

# Soft side evolution

The hard science of supply chain has to be integrated with the soft science of leadership and training, argues Len DeCandia of Hoffmann-La Roche. Ignoring the soft side can lead to disaster.

The strategic importance of the supply chain began to become clearer after the quality revolution of the 1980s. Organisations were beginning to understand the value of customer service or customer 'delight' as power shifted from the manufacturer to the consumer. Manufacturers also recognised that flatter, leaner structures were more profitable and could respond to customer needs more quickly. The ability to be innovative required a better understanding of internal core competencies, and the concept of partnering or aligned competencies in the supply chain became a competitive tool.

The latter involved redefining the customer-supplier relationship and creating new approaches to the existing business processes. Suppliers became assets, and customer requirements began to drive business strategies. Customer-supplier relationships evolved from guarded and distant to open and integrated. The hard science of supply chain created a common vocabulary that dealt with techniques such as capacity planning, capital investment modelling, open data architectures, inventory modelling, strategic sourcing and so on. Behind this hard science, the software tools were built and the organisational structures designed to capitalise on delivering innovative products to the consumer more cheaply. Those who failed to keep pace lost, and those who could set the pace achieved separation from the competition.

## A personal journey

Over the past ten years, as the science of supply chain management has evolved, I have had the opportunity to lead four unique supply chain initiatives in two large healthcare companies: Johnson & Johnson and my current employer, Hoffmann-La Roche. These assignments required dramatic improvement of the performance of the supply chain at both the effectiveness and efficiency levels. The success of these improvements would be critical in contributing to the financial success of the operating company at both the revenue and profit level.

In all four cases, prior to my involvement, significant investments were made to achieve these process improvements. Investments included the deployment of enterprise-resource-planning-type (ERP-type) systems, the consolidation of functions (centralised or centre-led) or the introduction of new functions. Regardless of the business driver, each was having difficulty

achieving the business case required – so, what did we need to do to get back on track?

There were some common themes. In the case of ERP systems, most were predicated on material requirements planning or supply chain improvements. Yet, most were sponsored out of the finance function and championed by the chief financial officer. This occurred as the role and the competencies of the chief procurement or supply officer were still evolving. Along with the leadership evolution, the consolidation of functions such as purchasing and planning, or distribution and order fulfilment were in process or yet to occur.

Along with the growth of the strategic importance of supply chain excellence and the science of supply chain management came the need to build the functional competencies and skills of the supply chain professionals. Creating the environment that allows organisations to succeed (internal and external) is the responsibility of the supply chain leadership team. The recognised gap in the previously mentioned supply chain assignments was the lack of integration of the hard science of supply chain with the soft science of leadership and training. When applied to all these assignments, the organisations achieved, surpassed and sustained their initial business case targets. From a leadership perspective, the approach to these challenges was consistent. The principles were in the form of basic tools and techniques to help improve the overall performance of the supply chain organisation.

## Leadership basics

Three fundamental guidelines make up the basics:

- **Clarity of purpose as it relates to expectations and deliverables.** This is establishing a clear understanding of the customer-supplier relationship, whether internal or external, and the rules of engagement.
- **Structure of roles, responsibilities and activities aligned with the purpose.** This is the translation of the strategy into an operational plan, with a focus on priorities, resource optimisation and organisational accountability.
- **Monitor progress with a passion to manage outcomes.** This is the translation of key indicators cascaded through the various levels of the organisation for continuous improvement and sustainability.

### First initiative

In the first initiative, multiple supply groups underwent consolidation into one to serve multiple operating companies. A five-year savings target and a 25 per cent headcount reduction defined the business case for this consolidation. It became clear that one of the reasons for the initial lack of success was the fact that the internal customers were not engaged in the process at the outset, so there was no transfer of ownership.

There is a tendency to avoid conflict early in the design phase in the (false) hope that issues will work out later. Conflict at the execution stage is a symptom of a failed initiative. Agreement and ownership by the key parties establishes the expectations with the deliverables for measurable execution. Early-stage ownership leverages the input and commitment to success of all constituents. In this case, revisiting the strategy and integrating the operations plan as a team allowed this organisation to achieve its five-year target in 18 months.

As head of supply for Hoffmann-La Roche, I have external customers who expect the right product in the right quantity in the right place at the right time. I also have internal customers who want us to achieve this at a fair profit margin. These two elements represent 'why' supply chain organisations exist. The tool we use in establishing the deliverables throughout the organisation is the 'why, what and how' exercise. The whys and whats cascade both upwards and downwards through the levels of the organisation as we define our specific roles as functional members of the supply chain.

Beyond working through the negotiations of the inter-departmental relationships, this technique also helps in gaining an understanding of how people view their roles. In many cases, there is a difficulty in making the jump from 'what we do' to 'how we do it'. The 'how' elements are the basis for the operations plans for the various functions. This is where execution lives. We are all limited to how many things we can do at once; leadership requires breaking down the complex into a focused handful of activities in a limited resource base. Managing this capacity constraint, along with determining the priorities in achieving the business plan, allows the organisation to build confidence and grow with success.

One way of managing this growth is to break down key deliverables or levels of performance into one-, three- and five-year projections. This technique allows expectations to be managed at the group level and for the individual performer – establishing an understanding of the journey of progress versus the expectation of a destination.

When I assumed the supply chain responsibilities for the US market, average back-order at the time stood at approximately 10 per cent of weekly sales. As our team worked its way through the 'why, what and how' exercise, we targeted a reduction to 5 per cent in year one, and 2 per cent in year two. The work required to achieve this improvement in performance was spread throughout the supply chain team members in alignment, not conflict. This approach built trust through inter-dependency, and resource

optimisation through focus. Moving 'in sync' as a group, the supply chain team optimised the performance of the various functions and the individuals within those functions. Moving the mean allowed this team to expedite improvement beyond original expectations by achieving a performance level of less than 1 per cent in 15 months. The supply chain team also managed the internal customer needs during the timeframe of improved customer service by reducing inventory levels by 25 per cent.

The why, what and how metrics pyramid also functions as the monthly monitoring tool for performance and progress towards objectives. Individual departments and their respective constituents can monitor the outcomes of their activities and make adjustments along the way. As demonstrated above, a focus on the details of 'aligned' execution can improve the performance of a group by leveraging the accomplishments of individuals working in unison on a common purpose. If the metrics pyramid represents the tactical focus on the business objectives, the one-, three- and five-year initiatives inventory represents the strategic, continuous improvement component of the supply chain organisation. Unless this inventory of initiatives is properly sponsored, resourced and monitored, there will be another common breakdown of supply chain execution.

### Second initiative

In the second initiative of my supply chain leadership journey, our consumer division began to recognise that, although we were the largest in our industry in volume, we were losing share. The customer was treating our product as a commodity, and profits were hurt through price erosion. Negotiations were also difficult due to poor customer service performance. An outside consultant was contracted to develop a strategy to improve the situation. Supply chain performance and cost improvements were identified as key elements of the new strategy. This required a major reorganisation and multiple initiatives to improve the intrafunctional business processes. The strategy was correct, but execution of many of these activities was less than consistent or on track. I was asked by the CEO to assess and revisit the strategy and identify the gaps in execution.

We found a sound strategy and an organisation that was committed to make the necessary changes to improve performance. However, we also found too many misaligned, under-resourced and often unnecessary initiatives. As a first step, we generated an inventory of all projects and then categorised them against specific performance improvement requirements such as order fill rate, cycle time improvement, supplier performance improvement, cost reductions and so on. When we were able to develop that landscape, we found that many of the projects were interdependent and required earlier phases of success before they could be initiated. We also found that many did not merit the resources required based on their return.

This approach allowed us to reduce the number of initiatives by an incredible 75 per cent. This not only relieved the workforce of non-value-

added work, but also optimised the resources on those projects that made an impact. In less than two years, service levels improved by 40 per cent and profitability doubled. What was considered a people performance roadblock was really a leadership issue.

As mentioned in the previous example, an important tool in improving organisational performance is a single list of approved and sponsored active projects. Each project should have a senior-level executive sponsor (at least vice-president level), a project manager and interfunctional project team along with measurable key milestones. These projects should be cascaded from a key business driver and represent an outcome of improved performance. The technique involves a simple common format that captures all the important information associated with the project.

The next step involves consolidating that information in a common database and creating a process (usually quarterly) to monitor progress and make adjustments. Recently, we were able to utilise this approach in order to focus our projects on three priorities: regulatory compliance, customer service and profit improvement. Our original inventory of 225 projects filtered down to approximately 50. The leadership team understands the value of each, and believes it has the proper resources; the project teams are confident that they have the support they need to be successful. By deploying these practices, we have experienced improved performance of the individual teams, yielding a dramatic improvement in our three business priorities. A project tracking chart can be used to assess progress quarterly, and revisit biannually.

### Third initiative

The third initiative in my supply chain leadership journey was a balance between the lessons learnt in initiatives one and two. Initiative three involved creating a centre-led sourcing organisation for multiple operating companies in a very decentralised culture, the product of corporate growth through acquisition. It was clear that when a line of sight was established across the operating companies, the possible financial benefits were significant. However, successes were contingent on overcoming the process and people challenges. An earlier start with a more outsourced approach produced a clear understanding of the potential return, but this strategy failed to receive the stakeholder ownership required to make the transition into a defined set of activities.

It became my assignment to establish a centre-led 'internal' organisation to replace the outsourced resources and build the links between the diverse processes and perspectives of the various operating companies. Similar to the previous supply chain challenges, we worked on establishing the clarity of expectations, as well as the structure of the roles and interfaces with the metrics for tracking progress. During this work, it also became clear that the organisation needed to establish a common vocabulary and approach to supplier management and sourcing practices. Although all the operating companies involved in this initiative were members of the same

corporation, each retained its previous processes and culture that allowed it to be successful. For this effort to succeed, we had to define how we would work together internally, before we could leverage the value of practices with our external trading partners.

We developed a custom 'toolkit' of practices and processes for our inter-company teams that consisted of defined steps and templates associated with the sourcing and supplier management activities. By holding each other accountable to a common, objective process, we were able to focus on execution and guarantee input to all participants. This approach helped to create a structural foundation on which to build trust and common goals, without interfering with the uniqueness and innovative spirit of the individual units. The outline of the toolkit covered the entire life cycle of supplier management, as well as a section on leadership that balanced the functional elements with the deployment techniques woven into the process.

After the toolkit was developed, we conducted extensive training sessions on the process for all the inter-company teams, as well as for the suppliers participating in the sourcing activities. The inter-company teams also shared data on lessons learnt, and contributed to the continuing evolution.

Once we were able to build momentum on the toolkit processes, the teams achieved the five-year savings objectives within three years at a rate of return on investment (ROI) of 30 to 1. This was a significantly better return than the initial outsourced approach, because this investment was sustainable. Beyond the financial savings, the organisational competencies and skills developed led to the operating companies leveraging the process in other areas and achieving return at both the local and global level.

### Balancing the benefits

The ROI of hard science investments in supply chain technologies is limited. The next-generation processes are dependent on having a strategy in place to elevate the skills of professionals within the organisation. Ignoring the soft side elements, or trying to outsource them, leads to disaster. Outsourcing competencies, at best, gives a level playing field with the competition. Successful supply chain leaders view the development of their organisation as a competitive advantage. They recognise that the people investment requires more passion and perseverance than financial investment. ■

#### AUTHOR

Len DeCandia has responsibility for both the US supply chain and corporate procurement/general services at Hoffmann-La Roche, and leads the North American strategic sourcing process for the Roche affiliates in the area of indirect goods and services. He is also chairman of the supply chain advisory board at the Rutgers Business School.