Supply Chain Partnering with the Sales Director

Message from the Chairmen

In our final event of 2014 we looked at the changing (and often challenging) relationship between the Sales Director and the Supply Chain Director. Our speakers shared their considerable and extensive knowledge and experience in this area and a lively, spirited and good-humoured debate followed. We all played nicely together and took away some useful ideas to improve our workplace relationships.

Our first event of 2015 will look at disruptive technology – tomorrow's supply chain today. As any new technology matures and becomes widespread, disruption occurs as new opportunities are exploited and businesses dependent on old technologies disappear. The economic cycles associated with modern business lead us from boom to financial crises, and they themselves create innovation, and thus the economic cycles are repeated. Where is technology now and where are we going? What is going to impact our current supply chains - and our society? What is really happening now? What are the opportunities and threats? How do we distinguish hype from reality?

The event, to be held in London on Tuesday 10 February, will welcome two recognised leading speakers and practitioners (Sean Culey and Dr Markus Kückelhaus) who are pioneers in understanding current and future technological developments that impact the supply chains of today. Please come along and learn how disruptive technology could already be affecting your business – invitations and booking forms have been sent out already to members, or contact inf@liscuk.org.uk to book your place. Please contact us through Twitter @liscuk or email info@liscuk.org.uk if you have any suggestions for the group, if you would like to present a case study at a forthcoming event or if you know someone who should be invited to join.

Happy New Year!

Calum Lewis & Richard Wilding OBE
Co-chair, LiSC UK

Playing Nicely Together

"In my experience there is generally lots of friction between sales and supply chain, but it's often within the business" observed Professor Lynette Ryals, Professor of Strategic Sales and Account Management at Cranfield University.

"Operations is frequently seen as a major source of conflict for B2B sales people – in fact the Sales team usually think more problems are caused by their own company than their customers! I see conflict between lean and agile models, between manufacturing efficiency and managing customer needs" explained Lynette, "but since most businesses operate two different planning systems – S&OP and Marketing – that's hardly surprising!"

As the first professor of sales in the UK, Lynette certainly has insight into these relationships "The tension between efficient scheduling and customer responsiveness creates friction in the business and can in turn drive undesirable behaviour; when a big customer says jump the production schedule usually suffers."

Customer Service or Unnecessary Cost?

"We have changed the language we use in business; where we used to hold 'safety stock' we now think about our holding as 'inventory', and we are more conscious that this is both expensive and risky. The wraparound costs of holding inventory, e.g. people, shrinkage, obsolescence and damage, can lead to annual holding costs of c30%.

Yet, as we move to a more personalised world we rarely need a buffer anymore – inventory no longer equates to customer service."

The development of 3D printing is a good example of Lynette's point. Personal desktop 3D printers can now be bought for as little as £450; this technology is putting pressure on traditional manufacturing concepts and making business rethink their models.

B2B Model Development

"The B2B model is changing" explained Lynette, "most businesses don't want to operate in what Neil Rackham (neilrackham.com) refers to as the Transactional zone, the low value-add, commoditised sale. We are seeing the biggest developments in the Consultative sale, adding advice, help and expertise, and in the Enterprise sale, where two organisations work together and both change their processes for the benefit of the relationship."

Supply Chain Response

Lynette observed "The closer we work together, the more we will notice failures on both sides. In the traditional model, marketing and supply chain work independently. At the very least we need to have joint planning so we're not generating demand that can't be fulfilled.

Ideally business can then move to manage across organisational boundaries, aligning strategy, processes and KPIs to stop pushing costs round the business rather than reengineering the supply chain to reduce costs."

Cultural Challenges

"The big issue to achieving this joined up response in most businesses is culture; the people must come with you," warned Lynette. "In fact, it's about the people as much if not more than the processes: one study reported that 87% of CRM failures are down to people factors."

Lynette described an activity she has carried out where the non-marketing people in a business were asked what they thought of marketers, and vice-versa. "The results were fascinating and enlightening! But most importantly they started a dialogue, and this enabled the business to make the required changes."

"In another hi-tech business there was a distinct "culture of the engineer", who would massively over-engineer products, meaning they were hard to manufacture and so volume was limited and manufacturing costs were sky-high. By introducing transition teams who worked from product design, through production and on to the end user customer, engineers came to appreciate that a design that allowed tens of thousands of products to be manufactured easily and reliably was a far greater engineering challenge than just creating a design that allowed a few units to pass design verification tests."

The Burning Platform

Dave Pogson worked for Kraft (and formerly Cadbury) for more than a decade, during which there was massive change in the business. He explained "We knew we had to put the customer at the heart of the organisation, and had tried many times to create cross-functional service improvement initiatives, but there were always excuses as to why they wouldn't work: cost, time, complexity."

"In 2005 I became Sales Director for Cadbury, it was the start of my 'Annus Horribilis' … which lasted two and a half years!" joked Dave, "During this time we experienced just about everything: from several major product recalls to devastating factory floods which stopped production. But, ironically, this gave us the burning platform that we needed to address the core issues in the business."

Customers – the Beating Heart of the Organisation

"By mid-2007 there really was only one way we could go, and that was up!" explained Dave. "We had suffered from two and half years of service failure, poor overall business performance,

our employee morale was rock-bottom and our customer credibility was at an all-time low! All our attempts at cross-functional working had been unsuccessful, so we went back to the drawing board."

Dave continued "We decided to ask our customers what they wanted from us – resoundingly they wanted us to concentrate on the basics – but one of the key things we did at this stage was to video the customer interviews. The strength of feeling and level of criticism was shocking. I then shared these videos with the top 50 Cadbury senior managers; the results were very powerful and the response stunning. Across the group the feeling was their pride in their company was hurt, and there was a universal reaction – to fix it."

Project Heartbeat

"'Fixing it' meant embarking on a business wide project, Project Heartbeat, which covered sales forecasting, pricing accuracy, in-store execution, manufacturing compliance, stock management and overarching this, communication and teamwork," explained Dave. The UK MD for Cadbury at the time was quoted as saying "Customer service is the only real measure of organisational effectiveness." Dave commented "We really believed that if the whole organisation worked together, then performance would follow."

Interestingly the project was sponsored by the MD and co-led by the Sales Director and the Supply Chain Director. Dave explained "Customer service became one of our 6 corporate priorities in 2007/08 and was supported by dedicated supply chain and sales resource, a full programme of service failure diagnosis and corrective actions was implemented (spanning Commercial and Supply Chain) and employee awards were established. The MD would ask people 'How have you affected service' rather than simply 'How much have you sold' – it was very powerful. A significant part of our success was not to concentrate on a 'rear-view' of the business, i.e. on what had happened, but rather a forward facing approach, looking at the potential pinch points in the business over the coming 12 months."

Open Heart Surgery

"Project Heartbeat drove radical structural change in Cadbury in 2008," explained Dave, "we recognised the business was too functional and siloed, which lead to linear communication passing through too many "interpreters". It was clear that those making the goods and those selling the goods needed to talk to each other. As a result, the structure of Cadbury was changed: category performance was delegated to four cross-functional teams responsible for demand, supply and profitability, such that the Board's role became conflict resolution, governance, strategy and talent."

"It was a revolution, and it paid off!" declared Dave. "Between 2008 and 2010 customer service was consistently above 98.5%, Cadbury became a top 3 supplier with Coke and Unilever, and

we experienced stellar business performance; net sales value rose by 5% in 2008, 10% in 2009 and 5% in 2010 and margins also grew in this time. Cadbury went from zero to hero!"

Forward Thinking

Given that Cadbury had unsuccessfully tried to create cross-functional teams and projects before, what made the difference this time? Dave explained "People were proud of Cadbury, and the impact of the customer reviews we videoed really made a difference to the desire to change the business. Having an MD who cared about service as the enabler of business performance, and who passionately believed it was the only measure of organisational effectiveness. Joint accountabilities from the Board down through the structure were a powerful symbol that helped bridge functional tensions and conflicts; Sales AND Marketing, volume AND share/ brand preference, Supply Chain AND Sales, cost AND service, efficiency AND customer centricity. The new structure drove genuine ownership, teams felt they were 'doing' rather than being 'done to' and we all had time to do our jobs and trust that others were doing theirs. It was also very enjoyable to be able to sit with customers and talk about the future, rather than what had gone wrong in the past!"

Quoting Jan Carlzon, ex CEO SAS, Dave concluded "If you're not serving the customer, your job is to be serving someone who is."

Delegate Questions

Paul Brooks, BiS Henderson Academy, queried "Why haven't we fixed this issue yet? It's blindingly obvious and yet the issue comes round again and again!" **Dave** wasn't convinced it was a blindingly obvious issue "Many businesses focus on cost metrics and pay little more than lip-service to service." **Lynette** responded "Usually it revolves around internal structures in business; fiefdoms! We see business being driven by KPIs that incentivise undesirable behaviours. Sales is still seen as an individual domain, sales staff are usually ranked, so they seek to maximise their sales volume which may not be the best outcome for the business. It is very difficult to change this perspective."

Larry Woelk, BiS Henderson, commented "Collaboration is hard to measure and can create conflict for example in a global account; should all the business be measured on the performance and profitability of a particular branch? People are protective of their domains."

Chris Markey, Chris Markey Associates, asked how much of the process was about systems and processes and how much was about people. **Dave** answered "I'd say 70% was people driven. We had good systems, but you need the pride and drive to fix it – that's the catalyst." **Lynette** commented "MBNA's payslips say 'from the customer' on them – this really focusses the mind."

Calum Lewis, LEGO, observed "When you're in difficulty, when you have the burning platform, there's a motivation to make change – sustaining it when things are going well and focus drifts to other areas is a major challenge. **Lynette** commented "IBM have built a talent management system that involves 6-monthly reviews of people, which develops individual career paths and this helps sustain change. John Lewis are also very good at developing cross-functional career paths." **Dave** added "We struggled to move people between roles, which mean the gap between sales and supply chain got wider. A cross-functional understanding is vital in business today."

Breakout Groups

The **first group** considered the main barriers to more co-ordinated activity in organisations, and what problems this might cause. **Phil Hartshorne, Ticker Limited**, provided the group's feedback: "We identified a number of barriers that we believe are common in many businesses. The leadership of the business could be a barrier in itself, but could also remove other barriers through cascading strategy, leading by example and really 'getting its hands dirty'. A lack of understanding of the meaning of customer service could also be a barrier to collaboration – it often means different things to different people, and satisfaction measures and ratings are often subjective. Sharing data across the business is often very difficult, especially if different systems are used that aren't integrated; the language and terminology used across functions may also be different. We also talked a lot about the 'silo mentality' in business and how often this leads to issues with business culture, performance measurement, reward structures, etc. which can all have a detrimental effect on cross-functional collaboration. Basically we need to overcome these barriers but doing this when the business is operating 'OK' is very difficult."

Alan Waller commented "Business should reward culture as well as performance", a feeling echoed by **Lynette Ryals**: "Dun and Bradstreet, for example, operate a bonus structure that rewards inputs into the business, for example coaching staff, networking, etc. as well as individual performance." **Dave Pogson** added "Without the burning platform it is very difficult to achieve; before Project Heartbeat customer service was not a measure used extensively and across all functions by Cadbury, reward was based on how well you achieved your functional targets."

The **second group** considered if customer demands and expectations are changing, and what issues this might cause in their business. **Paul Brooks** shared the group's opinions: "Undoubtedly customer demands are changing; information is

ubiquitous and customers are ultimately more demanding as they approach perfect information. Just look at the rise of multi- / omni-channel – we have to be agile to satisfy their desire for convenience.

We felt the big question for business is 'Are we managing customers' expectations or are we responding to customer demands?' Do we understand our values? Are we all delivering the brand? Are we delivering the brand of our customers? We need to get the right people with the right attitudes, who are transformationally focussed, and align with (or better still ahead of) customer standards."

Richard Wilding observed "Businesses operating in the B2B market may need to represent the values of many customers; aligning lots of sets of values in lots of areas is incredibly challenging." **Lynette Ryals** remarked "Most businesses will set metrics and manage them periodically. One particular hi-tech company doesn't do this any longer, they still have quarterly meeting with customers but instead of reviewing endless KPIs they instead ask the question 'what's been keeping you awake?' This allows them to be agile and to focus on the customer demands and expectations." "A major challenge," suggested **Dave Pogson** "is to understand what the customer actually wants, particularly during periods of such structural change as we're currently seeing in the UK Grocery Trade.

Steve Rinsler, Bisham Consulting observed "If the customer says everything's ok, then often that's where it ends. It's very difficult to pressurise a relationship if everything's going well and it doesn't seem that change is necessary."

It was suggested that customers want human contact as part of customer service. "This is not always the case," replied **Lynette**, "The Open University has less face to face contact than many traditional universities, yet consistently scores greater than 90% customer satisfaction."

The **third group** looked at how cross-functional leadership "pairings" in organisations could help span functional divides, and how such initiatives could be best implemented. **Clare Bottle, Hermes**, provided the group's feedback: "While we agreed pairings were useful, we didn't think they should be limited to leadership roles. Cadbury had many-many relationships and this proved successful. Training and coaching in collaboration and collaborative learning, e.g. empathy, questioning techniques, etc. should be implemented. The business needs to recognise and share its need for functional excellence AND collaboration skills, and to understand how the customer perceives you and focus on this in all areas."

Clare concluded "The business must also be aware that, during difficult times, people will revert to type, polarise and focus on their own objectives; strength of leadership is very important at these times. Strong, visionary and charismatic leadership is vital to maintain collaboration."

Lynette Ryals noted "Many businesses place too much emphasis on technical leadership and not enough on situational leadership. We are all familiar with people who excel in one organisation and then fail in another – cultural fit is as important, if not more so, than technical performance, and this needs to be recognised during the recruitment process." Alan Waller supported this view "We talk all the time about 'T shaped' leaders; it is easier to train and fill in depth of knowledge and competence than breadth."

Keith Newton observed "The more complex and global business becomes, the more complexity is added to culture and functions."

The **final group** discussed if there was a measure for total business effectiveness, and how such a measure could be the catalyst for performance acceleration. **Simon Smith, University of Derby**, gave the group's opinion: "We didn't feel there was one single 'magic measure', but we did think there could be two. Firstly there's the bottom line, which is arguably the ultimate measure, although possibly short term in itself. For a more sustainable measure we need to look at customer purpose, i.e. the way you're perceived. To achieve this you need to look to achieve consistency of purpose ACROSS the organisation – what are you about, what are you trying to achieve. It comes back to the KPIs – if they aren't aligned then chances are you're not all working towards he same outcome."

Simon continued "Measurement is king, but we must measure the right thing. Not everything that matters can be counted, and not everything that can be counted matters." We talked about a balanced scorecard approach, which, while a little old-fashioned, can still be relevant and give structure. How we measure achievement of strategy can be a little more difficult, perhaps we should measure consistency of understanding of that strategy across the business. Our final point is about procurement, where decisions in most businesses are still based purely on price / cost."

Chris Markey commented "Even when business is good at measuring the right things, they seem to fail in the necessary subsequent steps: analysing the data, understanding what it means and then acting on it."

Conclusions

Keith Newton concluded "It seems that in order to play nicely together we need to have a cross-functional understanding and all be driven by the same goal. A burning platform can give the focus and momentum the business needs to make such radical changes, but strong leadership is needed in the good times to ensure sustainability."

Lynette Ryals supported Keith's conclusion "Leadership still needs to be the number one thing people talk about, even if the business is achieving it 100%." She added "Many people believe there is only one key metric in business – customer advocacy – which can be integrated into a company's strategic goals and measured through customer satisfaction, retention, and profitability."

LiSC UK is an independent, invitation only network of leading practitioners helping to shape the future of the supply chain profession.

To maximise effectiveness there is a careful balance between retailers, manufacturers, academics, consultants, IT providers, third party logistics providers and government; to ensure this balance, the numbers in each category are strictly controlled and managed. The overall membership is limited and restricted to those professional logisticians holding a director-level appointment or who are very senior logisticians in a large organisation and are passionate about the supply chain and its role in business and sustainable economic development. Membership invitations are first approved by the LiSC UK Executive Committee.

The group meets four times per year to debate current issues, with themes and topics suggested by members.

For more information contact info@liscuk.org.uk or go to www.liscuk.org.uk