables.

This can be a source of huge competitive advantage, as airtime provider O2 demonstrated by securing an exclusive deal to offer customers the Apple iPhone. O2's sales benefited as a result.

Similarly, satellite and cable TV providers work closely with the suppliers of the set-top boxes that are their customer's interface with their service. If something goes wrong with the box, it may not be the fault of the service provider but they have the interaction with customers and are likely to be the focus of any fallout.

Joe Ippolito, senior partner and head of the UK supply chain strategy and development practice at business advisers Deloitte, says: "Boards and chief executives in some industries get it. If you look at the automotive sector, they really get it and they have close collaborative relationships with their tier one, two and three suppliers. Fast moving consumer goods companies also get it. These are industries where the value of collaboration between suppliers and their customers is understood."

Richard Wilding, professor and chair of supply chain risk management at Cranfield School of Management agrees. "Businesses can be extremely collaborative at board level in the way they want to work," he says. "It's often lower down the management chain where you get problems as people build themselves little fiefdoms."

Despite this, there have been relatively few innovations in supply chains in recent years. The effort needs to go wider and deeper, however, if the benefits of collaboration are truly to be achieved, but the potential is there for chief executive brave and visionary enough to do it.