



# Demand chain management — The implementation

D Ericsson\*

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## Abstract

Most current supply chain models were developed during a period of relative stability. Today, the environment is discontinuous, volatile and unpredictable. This requires a major rethinking and revitalisation of existing supply chain models. Supply chains are much more than warehouses, transportation and technology, they are people powered and have to be treated as social and political as well as economic and technical systems.

The most difficult yet challenging and rewarding factor is the change of mindset from approaches based on the old industrial paradigm to the new knowledge oriented paradigm. From “one size fits all” to customisation and buyer behaviour oriented segmentation based on structural flexibility. The new approach requires a change of processes and management systems, but most of all, a change of mindset, organisation structure and behaviour.

This may create internal resistance that has to be overcome to reach the desired future state. This future state is highly dependent on cooperation and consensus with external companies, and the next step is therefore to extend the alignment approach to the chosen partners in the demand chain. The development towards channel rather than company competition requires an interorganisational approach to channel design. Internal alignment and cooperation is necessary but not sufficient, which means that an agile and dynamically aligned demand chain has to be created.

All this is well known and documented in both research and theory. However, the challenge is to implement these theories, models and behaviour in practice. This paper presents one practical approach to implementation of the theories put forth by Ericsson [ERICSSON D, 2011, *Demand chain management — The evolution*, ORiON, **27(1)**, pp. 45–81.].

**Key words:** Change management, demand chain management, structural flexibility, dynamic alignment.

## 1 Introduction

The business world has changed so much over the last 15 years that conventional methods are no longer sufficient. The markets have become much more volatile, and under such conditions the old assumptions are not always valid. Gattorna (2010), Christopher and Holweg (2011), Harrington *et al.* (2010) and Ericsson (2011) argue for a critical review

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\*School of Engineering, University of Borås, Sweden, email: [dag.ericsson@telia.com](mailto:dag.ericsson@telia.com)

and change of current supply chain models. A reinvention of the design and operation of supply chains is needed.

Dynamic alignment is the fundamental characteristic of a supply chain needed for survival and prosperity in turbulent markets. The choice of supply chain strategy has to be based upon a careful analysis of the customer buying behaviour in different market segments. Different behavioural segments require different supply chain structures and behaviour. The type of relationship and the depth and intensity in the relationship has to be aligned to the type of customer segment aimed at. Some can be based on a transaction oriented approach with rather loose connections and relationships between the focal company and the customer. Others have to be based on deeper relationships and integration of processes. Still others have to be built on partnership in the chain and very close dynamic alignment of interorganisational core processes, that is, on a demand chain management approach. Co-creation and mutual dependence is evolving between certain, chosen suppliers, the focal firm and certain, chosen customers. In this way, a winning coalition with common values, goals, key process indicators, and reward systems is created (Ericsson, 1976 & 2011).

Change management is the key to successful implementation of new strategies and concepts. In many cases, the majority of the original intentions and strategies stated in business plans are lost before ever being executed. While some of this loss is the result of changing market conditions, competitor actions or other changes in the environment, the biggest reason for failure is the resistance inside the company itself. Customer satisfaction requires a change of focus from vertically oriented structures to horizontal flows. Customers are continually changing their buying behaviours, which means that we have to move from a static to a more dynamic design.

Ericsson (2011) describes how business concepts evolve in close interplay between the economic development, business development and development of techniques, tools, Information and Communication Technology (ICT) and digital infrastructure. The economic development has shifted from a period of continuity and relative stability in the 1960s, 1970s and 1980s to a period of discontinuity, volatility and constant instability in the 1990s and 2000s. We have seen a big shift from a closed system approach based on planning and control, via efforts to master distortions and create dynamic flexibility to today's efforts to increase structural flexibility.

The major problem in the 1980s was increased variability that leads to high costs for stock outs and left overs, poor capacity utilisation and costly buffers. The traditional approach to reduce this cost was based on increasing control and efforts to introduce dynamic flexibility (Christopher and Holweg, 2011). Variability was viewed as threatening and counter-productive and operational practices such as lean, Six Sigma and push-based production strategies enabled companies to produce against long-term stable forecasts. Contract manufacturing, outsourcing and advance contracts were strategic initiatives often used. On the information side, concepts aimed to improve visibility, such as Vendor Managed Inventory (VMI), collaborative planning, forecasting and replenishment (CPFR) and others, were introduced. The objective was to reduce cost through increased control, which in a stable world enhances profitability. In a volatile environment, however, control efforts lead to a rigidity that might result in amplification rather than dampening of variability (Christopher & Holweg, 2011).

Most current supply chain models therefore emanate from a period of relative stability, and they do not fit in the current situation. Volatility and turbulence is increasing and there is considerable evidence that this will be even more accelerated in the future. Christopher and Holweg (2011) call into question “whether current supply chain models that feature some dynamic flexibility, yet are built on the general premise of control, will be suitable to meet the challenge of increased turbulence” (pp. 63). They argue that what is needed to master the era of turbulence is structural flexibility which builds flexible options into the design of supply chains. This marks a major departure from current thinking and will require revisiting the management accounting procedures that are used to evaluate different supply chain decisions. To get to the next level of operational and financial performance, a rethink of business models in general and supply chain models in specific is needed.

Anticipation rather than reaction is the key word, and the only way to succeed is to base the approach on customer focus and definition of customers’ buying behaviours, needs and wishes. Gattorna (2010) stresses that people and their behaviour, and not technology, is driving the development of supply chains. Several areas of human activity along the supply chains must be examined and treated as social, economic and behavioural systems (Ericsson, 1976 & 2011).

1. Look for ways to understand and codify what customers and consumers are signalling when they buy products and services. Consumer and customer insight is what creates foresight. Go beyond immediate and explicit needs and wishes and explore and define implicit needs and problems. The process of Customer Creation and Retention (CCR) is the key to creation of lasting customer relationships.
2. Look at suppliers in the same way. Define new ways to understand the underlying capabilities and expectations of the suppliers. The supply base has to be seen in a whole new light and find out (a) which suppliers have collaborative values, (b) which are very transactionally driven, (c) which have a capacity to respond in an agile way as needed and (d) which have innovation capabilities. Supplier Creation and Retention (SCR) is the mirror image of CCR and is just as important.
3. Learn much more about the internal capabilities in our businesses that are represented by technologies, the employees and management. Reinvent the organisation structures, management systems, culture and behaviour. Cross functional teams have to be established and processes, systems and routines have to be aligned.
4. Finally, establish a holistic view of the whole chain with emphasis on the interplay between processes, systems, routines and culture in the entire system (Ericsson, 2011).

One manner to decrease uncertainty and increase opportunities for creation of both dynamic and structural flexibility is to increase cooperation and alignment both internally and externally. The new economy leads to increased competition between networks rather than between autonomous companies. Company competition is replaced by channel competition. Hence, interaction and alignment has to increase and new types of partnerships have to be established. In Ericsson (2011), Demand Chain Management (DCM) was introduced as a subset of Supply Chain Management (SCM). A subset that focuses on the specific approach needed to create supply chains based on strategic partnership and

common goals and values. The purpose is to create a system that exploits and is fully aligned with the opportunities in the evolving new economy. This, however, requires a shift in mindset and creation of new business models. Transformation and changes of the magnitude we are talking about here are very hard to achieve. Implementation is an art in itself.

Efforts to reinvent and remake companies to cope with new and more challenging markets by changing how business is conducted are numerous and they go under many different banners, such as total quality management, business reengineering, right sizing, restructuring *etc.* A few of these have been very successful, a few have been total failures, and most fall somewhere in between. One of the lessons learned is that change involves numerous phases that, together, take a long time to implement (Kotter, 1998). “Transformation takes time” is a useful statement to always keep in mind. Skipping steps can give an illusion of speed but it never produces satisfying results.

Kotter (1998) has created an extensive list of errors that have to be avoided in order to succeed. Error 1: Not establishing a great enough sense of urgency; Error 2: Not creating a powerful enough guiding coalition; Error 3: Lacking a vision; Error 4: Under communicating the vision by a number of ten; Error 5: Not removing obstacles to the new vision; Error 6: Not systematically planning for and creating short-term wins; Error 7: Declaring victory too soon; Error 8: Not anchoring changes in the corporation’s culture.

Kotter states there are still more mistakes that people make, but these are the eight big ones to be avoided. The steps in a change process may be highlighted and illustrated by putting ourselves in the shoes of a top executive who really wants to explore and implement the new ideas, concepts, tools and approaches.

## 2 Background

Assume Steve is a newly appointed CLO (Chief Logistics Officer) in a major company, Alfa. Steve has more than 10 years experience from different positions in both small and large companies and he is a Master of Business Administration, majoring in Logistics and DCM. His mission is to design, develop and implement a supply chain strategy that fits the new, volatile and turbulent environment.

Invitations to seminars and workshops, papers and journals regarding “how to do it” sweep like a tidal wave over his desk. Steve is well-informed and well-educated so he understands most of the texts. However, he gets confused, everything is about customer-led innovation, new product development and flexible logistics. But he has always been focusing on the customer. IBM introduced “customer focused programs” in 1945, so what’s new?

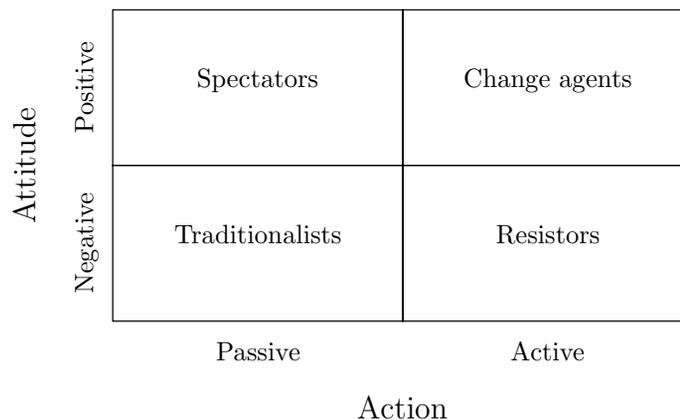
Steve is really keen to test and implement new concepts. However, he has to be able to distinguish between fads and lasting, trustworthy and profitable concepts. Steve knows a lot about logistics, supply and demand chain management and he has read theories and case stories about strategy development and change management. But the question is how to implement the theories, concepts and models in “real life”?

Steve knows that the rate of successful implementations of the (SCM) concept is rather

low, and that change and transformation has to be people powered rather than technology driven (Gattorna, 2010). Internal resistance and sluggishness is quite often more difficult to overcome than external problems. It is important to “speak the language” of the different functions and departments represented in the management board. You have to “speak with peasants in their language and learned men in latin” as the old proverb goes. Quite often, the management team is more like a committee where everyone represents and fights for his own function or department than a real team where everyone “looks for the good of the whole company”. And, of course, this grows even more difficult when “the whole company” includes other, autonomous, businesses. But often, Steve remembers, it is easier to get along with external than internal people.

In his first job, in another big global company, Steve took part in a prestigious change program. The implementation was a big failure, mainly because of internal resistance and mental hindrances. Statements like: “We have tried this before and it didn’t work then, so why should it work now?”, “Someone is going to be very annoyed with these suggestions,” “I am very positive — if it doesn’t require any sacrifice on my side” and “I am afraid that my position is threatened” were quite common. Fragmented and unreliable data and information, lack of systems integration and process inefficiencies were other generic obstacles to the implementation of the change program.

An analysis of the situation in accordance with Figure 1 showed that there were too many resisters, traditionalists and spectators and too few change agents and “souls of fire” in the organisation. Insufficient processes for implementation and too weak leadership were other causes of failure.



**Figure 1:** *Types of behaviour in organisational change.*

From this experience, Steve concludes that — in addition to Kotter’s list of errors — there are six major reasons for failure in implementation of change processes, namely underestimation of:

1. the need for a systematic change process;
2. the time pressure, with regard to time and availability of top management, process owners and enthusiastic participants;
3. the need for a holistic approach;

4. the need for measurable, step wise progress and the importance of celebrating success;
5. the need for rules for splitting and allocating benefits (and costs) to create a win-win situation; and
6. the necessity of a change of mindset.

Steve decided to avoid and try to minimise these types of errors and failures so he started to design a systematic and well planned implementation and change process. He made sure to get some real change leaders in his guiding coalition. He was also promised to get the time and resources necessary for effective and efficient progress. Participants were appointed from different functions and levels both inside and outside of the company to guarantee a holistic view.

In a change process it is always a question of unfreezing the current behaviour and norms, transform the organisation, and refreezing it for the future. This means that there are four major phases in the process:

1. Assessing the current situation and creating a sense of urgency in terms of the need for change.
2. Defining a vision for the desired future state in an attractive and desirable way.
3. Determining strategies for how to get there in stepwise, measurable ways.
4. Refreezing the new structures and behaviours by anchoring the achievements in the culture as “the ways we do it here.”

### **3 Assessment of the current situation**

Steve wants to understand and learn from Alfa’s past history and experiences. It is always beneficial to be able to relate to and discuss earlier successes as well as failures. Steve takes a statement “In order to look forward, we have to look back” by Winston Churchill as the starting point.

In the 1960s, the growth in Alfa’s business was immense and the only problem was to produce and deliver products in proper quantities. The main markets were more than 1 000 kilometers away so the first issue was to improve on transportation and warehousing. A typical, first generation of logistics was applied (Ericsson, 2011).

In the 1970s, growth was slowing down. Oil crises and zero growth hit the company, the latter of which was the main problem. The solution was to apply logistics as a means of competition to increase market share. At the time Alfa had five autonomous European manufacturing sites with full product ranges. The company had too many different products, too short production runs, unreliable lead times and low level of service, even though production was local. The solution was the establishment of a forecasting and sales office with global responsibility for forecasting, manufacturing, sales and distribution planning. This was a huge transformation process and it took more than 10 years to complete the concentration and establish a new manufacturing and logistics structure. The result of the transformation was lower manufacturing costs and higher quality, improved working

conditions in the factories, shorter lead times and higher levels of service even though the number of Stock Keeping Units (SKUs) was reduced by more than 10 000 units.

In the 1980s, customers started to demand higher and more customised service. Costs for warehousing, inventory and distribution were increasing and the necessity of increased coordination and cooperation — especially with some key customers — became evident. A new European distribution system was introduced based on delivery systems adapted to three major customer categories with different buying behaviour and different service requirements. A new distribution center was also established and scheduled truck deliveries were introduced.

The result was decreased costs and increased customer value. Total distribution costs were decreased by 30–50%, inventory carrying costs by 20–40% and the order handling was much more efficient. Lead times became shorter and more reliable, 24–72 hours in Europe, and the delivery service was increased from 70–90% to 93–99%. Deliveries were customised and information and communication with customers improved.

In the 2000s, global competition increased, lead times and product life cycles were shortening and increased volatility, instability and turbulence became the normal situation. The solution was increased alignment along interorganisational core processes and increased ICT-based collaboration.

The customer focus was even more accentuated and the number of differentiated supply chains (called *channels*) increased. Value propositions based on customer behaviour and requirements were elaborated and improved. Market qualifiers and market winners for every segment were defined and differentiated channels with process and systems integration from end to end were introduced. Relationship management to improve cooperation and integration both internally and externally was increased and highlighted. “Channel captains” responsible for the profitability along the flows were appointed. Activity based costing and management was introduced to make it possible to measure profitability along horizontal flows as well as traditional, vertical structures. Alfa’s approach was very similar to the one described by Ericsson (2011, pp. 65–67).

Steve’s analysis of the historic development resulted in some very important lessons learned. All the successful changes had been led by a “soul of fire” who had infused his values and reasons for change in the organisation. A thorough analysis of the economic development, development in business in general and in the industry specifically and a critical assessment of the availability of appropriate, new tools and techniques were other major ingredients in all approaches. Furthermore, a formula stating that Results ( $R$ ) equals Systems Efficiency ( $S$ ) times Social Acceptance ( $A$ ), that is  $R = S \times A$ , had been a guiding star in all the change processes.

It was evident that all transformations have to be “people powered” and based on the fact that it is people, and not technology that drives improvement and development. The ability to pick the right technology and the patience to see the changes through was also evident in the review. It was important to have the courage to say no to suggestions for technology improvement that did not fit in the actual situation, but to utilise new technology and infrastructure that really supports the business. Alfa had followed the steps in the evolution of the logistics and supply chain management concepts as described

by Ericsson (2011) and moved from the “control and push” approaches in the early stages to efforts to increase dynamic flexibility in the differentiated supply chain or channel approaches.

However, now in the 2010s Steve’s task is to handle turbulence and the fact that there will be no return to normal. Efforts to decrease uncertainty both internally and externally and at the same time benefit from and exploit opportunities created by turbulence and volatility, will be his main concern. Channel competition and the creation of closer cooperation and alignment with key customers and key suppliers is the theme of the day. The problems in 2008 when there was a shortage of supply during the spring and affluent supply during the crisis in the fall have shown that it is just as important to work with and align suppliers as it is to align customers.

Steve concludes that there is a need for creativity, innovation and new business models based on differentiated logistics flows with their source and origin in clearly defined and behaviour focused customer segments. Alfa has already started this journey and what Steve has to do is to refine and further develop the “channel approach” and put even more focus on value innovation in all channels.

## 4 The environment

Steve knows that the more turbulent and volatile the environment gets, the more important it is to focus on customers rather than competitors. Too much focus on competition may lead to a myopic view of the opportunities for development. Benchmarking and benchlearning may lead to a small step for a man, but not a giant leap for mankind. Steve wants to detect and define major business trends that can help point out the direction for the future.

The Gartner report (2010) identifies new trends and an interesting development. If 1995 is used as a milestone to mark the beginning of Internet-enabled supply chains, we can see a rise in the rate of productivity improvement across industries. This, in Gartner’s view, “promises to change the world economy” and illustrates the evolution of a new business model which fits perfectly with the ideas presented by Ericsson (2011, pp. 52–53).

Gartner’s contention is that supply chain professionals are at the cutting edge of this revolution. The transformation of the logistics function, from a basic cost center with focus on efficiency to becoming an essential competitive weapon focusing interorganisational processes, represents an inflection point in the design of the global supply chains. The focus on innovation and rethinking as a key driver of excellence is very clear in the report. Two themes emerge from the review of the winners in The AMR Supply Chain Top 25 for 2010. One is the re-examination of the benefits of vertical integration and the other is the increasing focus on sustainability. The following recommendations are made:

- Apply demand-driven principles to coordinate and integrate the functional areas of supply, demand and product management in order to better sense, shape and respond to changes in market demand.
- Take a cue from the leaders when designing your own supply chain strategy. Think

outside in, starting with your customers and working back through your trading-partner network to design a profitable response. Remember that one size does not fit all. Define how many supply types you have and design a customised response for each.

- Balance operational excellence with innovation excellence for superior overall performance.
- Focus on acquiring, mentoring, growing and retaining supply chain talent.
- Measure your supply chain as your customers experience it. Use the right supply chain and product metrics to consciously manage performance, and foster a culture that embraces measurement for continuous improvement (Gartner, pp. 1).

These recommendations are very similar to the ones suggested for application of the DCM concept by Ericsson (2011). Gartner comes very close to the DCM philosophy in the definition of a demand-driven value chain as “A system of technologies and processes that senses and responds to real-time demand signals across a supply network of customers, suppliers and employees” (Gartner, pp. 11). When these processes work together, the business is supposed to respond quickly and efficiently to opportunities arising from market or customer demand. Gartner states some “defining characteristics” of supply chains that are built to this design.

Operational excellence and innovation excellence are proposed as two basic dimensions of measurement to capture the totality of the best-in-class, demand driven, global supply chains. To measure operations, including delivering as promised to customers and keeping costs under control, Gartner recommends, “a hierarchy of metrics, at the top of which are perfect order performance and total supply chain costs.” Operational excellence has value only if customers want what is being delivered. To address this, Gartner stresses the need for innovation excellence. Gartner also notices that: “Although far harder to measure reliably, this dimension also can be managed with a hierarchy of metrics, in this case topped by time to value and return on new product development and launch (NPDL). Companies that manage to balance leadership on both these dimensions over time not only satisfy their customers, but also earn better returns on capital invested in assets or R&D.”

It is clear that the supply chain concept is catching on and there is overwhelming evidence of the link between supply chain activities and financial results. Leading supply chain performers, as defined by the Supply Chain Top 25, are more financially successful than their competitors. This is an important statement for Steve to stress in the discussions with his colleagues in the management team.

By embedding product and process innovation in supply chain operations, the companies included in the Top 25 are moving from a traditional, operational logistics approach to a strategic, holistic view. The move from focusing physical flows and logistics to strategic management of interorganisational processes and flows is also becoming visible on the organisational charts. Gartner states that: “Twenty years ago, a typical product company had the supply chain organisation reporting to manufacturing, with responsibility mainly for inbound materials management and outbound shipping. Now new data shows supply chain reports to manufacturing in only 6% of companies, while in 61% of companies, the head of the supply chain position reports directly into the Chief Executive Officer (CEO), general manager or president of the business.”

## 5 Vision of the desired future state

Steve has now created a fairly good picture of the current situation in Alfa and of the development so far. He has gathered knowledge concerning trends and development in business and logistics. Based on this he now needs to create a clear and convincing vision of where the company ought to be heading and why. The Gartner Report (2010), Gattorna (2010), Ericsson (2011) and Christopher and Holweg (2011) are great inspirations on this journey.

After reading and reflecting upon the Gartner Report, Steve is convinced that he wants to base his approach on increasing both operational and innovation excellence, that is: not simply doing the same old things in a little better and more efficient way (kaizen), but also the same things in a different way (restructuring) and most of all, work with completely new things (value innovation).

To be able to think out of the box, Steve studies some inspirational books. Kim and Mauborgne (2005) imagine markets consisting of two types of oceans: red and blue oceans. Red oceans represent all the markets and industries we have today. Blue oceans represent markets and industries that do not yet exist. They consist of unknown and unattended markets. In red oceans boundaries between industries are defined and accepted and the rules of the game are well known. Companies try to be better than their competitors and thereby increase their market shares. However, with global competition and increasing number of companies, possibilities for profitability and growth diminish. Products become commodities and cut throat competition colours the ocean red (See Figure 2).

Needs	Implicit	Unexplored	Unexplored
	Explicit	Explored	Unexplored
		Served	Unserved
		Consumer types	

**Figure 2:** *Red and blue oceans.*

Blue oceans, on the other hand, can be defined as unexploited markets where new and unexplored demand is created and the opportunities for profitable growth are immense. Certain blue oceans are developed outside existing industrial boundaries, but the majority are developed through expansion of industry borders and spanning of conventional borders. In blue oceans, the concept of competition and competitors has no meaning, because the rules are not defined. Apple is an example of a company that has changed the boundaries and rules of the game in the ICT field.

It will always be important to sail the red oceans and compete successfully with rivals. Operational efficiency and effectiveness are necessary but not sufficient keys to long term profitability and survival. With increasing competition, the necessity for value innovation

and expansion into uncharted waters gets more and more important.

As we have seen, most of the guidelines during the last 25 years have been strategies for sailing red oceans and models, methods and techniques for doing this are plentiful. Today, there are discussions regarding blue oceans, but practical guidelines for how to sail them are lacking.

Johnson (2010) argues that breakthrough business models result from forays into the “white space” — it is uncharted territory well beyond a company’s core business. He states that the reason so few companies successfully seize their white space is not because it is uncharted. It is because they try to navigate it using their existing business model — without a clear understanding of how that model works. Steve has now analysed Alfa’s existing business model and knows how he wants to develop it to increase value innovation and sail the blue ocean.

It is much in vogue to be customer focused and customer-led. But there is a difference between being customer focused and customer-led. It is true that “everything begins with the customer”. But the meaning of this depends on the *raison d’être* and business strategy of the company. Some companies want to continuously improve on what they are doing, constantly giving customers more value for money through operational excellence in the existing business. These companies may be customer-led and very profitable in that way.

Other companies want to “get to the future first”, rather than merely preserve the market shares in existing business. These companies cannot be customer-led, because customers are notoriously lacking in foresight. Henry Ford supposedly said: “I cannot ask the customers, because they just want faster horses.” However, also product leaders have to be customer focused and get inspiration from customer and consumer insight. Still other companies want to get closer to the customer and continuously develop relationships and processes for co-creation which is yet another way of being customer focused.

Why is it important to point out these, seemingly self-evident, facts? The reason is that there is too much of “either/or” and too little of “both/and” in business. There is a kind of pendulum swing in management thinking. From too much cost and efficiency focus to too much revenue and effectiveness focus, from too much focus on leanness to too much focus on agility, from too much focus on internal company processes to too much focus on external environment and competitors. The truth is that too much of anything spoils everything. One model does not fit all, there is no “*mädchen fur alles*.”

Steve concludes that “top performers” react speedily to changes in supply and demand, they continuously adapt over time and they adapt their supply chains to changing customer buyer behaviour. Base demand requires efficient and fast supply chains that establish control to reduce variability and thus cost to compete. Surge demand, on the other hand, requires agile and adaptable supply chains that embrace volatility and develop superior ability to adapt.

Steve has to sit back and think about company visions and strategies, existing and potential customers and suppliers, and how best to build a business model for creating shareholder and customer value — now and in the future. In doing this, he has to create a “powerful guiding coalition” consisting of some 10 to 15 people that can come together and develop a shared commitment to excellent performance through renewal. Steve starts

with just a handful of people, but he will try to achieve some minimum mass to get the effort worthwhile. Senior managers will form the core of the coalition, but some board member, a key customer, a supplier or a powerful union leader may also be included. Because the guiding coalition includes members who are not part of senior management, it has to operate outside of the normal hierarchy. It is important to get the people together, to develop a shared assessment of the companys problems and opportunities and to create a minimum level of trust and communication. To achieve the power that is required, the coalition needs strong line leadership. Creation of a common vision of where to go is urgent, because in failed transformations there always are plenty of plans, programs and projects — sometimes even contradictory — but no vision.

There is no doubt that the vision has to be customer oriented and customer focused. The question is how to choose which customers to serve, and which ones not to serve. The customers have to be segmented in a proper way. The perceived customer value and the order qualifiers and the order winners in each segment have to be defined, the internal organisation has to be built and aligned to deliver what is requested, and then the external structure needed to fulfil the purpose has to be designed and developed.

A vision statement has to consist not only of a lofty statement of where to aim, but also of measurable and delimited steps (missions) pointing in the right direction. Without a clear vision it is hard to get people along, they need to understand where to go and why.

Steve's first outline for Alfa's new vision contains some very important statements. "Alfa shall be the first choice in providing **innovative solutions** for customers that use their supply chain to **create competitive advantage.**" This statement highlights innovation and value creation rather than "simply" cost reduction. It also focuses on what Alfa can do for the customer. "The core of the business model is to build **long-term, sustainable partnerships** with customers and suppliers in order to create a win-win situation." This statement points to the wish to build demand chain oriented relationships whenever possible and profitable. "A key factor for success is the ability **to attract, develop and maintain our staff and their competence.**" This statement highlights people as the driving force of creating distinctive competitive advantage and it also refers to Gartners view of the supply chain professional being at "the cutting edge of the revolution."

## 6 Strategies

The vision identifies the desired future state. The strategy describes how to get there — the transformation from the current situation to the desired future state. The supply chain strategy has to be linked to, and aligned with the companys overriding vision, goals and strategies.

The first step in devising an effective supply chain strategy is to consider the nature of the demand for the products the company supplies. Many aspects are important — for example, product life cycle, demand predictability, product variety, and lead time requirements.

There are many ways of segmenting markets, for example, by product, by industry sector, by institutional type, by geography, by size, by profitability *etc.* The most important,

however, is “behavioural segmentation” where we seek to understand the preferences that influence why and how customers buy products and services. The supply has to be seen through the eyes of the customer. The customer as the fundamental starting point has been pointed out by marketing and sales for quite some time, but from a holistic point of view we have failed to grasp its significance. It is a problem rooted in conventional functional organisation structures, where marketing do their own segmentation, but rarely communicate the results in a meaningful form to back-office operations in the firm.

As a matter of fact, it has been concluded that improved communication and use of common sense can reduce costs by 50% and decrease lead times with 50% (Ericsson and Hallgren, 2009). In one of Steve’s earlier occupations in a big process industry, they had a problem with demand peaks at the end of each month. Approximately 40% of monthly sales was made during the last five days of the month. It was a process industry with very stable consumer demand, but the problem was caused by retailers who tried to fill their quotas at the end of each month by giving discounts. The consumers quickly learned that it was profitable to postpone buying till the end of month!

Marshall L Fisher asked: “What is the right supply chain for your product” and came with the answer: “Functional products require an efficient process; innovative products, a responsive process” (1997, pp. 109). The focus on products as the starting point for building supply chains has been dominating ever since then. The problem is that products that are physically the same can be either functional or innovative depending on the buyer. Products may also initiate very different buyer behaviour depending on why and how they are used. Steve remembers when he used to work for SKF, the big multinational ball bearing company. The ball bearing 6501 rendered a quite different behaviour when it is bought for Original Equipment Manufacturers (OEM) purposes then when it is bought as a spare part or by a distributor. And, of course, SKF had different channels for these segments.

The definition of customer segments and corresponding customer offers, followed by establishment of differentiated channels with process and systems integration end to end, and internal and external relationship management serves as starting points for Steve (Ericsson, 2011, pp. 66–67). Relationship management is especially important because, as pointed out by Ericsson (2011), supply chains are behavioural systems and have to be treated in that way.

Key to future success is not only to focus on what the customers buy but also on how and why they buy. Starting out with customers’ buying behaviour gives much greater clarity when designing and managing supply chains. The secret of designing superior supply chains is to start by resegmenting customers along behavioural lines and then reverse engineer from there (Gattorna, 2010). The segmentation of customers together with product service and process differentiation to fit the segments are fundamental concepts in marketing. However, the use of marketing knowledge to guide the development of differentiated supply chains has not been overwhelming (Ericsson and Hallgren, 2009).

## 7 Customer segmentation

There are extensive research evidence that it is worthwhile to increase and develop the customer focus. But Steve has so many and different customers and he knows that there is no such thing as “one size fits all”. Different approaches are needed for different segments. But the customer also changes behaviour over time, with the products life cycle and when something pops up in their internal or external environment. Steve decides to start with analysing some generic approaches to customer behaviour oriented segmentation.

Alfa has three major customer segments today. OEM manufacturers, distributors and spare part buyers. Steve wants to improve on both efficiency and value innovation in all three segments and he goes back to literature to find some guidelines on how to segment the customers and build differentiated supply chains to fit the identified value segments.

Steve uses the approach by Michael Treacy and Fred Wiersema (1995) that is based on actual buyer behaviour rather than socioeconomic factors. The idea of actively choosing the customers and narrowing the focus attracts Steve so he takes a closer look at Treacy and Wiersema’s concepts.

## 8 Value disciplines

Treacy and Wiersema (1995) distinguished between three types of customers, namely those who want the best (lowest) total cost, those who want the best product and those who want the best total solution.

Customers of the first type are looking for products with the best price and the least inconvenience in getting and using. Hence, the product offer should be “always low price” and problem free service. Steve concludes that companies focusing on these customers have to be leaders in operational excellence based on the Time to Cash (TTC) process. The TTC process is the key to cost efficiency and the goal is to create customer ecstasy in a profitable way (Ericsson, 2011, pp. 68).

Companies focusing on customers of the second type have to be genuinely creative and innovative, being able to quickly turn new ideas into profitable products, and constantly aiming for beating their own latest product. Continuous innovation is the key to creating the best possible product. Focus is on prestanda, and not on price which means that the Time to Market (TTM) process is at the heart of the efforts (Ericsson, 2011, pp. 70).

Companies focusing on customers of the third type try to create very high customer loyalty, based on long term relations rather than isolated, *ad hoc* transactions. They are not looking for what the market in general wants, but what specific, chosen, customers really wish and need. They are aiming at satisfying specific needs only they understand. They are providing the best possible total solution and all the support the customer requires. Focus is on the CCR and the SCR processes. (Ericsson, 2011, pp. 68–71).

Based on this perception of customer segments with different needs, wishes and buying behaviour, Treacy and Wiersema define three value disciplines that the companies can and should adhere to. According to Treacy and Wiersema the company has to choose one

discipline to excel in and be good enough in the other two. The first value discipline they call *operational excellence*, the second *product leadership* and the third *customer closeness*.

The value discipline is based on two foundations; the first is the value offer and the second is the value-driven operations model. The value offer is the combination of values — price, quality, performance, choice, convenience *etc.* — presented to the customers. Value offer is another term for what Ericsson (2011, pp. 23–25) calls “value package.”

The value driven operations model is the combination of business processes, management systems, organisation structure and culture that makes it possible to deliver the value offer. The operations model can be designed and developed in the way described by Ericsson (2011, pp. 65–67).

## 8.1 Operational excellence

Operational excellence does not necessarily mean the lowest price. Lowest total cost includes all the costs to acquire, own and use the product. The price, the time and cost to make it ready for use, cost and problems connected to repair and returns, everything is counted and the task is to make it the best offer — as the specific customer segment perceives it.

Excellence in TTC requires efficient operational work and coordination. Teamwork and engagement are keys to success and companies like IKEA and WalMart are regarded as archetypes for this type of approach. The operational model is based on:

- Optimised, effective and efficient processes that guarantee an even flow and efficient base service throughout the whole chain.
- Standardised, simplified, strictly controlled and centrally planned routines that leave no options for individual arbitrariness. McDonalds can be seen as the archetype of this approach.
- Management systems that focus on integrated, reliable and fast performance of activities in accordance with agreements and norms.
- Culture that is lean oriented, fights waste and rewards efficiency.
- Materials and information flows have to be integrated and aligned along the whole TTC process. This operational model provides efficient and flawless service by making the whole company, and not only manufacturing and distribution departments one single goal oriented entity focusing on customer satisfaction. Hard competition and low margins makes this necessary and ICT makes it possible. The key is to dare to offer less product variations, say no to certain customers and focus on those who fit in.

## 8.2 Product leaders

The key for product leaders is to put up ambitious, stretching goals and work from the “right to the left”, that is to imagine what can be created and then make it happen, Disneys concept of “Imagineering” is a good example of this.

The operational model is based on:

- Focus on the key processes, that is innovation, product and process development and marketing. This means that new product development and the TTM process are keys to success.
- Management systems that are results oriented, measure and reward innovations and allow the trial and errors necessary for achieving success.
- Organisation with a rather “loose” structure that is continuously changing to adapt to the new initiatives and the reorientation taking place when working in “unexplored terrain.”
- Culture that stimulates individuals to fantasy and unconventional thinking based on consistency and a willingness to create the future rather than just seeing it coming.

Generic operational routines and well structured processes do not create winning products unless they support individual behaviour as the mainspring to success. Flexible organisation structure and robust processes are necessary prerequisites for creative thinking because they offer coordination at the same time as they give space for both creativity and discipline. The work is based on boundaryless, high performing teams and the key is interorganisational knowledge flows in the company. All employees, management and the company as a whole have to be able to change direction rather quickly. Talent is the most important resource. Product leaders do not follow the voice of the customer. They listen carefully in order to build their own picture of the future and act on this information. Customers cannot describe the next, revolutionary product and neither can marketing departments.

### **8.3 Customer care**

IBMs unsurpassed value during the 1960s and 1970s is an example of what can be achieved with a customer care approach. It was neither based on price nor product, but on the superior service, guidance, knowledge and counseling they were offering their customers that were bewildered in the turbulence of the evolving IT-industry. Value innovation and co-creation are the key words.

The operational model is based on CCR and SCR:

1. Focus on the processes that provide solutions to the customers' explicit and implicit needs and wishes in every specific situation. Customer care companies help the customers to understand exactly what is required to fulfil the need. This means that they have to work very closely with the customers and really understand their business, structure, processes and culture. They have to be experts on the customer's business and deliver customised and unique solutions. Relationship management is vital to success!
2. The management systems focus on creating value for carefully chosen and dedicated partners. Co-creation that requires specific, detailed and integrated data concerning the customers is key to success.
3. The organisation is designed to push the decision making as close as possible to the people in direct contact with the customer.

4. The culture supports specific, dedicated solutions rather than generic ones and they are nurtured by very close and lasting customer relations.

The organisation consists of loosely structured groups of people that all work with a series of customer-led problems and possibilities. It is a question of finding, combining and keeping talented people that can keep abreast of new concepts and technologies that might influence on the customers' business. The "best" employees have an immense ability to initiate and manage changes in the customers' organisation. In most companies there is a lack of ability to carry changes through, to implement and realise ideas. This implementation skill is what these companies can offer. The employees are adaptable, flexible and multi-talented which means that they can come up with almost any possible — and maybe even impossible — solution. They use the customers and suppliers to keep up to date with development. The boundaries between the companies are blurring and almost disappearing. The company is kept together by spreading knowledge and information among the teams. By supplying a combination of their own and other companies' competencies, interorganisational knowledge flows make it possible to create customer value.

Collaboration and partnership are key concepts and customers that lack qualifications for deep and long relationships have to be avoided. It is necessary that the partners can see the opportunities and benefits in a deep mutual relationship.

## 8.4 Conclusion

The role of people as the key drivers of excellence in all types of value disciplines is very evident. However, the requirement on skills and knowledge differ between the various disciplines. People that are excellent in one situation do not fit in another. Steve once heard a story about a chef from Tour d'Argent who started to work for MacDonalds. It was no success!

The analysis highlights the fact that Steve has to design and develop teams with different characteristics for each value segment and the Treacy and Wiersema approach provides an excellent starting point for the development.

## 9 Dynamic Supply Chains

Gattorna (2010) is another author that inspires Steve and provides guidelines for the change process. Gattorna stresses the fact that customer behaviour segments are the starting points for building differentiated supply chains and dedicated organisation structures, which he calls "clusters." Gattorna attempts to link customers on the outside with the main body of the firm represented by employees, management, and leadership on the inside. The starting point is customer buying behaviour segments. He calls this concept "dynamic alignment" to account for the increasing dynamism in the marketplace.

In his research, Gattorna discerned, described, and coded 16 different buying behaviours, across all product/services categories. But clearly, 16 segments are too many, and the buyer behaviours were condensed into four dominant buying behaviours; giving approximately an 80% coverage or fit to that market.

Gattorna defines the four most commonly observed dominant buying behaviours and argues that there are four different customer service logics that fit these buyer behaviours:

- Collaborative — close working relationships for mutual gain. For this group he states that the key word is “understand me.” Empathy, understanding and relationships are fundamental in their definition of customer service. Their supply chain type Gattorna calls “Continuous replenishment.” The focus is on developing loyal customer relationships with trusty and reliable service.
- Efficient — consistent low cost response to largely predictable demands. This group wants reliability, predictability and consistency. The key word is consistency. Their supply chain is lean with focus on economies of scale, synergies and low-cost production and delivery.
- Dynamic — rapid response to unpredictable supply and demand conditions. This group wants responsiveness in a commercial way. The key word is respond because they have urgent delivery focus, lower loyalty and higher price awareness. Their supply chain is agile with focus on responding rapidly to unpredictable supply/demand conditions.
- Innovative solutions — supplier-led development and delivery of new ideas and solutions. This group is looking for innovative and creative response to unique needs. The key word is surprise me. They have a relatively low sensitivity to price and the demand is rather unplanned or unplannable. Their supply chain is “fully flexible” built on hedging and deployment strategies used to improve responsiveness on a selective basis.

The critical spark to start the design process is to correctly segment customers in the target market-place. Gattorna argues that starting with customers on the outside and resolving complexity there, automatically helps to resolve the complexity that has been built up over time inside the business. The trick is to establish the particular mix of these four dominant buying behaviours in aggregate, and then apply internal resources to configure a corresponding combination of supply chains that will achieve alignment between the enterprise and the market. When the characteristics of each behavioural segment is defined, it is relatively easy to develop the right type of responses in terms of operational strategies. The issue is to build discrete strategic, customised solutions from different combinations of standard components. It is like building different structures with common pieces of lego. Dell has been very successful in this by designing unique customer solutions built on standard components.

Once we have re-interpreted the marketplace by listening carefully to customers and defining discrete buyer behaviour oriented segments, we can define perceived customer values, identify order qualifiers and order winners and establish customised channels (Ericsson, 2011).

## 10 Steve moves ahead

Inspired by these authors, Steve starts by analysing today’s customers and dividing them into value segments. As mentioned, he has three major groups.

The first group is the OEM manufacturers who buy well defined, technologically and functionally prescribed products. In many cases the products (components or subassemblies) are co-created by Alfa and the customers. Sometimes even the suppliers take part in the co-creation process. This group is an example of what Gattorna (2010) calls a collaborative segment type that is characterised by close working relationships, mostly predictable demand, relationship focus and loyalty. The supply chain to serve this segment is based on continuous replenishment and Steve's task will be to further develop and improve loyal customer relationships based on trusty and reliable service. Building DCM partnerships along the lines described by Ericsson (2011) is an obvious choice.

The second major group of customers is the spare part buyers. Spare part sales is an important segment of Alfa's business because customers need to know that products are available on a very short notice when there is a break down. The costs of a stand still can in some cases be enormous. In Gattorna's terminology this group is a dynamic segment type characterised by rapid response to uneven demand and urgent delivery focus. The supply chain is built on an agile approach to respond rapidly and commercially to unpredictable demand conditions. Gattorna's characteristics of lower loyalty and price awareness are not typical of Alfa's buyers because they are spare part buyers.

The third group consists of distributors that represent an efficient type of customer segment characterised by requirements for consistent responses to largely predictable demands; an efficiency focus and price sensitivity. Alfa uses a lean type of approach with focus on economies of scale, synergies and low cost distribution. Steve decides to improve and further develop the operational model along the lines discussed by Treacy and Wiersema (1995).

Steve defines the value offers, the order qualifiers and the order winners for these segments and starts to establish the internal operational systems to match the requirements. First he looks for possible leaders for each channel. There has to be a match between the behaviour of the buyers in each segment and the internal set up (Gattorna, 2010, pp. 26).

## 11 Building the operational models

For the OEM segment he looks for a leader with what Gattorna calls coach orientation which means that the leader is good at consensus building, has excellent negotiation skills, the ability to empower subordinates and offer emotional support. This is an appropriate leader for building DCM partnerships.

The OEM segment is an example of collaborative buying behaviour which is characterised by partnership for mutual gain. Some but not all of Gattorna's characteristics can be identified: demand is predictable, regular delivery, primary source of supply, trusting relationships, teamwork/partnership, information sharing, joint development, price not an issue. Steve goes for continuous replenishment based on predictable demand, easily managed through tight collaboration with customers. The focus is on retention of customer relationships.

However, there are two phases in the OEM relation. When a new component or sub-assembly is designed and developed, there is a deeper and more intense cooperation and

integration between the customer and Alfa. This phase is replaced by a continuous replacement mode when deliveries are routinised.

Steve decides to put even more emphasis on the co-creation phase by introducing some of the approaches suggested by Treacy and Wiersema (1995) in their discussions of product leaders and customer care companies. Increased use of supplier knowledge and competence in the early phases of the development is another approach Steve wants to focus. He sees very deep partnership oriented design and development as one of the cornerstones in building lasting demand chain relationships.

For the spare parts Steve is looking for a leader of what Gattorna calls a company baron type with clear focus on objectives, high energy and drive. The spare parts segment is an example of dynamic buying behaviour with rapid response to unpredictable demand conditions. Some, but not all of Gattorna's characteristics are present. The prioritisation of urgency and short lead times to cope with unpredictable demand is of course vital in spare parts business. Commercial deals have to be based on pragmatism and opportunity focus and in total fewer processes are involved than in an ordinary buying situation. For some customers, the spare parts are so vital that Alfa has decided to keep a production line standing by to be used when needed. The line was replaced by a new and more efficient set up, but it was more cost efficient to keep the old line standing by to be used when needed, than to go in and break the runs on the new line. This might be seen as an example of what is some times called inefficient profitability and as part of a fully flexible approach. Unplanned and unforeseen demand almost always requires an agile response at higher cost to serve and that is also the case in Alfa's situation. Steve decides to work very closely with the customers to get information regarding running hours, maintenance *etc.*. An updated data base can create a win/win situation for all parties.

For the distributors, finally, he is looking for a traditionalist with good analytical skills, a desire for stability and clear structures. The distributor segment is akin to what Gattorna calls efficient buying behaviour characterised by requirements for consistent low cost response to largely predictable demands. All of Gattorna's characteristics are present: predictable demands within contract, regular delivery (sometimes VMI based), efficiency and low cost focus, multiple sources of supply for more generic products, little sharing of information in normal cases, a more adversarial attitude, standard processes, transactional and very price sensitive. Bigger distributors can from time to time impose power.

Demand is rather predictable based on the distributor behaviour and their relations to the next tier customers so Steve decides to continue with the lean approach, but try to build closer relationships with some of the customers in order to build both dynamic and structural flexibility. But, as mentioned, Steve also wants to expand the business and sail the blue ocean so he is looking for a customer segment that requires innovative solutions to products and services with unplanned or unplannable demand and a low sensitivity to price. For this group, he would like to develop a fully flexible supply chain with hedging and deployment strategies used to improve responsiveness on a selective basis. For this, he needs a visionary leader with good understanding of industry, and, at the same time, a flexible and open mind to think out of the box and an ability to move quickly. Steve wants to synthesize and further develop ideas from Treacy and Wiersema's product leader and customer care approaches and also from Gattorna's fully flexible supply chains.

Steve's thorough analysis of the past and possible future development has convinced him that there are opportunities for development of a new, and more profitable, segment based on innovative solutions. This could be a supplier-led development and delivery of new ideas based on very close cooperation and co-creation of solutions involving both customers and suppliers. It would include unpredictable demand with higher risks, but also potentially higher rewards and lower price sensitivity. Solutions orientation, value innovation, flexible responses and rapid change would have to be the main ingredients in the approach. Steve is quite clear about the fact that this segment will require a very different organisational set up more in line with Treacy and Wiersema's discussion of customer care companies with loosely structured organisation set ups. Anyway, it is worth exploring the possibilities.

## 12 Obstacles to change

As pointed out in the introduction, there are many obstacles to change. Some of them are based on people resisting to move out of their comfort zone into something unknown and potentially threatening. Gattorna points out that: "the forces of darkness are arrayed in force to frustrate and block change" (2010, pp. 47). Other obstacles are rooted in the traditional, vertical structures that divide the organisation into silos with separate goals, Key Performance Indicators (KPIs), values and behaviour. This structure has also affected the finance and accounting systems which makes them another major obstacle.

Steve has to look at the organisational structure, culture and behaviour anyway because he has defined some major flaws in the way they are operating today. He knows that the organisational set up with the accompanying KPIs, accounting, reward and incentive systems are some of the major obstacles to successful change processes. Gattorna (2011, pp. 47) argues that: "organisation design is the great weakness in business today; it is the choker on performance even if we get the segmentation right."

Ericsson (2011) pointed out that the original Swedish definition of materials administration or logistics emphasized "that the key to success is not within functional silos, but hidden at the interfaces between traditional logistics activities, marketing, and product development" (pp. 49). The core problem in the implementation of the MA/logistics concept was the lack of coordination across tasks, functions, and departments. Ericsson (2011, pp. 50) also stated that "Organisations — which are hierarchically structured and functionally oriented — often optimise individual functions and departments at the expense of the whole business and the customer. This means that problems may manifest themselves in one part of the organisation, even though their root cause remains unattended elsewhere. The result is low levels of corporate performance and even lower levels of service and customer satisfaction. Problems are simply passed from one functionally focused department to the next, in the search for a solution. Unfortunately, performance measurement systems often increase these problems and lead to even more functional emphasis. The introduction of activity based costing has, however, been very helpful in implementation of the total cost concept."

Gattorna (2010, pp. 47) states that: "We continue to manage our enterprises vertically, driven by departmental/functional budgets, when our customers are buying horizontally, taking some resources from each department. Functional designs see the business managed

vertically around departmental budgets, while customers buy horizontally, aggregating elements of procurement, finance, operations, logistics, sales and marketing into finally delivered products and services. The answer is to develop a dual organisation structure that works in synch with elements of the vertical functions remaining, supplemented by the formation of multi-disciplinary clusters to manage the customer interface.”

The discussions regarding value disciplines and operational systems above and also Ericssons (2011) views of organisation development and process management of MA/Logistics and eLogistics (pp. 48–56) are vital ingredients in Steve’s thinking regarding Alfa’s new business model that has to be based on people powered change and interorganisational knowledge flows. Steve wants to relate and build his horizontal, buyer segment oriented operational models on the interorganisational core processes described and discussed by Ericsson (2010, pp. 67–72).

Hammer (2001) also argues that when companies have implemented processes within the firm, they need to integrate them between firms: “Streamlining cross-company processes is the next great frontier for reducing costs, enhancing quality and speeding operations. It is where this decade’s productivity wars will be fought. The victors will be those companies that are able to take a new approach to business, working closely with partners to design and manage processes that extend across traditional corporate boundaries. They will be the ones that make the leap from efficiency to super efficiency” (In Ericsson, 2011, pp. 51).

Introduction of a dual structure with horizontal clusters to cater with customer needs, as Gattorna suggests, is not an easy task to achieve. It has to be an integral part of the well planned and structured transition process. “Several attempts at implementation of the process oriented approach in business has made it clear that an organisational change has to be accompanied by a transition process in which old habits and ways of working are replaced by new mindsets. Learning has to go hand in hand with unlearning” (Ericsson, 2011). Steve decides to embed organisational development in his change process and make it one of the most important issues for discussions both in the management team and in the guiding coalition he has established.

The guiding coalition is vital to success in implementing the business model and the strategies suggested above. But Steve also has to convince the others in the management team that the approach he is suggesting will lead to a desirable future for the whole company. The organisational issue discussed above is one of the main questions to be dealt with in every meeting. Another problem to handle is the fact that top management quite often views the supply chain as a means to improve short-term cost effectiveness rather than long-term revenue, margins and profitability. The supply chain function is seen solely as a cost center, but in reality it is a profit center and should be treated as such. The supply chain concept, just as the marketing concept, is a philosophy rather than a function or department and it has to infuse the whole organisation.

The Gartner Report (Gartner 2011) gives some important insights for these discussions because it quite convincingly showed that leading supply chain performers are more financially successful than competitors. But Steve also has to bring some finance and accounting malpractices up on the table. What Christopher and Hollweg (2011) call “the cost accounting trap” is one of the issues to be discussed.

Christopher and Hollweg (2011) state that “the cost accounting trap is by far the greatest impediment to firms making better informed supply chain decisions in the era of turbulence” (pp. 73). They argue that “while making the step from dynamic to structural flexibility might seem an obvious one; unfortunately, it does collide quite strongly with the current management accounting practices”. If we use planning tools that are not designed to cope with conditions of volatility and uncertainty it will be very difficult to define the financial value of supply chain flexibility. Given these problems, it will be very hard for Steve to convince senior management, *e.g.* the CFO, that investing in flexible and customised supply chain structures does make sense financially.

As part of the stories to be told in systemic meetings and open face discussions in the management team and guiding coalition, Steve decides to describe and detail practices that are commonly used to pursue short-term financial targets (*e.g.* like the end of month sales targets described above) at the expense of supply chain integration. Godsell and Van Hoek (2009) identify three sales and customer service practices, and two financial practices that undermine the performance of the integrated supply chain. They also suggest alternative practices and propose four key questions to be asked to ensure that the performance of the chain is not sabotaged. Steve uses these descriptions of poor practice in the discussions to provide imperatives for change and help dispose of value-destructive behaviour.

The first sales and customer service practice that sacrifice supply chain performance is the one discussed above based on pulling forward sales to hit a revenue target. A possible solution to this is to incentivise sales not only on revenue but also on margin.

The second practice is reporting “On time in full” measured against promised rather than customer requested date. A way to dispose of this practice is by realigning customer service metrics around actual customer need. Although a daunting concept at first sight it leads to greater customer satisfaction. Customers are also quite often happy to accept a renegotiated date as long as it adhered to.

The third practice discussed by Godsell and Van Hoek (2009) is “stockpiling product as an insurance policy.” This is a very common practice in seasonal business. However, shareholder value is eroded not only because of cost for additional warehouse capacity, but also because of high cost of holding inventory. Due to the long lead times often involved, seasonal supply chains are typically production rather than demand driven which leads to stock outs of popular items and left overs of less popular items, despite the degree of inventory holding. A way to cope with this is to do an honest assessment of ordering practices and the need to start stockpiling months in advance. Segmenting the products along the lines of surge respectively base demand as discussed above is also a way of handling this issue.

Godsell and Van Hoek (2009) also discuss financial practices that sacrifice supply chain performance. The first practice is to manipulate orders in favour of financial reporting ambitions. This practice is driven by financial reporting needs and comes in different shapes and forms. The self-imposed peaks require a lot of additional capacity to be built into the supply chain to deal with this variability, which ultimately increases cost and erodes the shareholder value it is designed to protect.

The last practice discussed by Godsell and Van Hoek is “manipulation of sales forecasts to match financial forecasts to the financial market.” The issue with this process is that when sales forecasts do not match the financial forecast provided to financial markets, pressure can be applied to artificially inflate or change the sales figures to meet the financial targets. Godsell and Van Hoek summarise the discussion by putting up four questions that financial analysts should ask the CEOs and CFOs in order to spot sources of shareholder value improvement through supply chain optimisation and elimination of practices to hit short term functional targets (Godsell and Van Hoek, 2009, pp. 175–176).

Steve is using these questions in his discussions with his peers, but also in discussions in the guiding coalition he has created. They illustrate how shareholder value is served best, even if that means missing short term functional targets sometimes. The bonus might come in lower but the stock options will increase in value.

In literature and practice, marketing and SCM are predominantly linked with customer value creation and market performance. However, in large public companies in particular, the corporate focus is on shareholder value creation. In order to get full support, Steve needs to establish a close and visible link between customer value creation and shareholder value creation. Customer and channel relationships should be seen as strategic assets of the company that have to be built and cultivated.

A particular problem in efforts to point out the strategic relevance of SCM to top management is that they often view the supply chain solely as a means for improving short-term cost effectiveness. However, as Christopher and Ryals (1999) argue, short-term profit improvements based on supply chain may destroy shareholder value if they undermine the long-term financial health.

Juttner, Christopher and Godsell (2010) discuss a strategic integration framework that captures the integration between marketing and supply chain strategies at the business unit level. It also supports the notion that marketing and supply chain strategy integration contributes to the effectiveness of business strategies in the whole network.

At the corporate integration level, corporate objectives and the objectives of the business or operating unit are aligned for customer and shareholder value creation. Marketing and SCM both build on the same strategic assets, namely customer and channel (or supply chain) relationships. These assets have to be linked to the key shareholder value drivers of accelerated cash flows, enhanced cash flows and reduced volatility or vulnerability of cash flows.

### **13 Refreezing and anchoring the new structures and behaviour**

In many companies, implementing flexible strategies for customer as well as shareholder value is still a challenge because in many cases there is no explicit role for broad boundary-spanning between marketing and supply chain at the board level. However, Steve’s new role, if properly developed, can fulfil that mission. The work with the four major interorganisational core processes, with cross functional teams and with improved communication

and organisational learning will be very helpful in the efforts to a dynamically aligned internal as well as external structure.

## 14 Conclusions

Steve wants to avoid the errors that Kotter (1998) listed, so he considers the important ones.

**Sense of urgency** is established by examining market and competitive realities, identifying and analysing crises, potential crises, or major opportunities. Steve has concluded that there are no major crises in sight. However, there are some opportunities revealed in the analysis of the customers and markets. The absence of a major crisis is both positive and negative. A major crisis may increase the sense of urgency and facilitate the initiation of a change and transformation process. On the other hand, the threat may also lead to efforts to hasten the process and maybe skip some of the important steps. Steve believes that the thorough review of market possibilities and the study of where the top performers are heading gives support enough for his suggestions.

**A powerful guiding coalition** is created consisting of what Steve has defined as *souls of fire*, people that are really committed to achieve improvements and progress. They are gathered from different levels and departments both inside and outside of the company. They are all real change leaders and willing and able to take charge and responsibility for progress within their own domains. So far, Steve has been successful in encouraging the group to work together as a team rather than a committee. Steve is also certain that the team has power enough to lead the change effort.

**Creating a vision** to help direct the change effort was the next step. The team has been very active in this phase and the members have discussed and anchored the suggestions in their own environment. The team has read, analysed and synthesized several books and papers related to change and development of new business models in the era of turbulence. The review of Alfa's past experience, successes and failures has also been very helpful both for formulating the vision and developing strategies to achieving it.

There is full agreement regarding reinforcement and reinvention within the existing customer segments where efforts to create demand chain partnerships will be intensified. There is also consensus regarding utilisation and synchronisation of knowledge from these segments to create "a blue ocean" in the field of genuine innovation and establishment of a flexible supply chain. Alfa's strengths and weaknesses and the opportunities and threats in such an attempt are carefully analysed and summarised.

**Communicating the vision** is defined as a very important step. The guiding team has developed movies and DVDs with explanatory texts that may be used in the roll out of the process. The process is named "One step ahead" and the DVDs are to be used in the successive "waves" in the roll out. There have also been seven top management seminars where the CEO has presented the vision, the steps ahead and the reasons for why the transformation is initiated.

In the beginning of every board meeting and every other major meeting in the company,

the status and progress of the process is reported and discussed. The guiding team is using every vehicle possible to communicate the new vision and the strategies. The team is also teaching and practising the new behaviour by example.

**Empowering others to act on the vision** is facilitated by extensive support and communication. Efforts are focused on identifying and getting rid of obstacles for change. Systems, processes, activities and routines that threaten to undermine the vision are changed. The team is also encouraging risk taking and introduction of nontraditional ideas, activities, and actions.

**Planning for and creating short-term wins** is an important step to keep the process rolling and avoid unnecessary halts and delays. Planning for and creating visible performance improvements is part of the schedule. Employees involved in the improvements are recognised and rewarded.

**Consolidating improvements and producing still more change** is on the agenda for the continuing process. Performance improvements and increased credibility facilitates the change of processes, systems, routines and behaviour that do not fit the vision. Progress also makes it easier to hire, promote and develop employees who can implement the vision. Steve is also prepared to reinforce and revitalise the process by introducing new projects, themes, and change agents. Steve is eager to point out that change is a never ending process and not a project with a start and a clearcut end.

**Institutionalising the new approaches** by articulating the connections between the new behaviour and corporate success grows more and more important as the process moves on. Developing the means to ensure leadership development and succession is also part of Steve's plan for the future. Leaders are encouraged to think outside the box and find new oceans and innovations. But managers are needed to complement leaders and make the day to day business run smoothly. Steve is a bit worried that the thrill of leadership might kill the recruitment of managers, but he hopes that the focus on the necessity of both will help and, after all, people are different.

Alfa will need managers of the *producer* type with the force for action, results, speed and focus as well as the *administrator* type looking for stability, control, reliability, measurement, logic and efficiency. But Alfa will also need leaders of the *entrepreneurial* type with the force for creativity, change, innovation and flexibility as well as *integrators* that can create cooperation, cohesion, participation and harmony. Steve initiates the establishment of an *Alfa Academy* to secure the availability of the right type of talented people for the new roles and positions in the company. The Academy will also provide adequate education for other partners in the evolving demand chains.

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