



## **Summary & Highlights of Archstone Consulting's 2004 Innovators Forum**

More than sixty executives and supply chain management experts gathered at historic Villa Montalvo in Silicon Valley recently to explore strategies to better utilize their supply chains to drive value for their organizations.

The event, "Make Your Supply Chain an Engine for Driving Value," was hosted by management consulting firm, Archstone Consulting, in partnership with the Silicon Valley World Internet Center.

Archstone Consulting suggests that companies that outperform their peers in this economy will do so through innovative management of their supply chains. The afternoon of dialogue at the 2004 Innovators Forum, the first in an ongoing series of industry-focused events, was designed to share insights on using the supply chain as a sales and growth engine for competitive advantage.

Kicking off the event, John Ferreira, Archstone Consulting's global supply chain practice leader, welcomed participants with an overview of recent supply chain management initiatives. As the economy slid toward recession in recent years, Ferreira observed that manufacturers naturally focused on cost reduction. And it worked – margins and profits stabilized as sales slowed. Companies made great strides in lowering supply chain costs.

But what this did, according to Ferreira, was establish a new level of expected best practice metrics. Now, with the economy picking up, the pressure for revenue growth is back on. As the Executive Agenda shifts towards "profitable growth," most manufacturers' agendas include four strategic initiatives that impact supply chain capabilities: Market Expansion, Margin Improvement, Improved New Product Pipeline and Cost Containment.

He also shared the related findings of three recent surveys completed by Archstone Consulting. For starters, customer expectations have created a more complex environment for manufacturers to realize corporate growth objectives. For many manufacturers, the supply chain is a gating factor and inhibits the growth agenda. Successful firms in one survey reported that they employed a singular focus on the customer, executed the basics correctly, got systems in place and focused on continuous improvement through planning to manage and develop capabilities for revenue growth.

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Ferreira then asked participants to test whether or not they believe their Supply Chain currently is an Engine for Driving Value for their organizations with ten supply chain effectiveness questions:

1. Can my supply chain provide differentiated customer service experiences for my different customers and clusters?
2. Do I have the ability to rationalize scarce supply chain resources effectively across customers and channels?
3. Can my supply chain establish and maintain industry leading cost and working capital performance?
4. Can my supply chain support growth in volume and products with high performance?
5. Does my supply chain have the ability to support increasingly complex promotional activities (trade and consumer)?
6. Does my supply chain have the ability to scale with new product/company acquisitions, new channels and new markets?
7. Do I seek out and adopt new technologies that enable leading edge capabilities to improve my customer service levels while driving down my supply chain costs?
8. Can my supply chain offer increased, customized service offerings and products to customers?
9. Can my supply chain effectively manage new points of supply consistent with marketing needs?
10. Can my supply chain successfully launch new product introductions/extensions in a timely manner?

In closing, Ferreira stated, "Supply chains that are engines for driving value are:

- aligned with the corporate strategy,
- flexible –customer tailored and highly responsive, and
- collaborative – continuously moving and quick with few disruptions."

### **Keynote - Gus Pagonis**

In his keynote presentation, retired three-star General Gus Pagonis suggested that "supply chain" is a concept, not an organization. It is a concept that needs thorough support through an integration of the components of the human capital and IT sides of the corporation -- all linked together with strongly defined processes and good old-fashioned management skills. Flexibility, adaptability and forecasting are key components to supply chain success, according to Pagonis.

Pagonis' extensive experience in managing complicated logistics missions for the U.S. Army, as well as 10 years of running the supply chain for Sears, supported his call for simple strategies that are reinforced by concise, constant communications among the constituents of the chain. He emphasized the need for current information coming directly from those who are actually "in the trenches" of the organization.

A Pagonis secret to success: have quantifiable objectives for your employees to achieve their priorities and evaluate their performance with a balanced scorecard.

According to Pagonis, the magic in running a supply chain at the multi-billion-dollar level lies in great execution of a simple strategy by a well-integrated, and superbly trained workforce. He defined strategy as the integration of various initiatives designed to create and sustain competitive advantage. "A good strategy well executed, is more productive than a brilliant strategy haphazardly executed," said Pagonis.

Pagonis wrapped up his talk with a challenge to Innovators Forum participants to use the breakout sessions to uncover the challenges, or "downs," they face and the opportunities, or "ups," they can seize on to drive value with their supply chains.

### **Breakout Session One – Alignment of Strategy**

Mike Kowal, chief supply chain officer for RadioShack, drew a fascinating picture of how to turn a company around through reform of its corporate culture and serious amendment of its supply chain.

During the last two years, and under Kowal's leadership, RadioShack has embraced a new culture based on well-defined metrics for success. The communication process embedded in this culture shift provides a necessary and visible critique of the supply chain (and other business processes), allowing for needed change.

As Kowal noted, RadioShack stopped relying on hearsay evidence about how well their supply chain was running, and started defining -- throughout the corporation -- metrics for measuring results and the performance leading to them. These metrics serve as the building blocks for critical information leading to timely business decisions. They also provide the guidelines for measuring employees' performance, which is linked to compensation.

"Performance Management," as a broad rubric, stands as the key to the visible success, which RadioShack has achieved in their re-invention over the past few years. For supply chain, specifically, Kowal underlined the priorities of:

- Improving asset effectiveness
- Reducing total operational cost; and
- Reducing time-to-market.

## **Breakout Session Two – Collaboration**

Fred Betito, director, Levi Strauss & Co., presented Levi's attempts to use information technology to collaborate effectively with its trading partners, as a means of overcoming the company's recent past performance issues.

Betito acknowledged that Levi's had faced very difficult market conditions in recent years because barriers to entry have been lowered and competitors are threatening Levi's traditional dominance of the jeans market.

Levi's recently adopted new strategies to compete in this new environment – among them, selling where customers shop and achieving operational excellence. They paired each of their high-level strategy initiatives with key collaboration activities, including outsourcing, more comprehensive account planning and working with point of sale (POS) data.

“But along with the benefits of collaboration, come multiple challenges,” said Betito. Now that Levi's no longer owns its own manufacturing facilities, coordination can be an issue. Working closely in a new collaboration with Wal-Mart, Levi's now is working to comply with resultant new RFID requirements. According to Betito, in addition to the implementation challenges, there's also the challenge of how to benefit from the enormous increase in data available as a result of RFID. Despite these challenges, Levi's has been able to expand its distribution channel by 3,000 stores in one year as a result of its partnership with Wal-Mart.

Betito noted that Levi's worked with Archstone Consulting to identify and prioritize the opportunities for collaborating with its trading partners based on financial impact and risk. One of the largest opportunities was global sourcing, followed by leveraging POS data and reducing retailer charge backs.

IT is both an enabler and obstacle to collaboration, said Betito. The IT architecture must be flexible enough to support different kinds of collaboration ranging from people-to-people to application-to-application interactions. It's important to understand the capabilities of new technologies while resisting the temptation to implement one-off IT solutions. The agility resides in the system. The evolving standards can be a challenge, and Levi's is attempting to gain advantage by influencing the standards.

Betito concluded by observing that Levi's is a company with a long and proud tradition; the brand of the rugged individual. Now as it begins down the path of new collaboration, the path will most likely be rewarding, but difficult.

## **Breakout Session Brief Backs**

The opportunities and challenges, renamed “ups” and “downs” as a result of Gus Pagonis' earlier remarks, developed in the two working breakout sessions were briefed with an eye toward reconciling them with the views across the entire group.

Moderators from each of the working breakout groups detailed their participants' take on likely future challenges and opportunities to driving value with their supply chains, as follows:

**Alignment Group:**

**Ups**

1. Alignment/Accountability
2. Management control process -- know what to focus on; and what to measure
3. Increased customer satisfaction - - balanced against cost
4. Everyone knows what to do

**Downs**

1. Organization
2. Changing goals/objectives -- need to sustain your goals, but it's hard to do
3. Standardized processes [for] execution (standardized input and output)

**Collaboration Group:**

**Ups**

1. Improving supply chain performance based on exception management
2. Improving understanding of cost-to-serve and ability to tailor services
3. Aligning entire supply chain with customer requirements

**Downs**

1. Changing channels means new requirements
2. Increasing complexity requires increased management
3. Increasing requirement of the culture to adapt to new business models

The individual surveys echoed these observations, revealing an apparent disconnect between expectations and capabilities when it comes to supply chains and their management, which may pose a significant obstacle to accomplishment of many companies' business objectives.

More than 80% of the Forum's participants stated their belief that their supply chain, particularly its alignment with market demands and customer needs, is "very important" to the accomplishment of their company's business objectives. Yet, only 4% of respondents indicated they were "very satisfied" with their current supply chain's capabilities. They credited their customers with being slightly less critical, stating their belief that slightly less than 80% were somewhat, or less, satisfied with those same supply chains.

Similarly, while nearly 75% of these same executives indicated their belief that effective collaboration with trading partners and the flexibility to react to changing demands and disruptions are both "very important" to accomplishment of business objectives, none were "very satisfied" with their current collaboration capabilities.

A second survey pointed to the biggest supply chain issues and changes executives anticipated for the remainder of 2004 and the coming 2005 as follows:

**Top Supply Chain Challenges for the Next Eighteen Months**

1. Lack of centralized control of the supply chain
2. Forecasting & replenishment
3. Balancing reduced costs with improving customer satisfaction
4. Flexibility to respond to demand fluctuations
5. Collaboration with suppliers
6. Pricing – knowing how to benchmark costs
7. Internal conflict between functions & departments
8. Aligning department-specific objectives with overall supply chain objectives

## **Top Supply Chain Goals for 2005**

1. Improve forecasting
2. Add collaboration automation
3. Find a low-cost supply chain visibility tool
4. Become more flexible for better demand management
5. Implement intelligent supply chain management tools
6. Integrate stand-alone global control of database to all ERPs
7. Add collaborative functionality with customers
8. Improve procurement of air and sea services

## **Wrap-up Panel Discussion Summary: Putting it all together**

The final formal event of the Innovators Forum was a panel discussion led by Archstone Consulting principal and San Francisco office director, Eric Schlumpf. The panel reviewed the themes discussed throughout the day -- alignment, collaboration and flexibility -- and sought to match panelist's thoughts and opinions on these subjects to those of the attendees as expressed in two surveys that were administered throughout the afternoon.

The panel discussion proceeded in the grand Carriage House Theater.

Panelists included Dr. Richard L. Dawe, Associate Professor of Operations Management, The Ageno School of Business, Golden Gate University; Jack Detzel, Senior Manager Product Supply, Frito Lay division of PepsiCo Inc.; Tom Dillon, Chief Operations Officer, Netflix Inc.; and Tom Hahn, Director, Strategic Materials for the Pactiv Corporation.

Speaking from his perspective at Netflix, Tom Dillon suggested that growth presented the biggest challenge to the supply chain of the future. Citing continual growth in Netflix' inventory of movie titles and a growing network of nationwide distribution centers, Dillon reflected on the importance of carefully tracking customer statistics in order to accurately forecast supply chain needs.

According to Dillon, whose company uses proprietary software for such forecasts, the answer has been to "start with the problem and work back" to the supply chain solution.

He related that on an average day, Netflix may buy as many as 100,000 DVDs in order to maintain the desired level of service for the company's movie-renting customers. He added that while the company relies heavily on software to meet this challenge, the process is still very much an "art."

Representing plastics processor Pactiv, Tom Hahn indicated his belief in the flexibility in contingency plans as a means of ensuring consistent supply chain success. At Pactiv, "the focus is on the inbound side," according to Hahn, whose company makes some of the largest purchases of plastics raw products in the world.

But, he also noted that his company's food-packaging products are inherently hard to ship, so his supply chain is built with production facilities positioned close to customers to reduce the impact of this difficulty.

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"Pactiv's inventory consists of penny products, and with penny products the supply chain is where the money is," said Hahn.

According to Jack Detzel of PepsiCo's Frito Lay division, a myriad of individual-market-focused and packaged products makes for an especially complex supply chain challenge. Perishability of the products adds another layer of challenge.

According to Detzel, the more complex the chain, the more important forecasting becomes. His biggest challenge is managing the forecast, which, in turn helps PepsiCo hold the line on cost.

Detzel added, "A supply chain is like a train or a boat – it can't stop on a dime," reinforcing the importance of forecasting to success.

Speaking from the academic perspective, Dr. Richard Dawe cited significant increases in interest in supply chain education in recent years. In particular, he noted, there is a lot of interest in the subject from foreign students as well as those from the U.S.

"A few years ago, students begged not to have to take the supply chain courses, now it's often a major or at least a minor for our undergraduate students and an area of emphasis for our master's candidates," he added.

Yet, one of the biggest challenges to the education of tomorrow's supply chain managers is keeping the curriculum relevant to the ever-changing business world. Dawe cited his participation in the Archstone Consulting Innovators Forum event as an example of how he and his colleagues keep current with supply chain issues.

Concluding, Dr. Dawe observed that in his view, flexibility is the key to supply chain success. When asked what flexibility meant to him, he replied, "Flexibility equals doing everything with nothing."

Thanking the guest panelists, Eric Schlumpf invited forum participants to join Archstone Consulting for a networking reception and dinner in the Spanish Courtyard followed by a live concert under the stars with blues great Etta James. And Archstone Consulting's first Innovators Forum ended on a perfect, yet "bluesy," note.