The Top Three Reasons Supply Chain Transformations Fail
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By Ramanan Sambukumar & Anil Vijayan

Supply chain management used to be simple. In a traditional supply chain-driven model, manufacturers made products and pushed them through the system to compliant customers as efficiently as possible. Any fluctuation in customer demand meant that orders would be missed or inventory would pile up, depending on the direction of the fluctuation. Companies thrived in spite of this, as limited competition ensured that they stayed in business.

But times have changed. Today, manufacturers have to contend with global competition, exchange rate fluctuations, product lifecycle compression, and, most important, rising customer power.

Customers drive supply chains, and customer expectations are at an all-time high. They want what they want now. And what they want is in constant flux because of the acceleration of trend cycles. Want to keep your customers and attract new ones? It's going to take the power of a dynamic, customer-focused supply chain to win that war.

In our experience, a supply chain can account for more than half of a manufacturer’s total cost of doing business. If the supply chain is weak, a manufacturer simply can’t compete. Businesses recognize this and are probably all too aware of the shortfalls in their supply chain. But despite this, most supply chain transformations fail.

Why? The underlying reasons for failure vary by firm and by industry, but most companies tend to make one of the following common mistakes:

1. Falling Into the "Leading Practices" Trap
   While there are a lot of lessons to be learned and insights to be gained from leading practices, our experience suggests that it is actually more important for a company to pay careful attention to learning more about its own supply chain situation in order to make the right choices. Leading practices can be helpful, but companies will be more successful if they rethink their supply chain in a way that is driven by how it supports their business strategy, meets customer needs, and deploys coherent competencies.

2. Relying on the Big Bang of Technology as the Main Driver
   Advanced supply chain technologies enable companies to automate business processes, facilitate planning and execution, support visibility, and enable information to be used more productively—but only when they are correctly implemented and applied. Without incorporating critical business requirements and process redesign in the deployment of supply chain technology, your supply chain can become “islands of automation” fraught with chronic
inventory shortages, manufacturing delays, and delivery problems.

3. **Failing to Address Organization Issues**

Effective change requires 'buy-in' across the organization and the leadership to instill it. It's no coincidence that many of the same barriers to supply chain success recur in virtually every independent study—and most can easily be traced back to ineffective organizational capabilities, including poor communication, lack of focus, distrust among functions and relationships, and excessive silo mentality. Without top management's commitment to create the sense of urgency necessary to overcome resistance to change and make positive change stick, even the best supply chain initiative plan will fail.

**Avoiding the Traps**

There are ways to prevent your organization from falling into these common traps. Yes, the creation of a successful supply chain agenda is a complex task that requires selecting the right team and getting enterprise-wide buy in, rigorous planning and analysis, and a robust approach to effectively changing course. But here are four key steps to ease the way:

- **Drive Transformation From the Top and Synchronize It with Your Business Strategy**

Supply chain affects supplier relationships, people and processes, roles and incentives. As such, it must be an integral element of your overall business strategy. Senior executives are best able to view the organizational supply chain holistically, enabling a smooth and efficient transformation of the system and avoiding the pitfalls of treating each aspect as a separate entity.

The current supply chain initiative at military contractor Raytheon Co. illustrates the point. Raytheon is a complex organization comprised of six business units generating $25 billion in annual revenue. With a mandate from the CEO, top executive buy-in and support has enabled the supply chain team to drive the transformation throughout the organization. With a strong governance process and steering committees in place, cross-functional alignment has been virtually guaranteed.

- **Focus Your Supply Chain on What Matters Most: The Customer**

Supply chain is demand-driven, which means the end customer is everything. To maintain your competitive edge, the very design of the supply chain (and the business, of course) should be focused like a laser on customer needs. The supply chain's primary objective should be to deliver to the end customer the right product at the right time at the optimal cost and desired quality.

Three years ago, Dell addressed product commoditization, cost-cutting competitors and rapidly changing customer preferences by segmenting its customers and developing supply chain capabilities to serve each segment. Aided by collaborative decision making across all operating areas and a cost-to-serve cost allocation methodology, the company was able to develop a stronger connection with its customers while cutting operating costs by $1.5 billion between 2008 and 2010.

- **Invest in Regular Tune-ups**

There's no such thing as a permanent fix. An effective supply chain must undergo regular change in order to respond to the ever-changing operating environment. Schedule systematic diagnostic tests and benchmark yourself against competitors. Monitoring the internal and external environment for change is one of the best ways of understanding the inefficiencies in your supply chain, but it's not the end. The ultimate goal should be to understand the
root causes of your inefficiencies and subsequently fix them.

One of the reasons Walmart is considered to be a leader in supply chain management is its continuous effort and investment in improving every aspect of the end-to-end cycle. For instance, the company recently identified cost management as a key focus for improvement and is now increasing direct sourcing activities for the company's private brands through newly created global merchandising centers. Combining store purchasing across the 15 countries where Wal-Mart operates and shifting to direct purchasing globally is expected to cut billions of dollars of cost from Wal-Mart's supply chain within five years.

• Align the Business Architecture and Technology to Support the Supply Chain, But First Get the Business Process Right

Technology is unquestionably critical for an effective supply chain, but technology has its limitations in serving the bigger organizational success. It can't fix a flawed supply chain design. Fix those design problems first within the business processes with technology as the enabler. As supply chain processes are refined and new technology is introduced, the organizational structure must be aligned to support these initiatives. This requires a deep understanding of underlying processes, critical success factors and the organizational dynamics that lead to the success of the enterprise.

The Way Ahead

Supply chain is the backbone of any business, but many efforts to extract value from the supply chain lose their way for reasons that include a lack of drive from top executives, improper alignment of supply chain strategy to business strategy, and the tendency to see technology as the solution rather than an enabler. The recent financial meltdown has served as a wake-up call to half-hearted supply chain transformation efforts.

A full-court press to transform a mediocre supply chain to a truly competitive one requires a strategy guided by the knowledge that customer demand is the driver, that transformation must be aligned with the organization, and that any plan must be constantly re-examined and adjusted to change with the environment.

Focusing on these key principles will result in tremendous improvements and will accelerate returns on transformational investments—investments that are imperative to maintain a competitive edge in today's business environment.

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