

Chapter

Introduction

This book is about demand-supply chain management—which is both about doing business with the customer in a completely different way (value innovation) and about leveraging change at the customer end so you can do what you now do, only better (process improvement).

■ SERVING THE CUSTOMER—INNOVATION OR PROCESS IMPROVEMENT?

How do you fulfill customer demand in the best possible way? Is it innovation and applications, or operational excellence and responsiveness?

The answer is both: Process efficiency and innovation need to evolve together. To succeed, you must operate more effectively and innovate the business concurrently. And, you need to do it across the entire demand-supply chain.

How can you do this? Having competitive products and the right supply chain for the average customer is not enough. Your supply chain has to be right for the individual customer as well. The demand chain—the chain of activities that communicates demand from markets to suppliers—offers suppliers a wide range of opportunities to differentiate their value offering. It is your customer relationship, plus your operation and the customer's operation, that makes up a

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demand-supply chain. It is in the demand-supply chain that you need to start a coevolutionary process. The customer must leverage suppliers to improve their performance (outsourcing), while suppliers coopt customer competencies (collaborative business) to innovate their business model.

How can you navigate more safely in a changing business environment, and begin this coevolutionary advance toward business excellence? A new concept to describe the customer relationship is needed to take the next step in supply chain management, that is, to create demand-supply chains that do things differently and more efficiently at the same time. We have coined a new term—VOP¹—for “Value Offering Point” to describe how the supply chain is linked to customer demand. The VOP is the companion on the customer side for the better known OPP, “Order Penetration Point,” on the supplier side that has brought us “build-to-order” and “assemble-to-order.”

The VOP defines how and when a customer makes the purchase decision. For example, a grocery supply chain that ends on a supermarket shelf dictates that the consumer’s purchase decision is made in the supermarket, in front of a shelf full of competing items. A grocery supply chain that ends with home delivery, however, can make a much wider range of offers to the consumer, not only offers of different products, but of different services. The same standard shopping basket can be delivered automatically to the consumer every week, or the vendor can come and check the consumers’ refrigerator to stock up on what has run out or gone stale. By moving the VOP, we can change an “order fulfillment” business model to a number of powerful “order-less fulfillment” models. First, we can provide the consumer with a “Don’t Run Out” replenishment service and then, taking it one step further, go into a “Supply-to-Menu” service when all missing ingredients are automatically delivered to fulfill the customer’s plan.

Now that e-business applications are becoming more powerful by the day, understanding the VOP is critical for companies that want to improve both efficiency and customer value. The VOP is a new, powerful concept that helps

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you focus on where and how to use new technology solutions for maximum customer value. Additionally, choosing the VOP with care can also give the supplier company more degrees of freedom to change operations internally, for example, by using earlier information on demand for optimizing production and distribution.

■ E-BUSINESS AND THE DEMAND-SUPPLY CHAIN

How does a company's demand-supply chain change with new available e-business technology? There are two basic ways this can happen: The company can do what it did before, but on a larger scale and faster; or, the company can use the new technology to innovate the way it does business.

The first way to change with new technology—to do what the company did before, only on a much larger scale—is obviously the most common. Historically, new technology has often been used to break away from scale constraints. Precision machine tools gave us mass production, broadcast media created mass marketing, and information technology has enabled producers to mass-customize their product designs for individual consumers and business customers. A company can also speed up its existing processes. Solectron, a company that provides electronics manufacturing services to leading original equipment manufacturers reduced its own procurement cycle from one month to one day with electronic commerce.

The other option is to use new technology to innovate your business—to offer the customer something more than a product or a service. After establishing itself on the Web in 1996, Grainger has come up with a winning new business formula. Instead of offering commodity products, the company offers a service to its customers. The company offers business customers “one site—one order—one answer” for office, production, and maintenance supplies. A customer company that makes all its purchases through the site outsources supplier management and vendor selection processes to Grainger, and simplifies its own internal material handling and accounts

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payable. The differences between offering a commodity product or a service and a value-added service are subtle, but the key is whether a relationship is created, maintained, and developed.

New technology can and should be used by companies both to improve scale economics and to create more valuable relationships. But what is the marching order? Is it innovation before scale and real-time operations, or building up technological capabilities to operate effectively before innovating the business relationships?

Innovating the business relationship without developing the capabilities to deliver will obviously not work, as so many e-tail start-ups have painfully discovered.

But going the other way—imagining that innovation follows automatically from technological capability—is equally risky. The risk is that electronic business will make you a supplier to online commodity exchanges and reverse markets allowing the customer to cherry-pick your offering. At the same time, your suppliers may be locking you firmly into their supply chain integration webs and networks. As a result, your company runs the risk of becoming a faster and more efficient, but lower margin, commodity supplier.

The solution is to do both—evolve process efficiency and innovation together. This is what demand-supply chain management is essentially about, and it is the topic of this book.

■ DEMAND-SUPPLY CHAIN MANAGEMENT IN PRACTICE

What does demand-supply chain management mean in practice: What do you do to innovate and improve process efficiency at the same time? This book answers that question, while keeping in mind the issues facing a supplier of physical goods in both an e-business and m-business environment.

Chapter 2 explains how to go beyond the customer order to the customer's demand chain. This approach allows you to see new business opportunities based on understanding the

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customer's business purpose, planning process, and consumption of your product. This is what demand-supply chain management is about. It is a new way of combining classic marketing and supply chain management operationally.

Chapter 3 focuses on how demand-supply chains work. The basic challenge is to make offers to improve your customer's operation, and use that change to improve your own. This coevolutionary process has produced such winning value configurations as IKEA, Wintel, Carrefour, and Dell to name a few.

In Chapter 4, you acquire the basic tools to reconfigure your demand-supply chains. You learn how to systematically look for opportunities to improve the value you offer your customer (VOP), while leveraging the customer relationship for improved efficiency. That is, how to define win-win configurations. Chapter 5 provides examples of these techniques.

Chapter 6 shows you how to put the demand-supply chain to use in developing not only your customer relationships, but also your own supplier relationships.

Chapter 7 is dedicated to the challenges of implementation when many companies and organizations are involved. Topics include setting up microcosms to speed up innovation and piloting, and using the logic of coevolution—sell-in where there is buy-in—to successfully implement collaborative solutions.

The challenge of managing information technology (IT) for business value in the demand-supply chain is covered in Chapter 8. The challenge is to stretch the business to its full potential. The full potential has only been reached when the latest IT is no more the enabler for future improvements, but already the constraint in current operations. We use examples to describe the challenges today.

Chapter 9 shows how to make value-driven IT a tool for quickly exploiting new business opportunities. The IT value capture method consists of identifying opportunity, setting the scope, innovating the business solution, and making the resource and partnering decisions. The value capture method then drives development of the IT supply chain, including strategy and concept initiatives, piloting and industrializing

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solutions, implementation, and business use. It can often lead to stunning 80/20 solutions (80 percent of the benefit, with 20 percent of the effort), where previously 100/100 solutions were abandoned as impossible, or took years to implement.

Finally, in Chapter 10, the discussion turns to how the next wave of breakthrough technology, wireless communication and mobile commerce applications, will further change the supply chain. Wireless applications will start to wipe out the boundaries between the virtual and real world. For the supply chain, this means being able to link the physical flow of goods directly into information systems. Or in other words, databases and record keeping can start being replaced by wireless tracking. For the demand chain, it means that the customer or consumer can actually be part of the business application of every business in the world. The privacy issue—who can use detailed customer data to make one-to-one offerings—may finally be resolved when the consumer herself can take control over her profile and link it, wireless and in real time, to the Web. So, if a consumer does not want to be bothered, she can just log off for the moment or shut out a supplier for good.

The recurring theme of this book is reconnecting demand and supply using both innovation and efficiency improvement. Now, in Chapter 2, we start by looking at how more transparent demand has transformed supply chain management, and spawned the demand-supply chain.

■ REFERENCE

1. Jan Holmström, William E. Hoover Jr., Antti Vasara, and Perttu Louhiluoto, "The Other End of the Supply Chain," *McKinsey Quarterly*, No. 1, 2000, 63–79.