



LEADING VISION

Top Australian supply chains are supporting both cost reduction and profitable growth, reports Anna Game-Lopata

Historically, Australian supply chains have focused on cost alone, however, signs are now emerging that businesses are starting to blend the front end of their business more harmoniously with operations at the back end.

According to Accenture partner for Supply Chain in Australia and New Zealand Ming Tang, Australia presents comparative cost constraints because of its geography and the lack of critical mass in the marketplace. "Companies are always trying to balance getting the right products to the right customers at the best price," she says. "The change I've seen in the last year is that supply chains are coming out of the cost constraint view, and driving profitable growth."

Most would agree superior supply chains

employ a combination of the right people, systems and processes, but how do the top companies actually achieve this in practice? According to GRA partner Carter McNab, organisations that take a forward view and make supply chain decisions based on their business plans perform better in the long run. "Supply chains that develop in an ad hoc manner in response to organic growth often aren't well aligned with the business's actual value proposition," he says.

In his new book, *Living Supply Chains* (Pearson Education, London, 2006), thought leader John Gattorna argues that supply chains are living networks driven by human beings, including customers, suppliers and employees. "If we can understand more about the behaviour of people, along with customer buying

■ SUPPLY CHAIN MANAGEMENT

patterns and all the enablers such as technology, we'll be able to rise to a whole new level of supply chain management," he tells Logistics Magazine.

Previously co-director of the Centre for Supply Chain Research at the University of Wollongong, Gattorna believes the softer science of human behaviour isn't tackled well in supply chain thinking. "We've been working hard on technology and asset utilisation over the years, introducing techniques like six sigma and lean to help improve our processes and take out cost, but we're only working on half the engine," he says.

Lean evolves

According to British lean enterprise expert Peter Hines, who recently visited Australia, lean thinking has evolved beyond its roots on the automotive shop floor. "Major weaknesses of lean manufacturing included a limited appreciation of how to handle demand variability," says Hines, who is professor of supply chain management and director of the Lean Enterprise Research Centre at Cardiff Business School in the UK. "Implementation was entirely tool-focused, and generally neglected the human aspects of the high-performance work system core to the lean manufacturing approach."

The current leading edge lean thinking involves utilising 'value streams' or lean value systems which encompass business at a strategic rather than purely operational level. "It's about looking at strategy formation and deployment holistically and includes processes such as order fulfillment, new product development and supply chain integration," Hines says. "Once the processes have been defined they can be 'leaned out'."

Hines has been working with the UK supermarket group Tesco in the UK for 12 years. He says best practice organisations no longer talk about lean. Rather, lean has become the culture within their business. "Tesco has increased turnover by a factor of 3.5 and profit by a factor of 4.5 since 1993. Those are big numbers for a large organisation working in a difficult market."

While Hines believes waste elimination is

important, creating value is first on the agenda. "You need to grow the business in terms of people at the same time or faster than you're winning business and taking out waste. In essence, lean is about profitable growth."

Dynamic alignment

John Gattorna points to 'dynamic alignment' as the concept leading supply chains are now embracing. "You can't set up your supply chain on the assumption that customers will always buy products the same way, even staple products like milk, because situations change," he says. "What you need to do is hardwire your organisation with 3-4 different supply chain configurations made of tailored combinations of standard components. Then if a loyal customer suddenly has a break down and wants you to turn yourself inside-out to solve the problem, you've got the capability. You can then revert to the original, low cost lean supply chain when the crisis is over."

"Supply chains are living networks driven by human beings"

Further, Gattorna explains the process of detailed customer segmentation, a concept gradually gaining traction in Australia. "Human behaviour is not chaotic, it has patterns," he says. "Unless you start with a frame of reference, your operations strategy and everything you're doing in terms of transformation is effectively a guess. The only absolutely accurate frame of reference is a complete understanding of what customers expect when they buy products and services."

"Once you understand the buying patterns for any product or service then it's not difficult to reverse engineer KPIs, organisational design, processes, technology configurations and internal communication - all the things you need to shape the subcultures within the



business that drive your particular supply chains in to the market place."

Collaborative opportunity

The nature and method of collaboration is also a burning issue for top supply chains. Leading software company Infor's CTO Bruce Gordon points to successful strategies employed by Japanese companies, in which genuine collaborative partnerships exist between suppliers and customers. "If you've got a two or three tier supply chain, partnerships can help carry the risk along with offering the communication required for better planning," he says. "In other parts of the world, the big OEMs tend to push the burden of risk down the chain. Companies are not so willing to share data so inventory management is less optimised."

According to Ming Tang, the resource sector is actively collaborating by finding ways to share information and even contracts to optimise transportation, but Australia is in a unique situation given the concentration of the market. "When companies share networks, there's a concern they may be seen to be colluding. They should seek advice from the ACCC to ensure competition rules are not broken."

In Carter McNab's experience, competing interests can make collaborative relationships difficult. "Sometimes to optimise a supply chain you have to sub-optimize a component of it," he says. "For example, a distribution business might be struggling with unnecessary stock as its manufacturing facility pushes through ever more product per run to increase asset utilisation. It's difficult to make a business case using traditional financial metrics to sub-optimize one supply chain component to optimise another, so collaboration can't go very deep. As yet there are still impediments to developing the systems maturity and people skills to leverage the technology and change management required."

"Many companies are still challenged by functional silos," adds McNab. "It's not unusual for groups such as finance, sales, marketing and category management, and supply chain and logistics to operate as separate silos with their own processes and sets of numbers. That creates additional cost and poor performance in the supply chain."

As globalisation continues to elongate our supply chains, Australia's leading companies

are investing in sophisticated tracking tools and technology. Carter McNab believes while a lot of time and money is spent on the execution of tracking and tracing, the real power comes from planning. "Knowing that you're in short supply today is useful, but not nearly as useful as knowing it in advance," he says. Visibility from the perspective of planning allows you to foresee your risks and decide how to manage them before they become a problem. We've seen some of the leading companies taking on this challenge."

technology, and makes it work earlier than many other countries," he says.

"Australian management understands its business very well and being close to the coal front, is able to take actions that would be considered too risky elsewhere."

John Gattorna has a different view. He says too many people look for a one dimensional responses to a complex operating environment. "We're trying to simplify the management of our supply chains using standard processes which only provide around a 10 per cent fit with our

"Lean thinking has evolved beyond its roots on the automotive shop floor"

Looking ahead

So what are the trends of the future for Australian supply chains? Ming Tang says dynamic pricing, the process of pricing in real time according to external factors, will become the next leading edge process.

"Australia hasn't yet picked up the tools, but I suspect once the infrastructure is there along with a better understanding of the cost of doing business, the opportunity to maximise profits through dynamic pricing will be realised."

Infor's Bruce Gordon believes despite the constraints of the Australian context, we are on par with other countries in terms of supply chain innovation. "Australia is an early adopter of

business. we then end up facing up to 90 per cent exceptions. I'm arguing that a multiple alignment process allows for an 80 per cent fit but we'll only get there if our chief executives learn to see and merge the whole picture."

Gattorna also argues the energy and thought that's gone in to competitive analysis has been excessive, taking the collective eye away from the delivery of strategy. "This area of darkness inside the business has to be opened up by people who aren't afraid of what they might find. Rather than being distracted by competitors, we need to develop the necessary subcultures and 'genetically re-engineer' our businesses internally."



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