



# The Good Habits of Collaboration: Rethinking the Supply Chain

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## Introduction

Organisations are awash with technology that could potentially help them create and operate highly efficient, flexible and productive supply chains. But you have to look very hard to find a working example of supply chain excellence - even within a single organisation, let alone across an extended enterprise of partners.

So what must organisations do to make their supply chains work the way they dream them?

We believe companies need to rethink what it means to be a part of a supply chain, and especially to overhaul both their attitudes to collaboration and their habits of working. If we build our supply chains together, and trust each other, we'll achieve more than we'll ever get from the deadly combination of computers and conflict.

The traditional European supply chain is distorted by dishonesty, littered with inventory, and fatally weakened by poorly performing processes. Buying a system won't solve these fundamental ills. No matter how much technology you throw at the problem, if you don't achieve process discipline, honest dealing and partner understanding, you'll go nowhere.

## Collaboration in Practice

Chains are made of links. You need to appreciate which link your organisation forms, and how the forces that pull and push you - the other links in the chain - work. It's about getting a sense of context, and a feel for the interdependencies of the parties in the chain.

Collaboration happens when each party in a group "does its bit". Therefore, the first step in achieving collaboration is for each party to know what its bit is. Unless you know what contribution is expected of you and the standards set for your contribution, then you can't determine either your cost or value to the chain as a whole. Furthermore, unless you understand the prerequisites for your contribution, and how your contribution will affect your partners, then you can't determine your position in the chain. That in turn means you have no handle on your market opportunity, or on the threats to your business.

There are some core responsibilities that should affect any player in any supply chain. For example, any player in the chain is responsible for its own errors: it should not send anyone else in the chain a faulty deliverable. Similarly, a core responsibility for any player is to deliver on its promises - and not make promises it can't deliver. Absorb your own garbage: don't pass it along the line. Players should also be responsible for the volume they add to or remove from the chain - so each player takes care not to send too little, or too much of its deliverable.



A collaborative supply chain has trust built into its very fabric. Members of the chain tell each other the truth. They don't see local problems as their own exclusive property. They don't try to game the system - because they know that no value can be created by the system other than that contributed by its members.

Collaboration is a two-way street, and the return each player gets for living up to its responsibilities is the opportunity to share risk. Each time we try to take ownership of the chain by hiding inefficiencies or exceptions, we actually attract risk towards ourselves while degrading the performance of the chain. By collaborating genuinely, we can distribute risk around the community in a transparent manner. For example, small players in a supply chain can reasonably ask for support in its process improvement activities, because investment here will protect not only its own ability to deliver in the future, but also the viability of the entire chain.

## How inventory really works

Most organisations don't understand how they're using inventory, or how it's supposed to be used. Their inventory is a symptom of poor process, rather than a result of planning. There's no shortage of advice on which types of inventory should be made to order and which should be stock items. And there is no business in the world that does not flex. Yet, in the UK, we don't see inventory management as a professional activity. Just as we confuse the discipline of purchasing with the practice of buying, so we mistake sourcing with ordering.

We also fail to appreciate how little of the supply chain we can control. In the average supply chain, at least 70% of the overall processes will be outside any one business. That means that any one player has, at most, direct control over only 30% of the chain. It follows that you only own 30% of the information in the supply chain.

How, then, can you make effective decisions that impact the end-to-end process? You must either get as close to the end of the chain as possible in order to understand the level of accuracy of the information, or you have to use both inventory and process to manage your decision-making. Technology has a strong role to play here, giving players across the chain access to the full information set. If you get this right, you can create full customer control of the chain, where buying decisions trigger manufacture.

## The Good Habits of Collaboration

Acquiring an authentic supply chain mentality means absorbing the following Good Habits into the organisational structure and culture.

### 1 Educate the organisation

Inventory is not there to be housed and counted, but to be used for competitive advantage. But it can also be a millstone around our necks if we don't understand how it works. This is a message that CEOs need to take to heart, and impress on their organisations. Below the CEO, someone needs to be managing and profiling inventory on a regular basis - as their core responsibility, not a discretionary duty. Understanding the implications of the supply chain has to be part of everyone's role, but the organisation's commitment to collaboration must be signalled by the leadership's investment in it.



## 2 Challenge your processes

Take your business processes apart and determine what they're supposed to be achieving. Who is doing what, when, and for what purpose? Do your processes work? What happens when they don't work? How robust and resilient are they?

Every time we make a transaction, we introduce an opportunity for error. Most processes abound in unnecessary transactions that simply need questioning. Errors in inventory quantity and location follow from over-transaction.

Make all your processes as lean as possible, removing waste and errors. Instil the practice of examining processes on a continuous basis. Transform your process auditors into leaders of process change.

Business process engineering may be associated with downsizing waves from the past, but continuously designing the way we work is in many ways the perpetual task of management. If management isn't questioning processes and trying to make them better, then what is it for?

## 3 Create visibility

Information technology allows us to separate information from action. We can share information about inventory movements rather than just relying on physical sight of the inventory to inform the business. We can also give every player in the chain the same view of their common project, and enable them to contribute their own parts of the picture. For example, by exposing your inventory to other members of the chain you can enable them to make guaranteed orders, rather than inviting them to make uninformed requests and then join in a protracted negotiation around what's possible. Allowing customers to allocate stock to themselves is not technically difficult: it's collaboration in action. Most suppliers simply haven't thought of opening up their warehouses to their customers, and haven't had the tools to do so.

Sharing information across the chain is a hugely profitable step to take, and has been made very much easier by the maturing of internet technologies over the past decade. Inventory management-specific technologies such as RFID tags have a part to play in supply chain management, but only within a disciplined framework. Giving stock the ability to squawk its whereabouts will give you a noisier environment, but it won't by itself make your business any more intelligent.

## 4 Measure the right things

Supply chain management is a mega-process. Any supply chain is almost impossible for one individual to understand. We therefore believe that simulation is a crucial tool in the decision-making process. Simulation technology is mature, proven and good value for money. Simulation makes it easy to see the impact of decisions - before they are enacted.

At local levels of control, having the right metric is the key to success. If you target and count the wrong things, you will produce wrong behaviours. You need to ask which metrics you require to



make the supply chain work, who owns them and whether they have the power to change them. Financial metrics alone are not enough: you also need to consider dimensions such as quality and process robustness.

## Conclusion

Allowing inventory to control the supply chain is a recipe for failure. And maintaining a fire-fighting attitude to business operations creates an illusion of action but sacrifices true control. Technology that isn't tied to deep organisational and cultural change is at best a mirage - at worst, a swamp.

Changing to more context-aware, more transparent, and more honest ways of working isn't easy. But it's the only route to sustainability in a highly competitive world. The principles, tools and examples are all out there. And we can make it happen.

Procertis Ltd are a business solutions company specialising in helping organisations extract maximum business value from their IT investments. We do this by thinking about technology only when we have understood the business. For further information tel. +44 (0) 1926 400822 email [info@procertis.com](mailto:info@procertis.com) or visit [www.procertis.com](http://www.procertis.com)