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EXCELLENCE AS STANDARD

JAMES SMALL

The experience of the past few years has revealed many organisations' definition of business excellence as rather loose and their ambition for improvement lacking. Comparing themselves to their peers in the same league and ignoring the premier division above has often masked an average performance, but with their processes severely tested by the economic downturn, and a need for capital, they have been exposed.

What is excellence?

The term 'business excellence' has long been in use. Some organisations pursue it relentlessly and successfully. Often it's an aspirational state that many seek, but one which few reach; a journey that begins in earnest but is then cut short as organisations lose their way, or their enthusiasm, and revert to business adequacy. For many, business excellence is merely a nice-to-have; a kite mark. Arguably, the term has become devalued, its real purpose lost, because average performance has become too widely accepted as good enough. Global recession has dramatically changed all that and business excellence is now being rapidly reclassified as a necessity rather than a luxury.

We are busier than ever as an increasing number of companies all over the world emerge from the recession towards faltering recovery, with the dawning realisation that they will have to improve if they want to be equipped to survive another downturn. There's no doubt the recession was felt more acutely in Europe and the US than it was in Australia, but it is just an order of magnitude; the effect and the learning have been the same. Forced to reduce costs, companies have drained inventory out of the supply chain, only to discover that they are then unable to get the performance they need to meet customer demand as it returns. Things are leaner because of the reduced inventory. At the same time, demand volatility has increased and the forward horizon remains uncertain.

It creates the perfect storm and makes it extremely difficult to manage the supply chain. When conditions were easier, people could cope just by applying more energy; more cost with inventory and capacity etc., but now they are finding they really do need to improve their processes.

Previously, under such circumstances, organisations would have been sent scrambling for an IT solution to the problem, but there's an increasingly widespread acknowledgement that the tools on their own didn't deliver the type, size and performance of business they wanted, and now it is investment in people and process that is required. Excellence is not beholden of the tools - all good IT systems are capable of supporting excellence - it's just that organisations haven't been getting the most out of them because of their failure to make the corresponding investment in people and process. The foundation of excellence lies in the knowledge of people. The challenge is in broadening the vision of excellence to all the key areas of the business. Rather than spend $5 million on a new IT system, organisations are choosing to invest five to 10 per cent of that figure in people and process instead, and they're getting substantially better results.

Organisations that had embarked on business improvement programs before the recession and achieved a level of excellence, are now feeling the benefit. The arrival of the economic crisis was so swift that no organisation could sidestep it, but companies with excellent processes have fared much better than others because they are better at managing the supply chain, and they have been able to continue to drive improvement throughout the difficult times.

'Class A' standard

We have a specific standard for business excellence, Class A, which is defined against a specific set of detailed criteria. These criteria are not academic targets but real-world performance measures, which all companies should be focusing on as a fundamental part of their operations. Companies, though, don't usually start working with us because they want to achieve business excellence or Class A per se. Typically, they approach us because they have a burning platform and need results quickly - they want to improve supply chain performance; they want greater visibility; or they want to become more integrated. Nonetheless, achieving these things can, and should, lead to Class A performance. And it's right that organisations don't view Class A as an objective in itself, but rather as a series of direct solutions to specific problems; business excellence will be achieved by taking a sequence of small steps, which in themselves will bring immediate returns for the organisation.

For the most part, the organisations that approach us are those the consultancy firm defines as being at 'phase one maturity' (we categorise the maturity of all organisations in one of four 'phases'), which means they haven't yet got ownership of their demand, supply or portfolio management, by the right people in the right parts of the organisation. This level of maturity is typical of many organisations that believe they are already achieving excellence.

Recent research supports this, and reveals that it is commonplace for senior executives to overestimate the capability of their business management processes, even within some of the largest global organisations. In March this year, we interviewed 25 senior supply chain executives, representing medium and large organisations across the manufacturing and service sectors. The majority of those surveyed were from well-known organisations with household brand names, including supermarket groups, insurance companies, major soft drinks manufacturers, oil production companies and leading multi-national manufacturers.

The executives were asked to evaluate their business management process, scoring themselves for a range of characteristics, which are used to define organisations at the appropriate level of maturity for Integrated Business Planning - businesses that are ready for the transition to IBP are those that have reached the bottom of phase two on the Oliver Wight maturity map. Most survey respondents believed their organisations already had robust S&OP processes in place and were ready to move to IBP. However, the research revealed that the majority were in fact at mid- to bottom of phase one, and not anywhere near ready for a fully integrated process.

Those organisations that have heeded the warnings of the recent past are now feeling the benefit in improved visibility of demand and capability in supply, as well as better understanding and management of their product portfolio. The benefits are felt more keenly now than ever because companies have really felt the pain of not having them.

Those who are inclined to slip back into their old, inefficient ways may find their way blocked. Even if they want to put the buffers back, there will be CFOs keeping a much closer eye on things than they have done in the past. Equally, banks still aren't lending money to businesses because they consider them too high a risk; all of which dictates that inventory has to be maintained at

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reduced levels for organisations to remain in control of it. If you've reduced inventory and can't reintroduce the buffers, and people in supply are questioning why they can't fulfil customer orders, the only option left is to improve the process.

This has bred a fundamental shift in the attitude towards business improvement. Companies are more aware and willing to accept that they have to improve because they've now got the compelling reason - i.e. they can't put the buffers back. Previously there was a lack of desire and/or a perception that there was insufficient return on investment, to drive the organisation to the next level. Now, the realisation of what it takes to have excellent supply chain processes is driving a change in belief.

So, how quickly can improvements come? Is it different because of the current market conditions? People can return to being average again quite quickly, but getting back to average isn't what they need to do - they need to get beyond that so they don't have the same problems in the future. That, of course, is more difficult.

The big question is whether organisations learn from the experience of the last two or three years and seize the opportunity, or will quickly forget the tough times and settle back to old ways. You can challenge people's paradigms around business performance, but once they've achieved survival, will they revert to reactive processes, allowing the buffers that existed previously to go back? Will things be forgotten without improving performance? As the recovery starts up they'll

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be happy, but will they have learned from what's happened and be in control going forward, so they are better equipped to manage the situation if anything similar happens again? The truth is that some will and some won't - those that don't, may not survive next time around.

Despite the compelling arguments for the type of business improvement services we provide, clients are not spending money without due consideration - they are conducting detailed cost-benefit analysis. I believe the return on investment often goes beyond what people expect. There is a direct ROI in terms of improved supply chain management, inventory control and integrated business planning, but organisations can also get an unexpected improvement in ROI of their IT systems as a result of the improvement in their processes and the performance of their people. Add to this the benefit of a view of the future horizon out to at least 24 months, with rolling monthly reviews; there are clearly significant opportunities to improve the ROI still further.

Although economic conditions remain uncertain, investment in people and processes can make the difference between staying in business or not in the future. It's about staying in control. To really be in control means you can operate the organisation in a leaner fashion, while still meeting customer expectations. Right now, the only other choice is not making the profits you need - or even going bust.

Being average is no longer good enough. Being excellent is now a necessity, not a luxury or just a plaque on the wall. Excellence will be the winner in the future and there will be no going back to the sub-optimal performance of the past.

James Small is managing partner at business improvement specialist Oliver Wight. For more information call (03) 9596 5830, email information@oliverwight-ap.com or visit www.oliverwight-ap.com. mhd