A Lean Logistics Pipeline
Maybe "supply chain" is an obsolete term.
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I had an interesting conversation with a client a few weeks ago about the cost of moving things from place to place. Transportation sure doesn't add any "user value," he complained. But, if products are not in the right place when they must be, customers become livid.

The challenge is to honor what has been called the "customer's bill of rights"--the right thing in the right place, at the right time, and in the right amount.
Despite the obvious importance of the "bill of rights," few companies have learned to quantify the "benefits" of heeding it--although they have discovered the "penalties" for not "filling the bill."

Why are so many companies oblivious to this marketplace reality? Perhaps a simple story will help to explain it:
When elephants are young, circus operators tether them to a stake with a chain connected to an anklet. The elephants are not yet strong enough to pull out the stake, so when they reach the end of the tether and feel the anklet tug on their leg, they stop moving and stay close to the stake. As they grow older and stronger, no stake could hold them; but they continue to stay nearby because they're wearing the anklet and chain--which often is hooked to nothing!
They have been conditioned in their youth, and that conditioning still governs their behavior.

Many people suffer from tethers--on their minds. They are connected to nothing that limits their search for solutions, except their own conditioning not to stray far from the old ways.

In a 1995 logistics survey sponsored by the University of Tennessee, Penn State, and Michigan State, executives were asked to assess the statement: "Logistics adds value to our firm's output and provides a competitive advantage for my organization." (On a 7-point scale, a 1-equalled "strongly disagree" and a 7-meant "strongly agree.") The statement received an average response of 5.84 --pretty solid agreement.

But the average response to this statement--"We are able to express the value of [our] logistics quality [efforts] in dollar terms"--was a mere 3.37.

Only 13.5% of the manufacturers and 22% of the merchandisers surveyed said they were able to quantify relationships between increases in service and increases in revenue or profit. This illustrates the gap between value "delivered" and the ability to charge a fair price for that value. Without a quantifiable relationship, justifying the cost of improved logistics service is a problem.

Price increases to cover rising costs are becoming almost impossible to implement, which puts enormous pressure on cost reduction. Without price increases, we must lower our costs, even after we think we've taken as much cost as possible out of the product and slashed waste in the supply chain. Alternatively, we must improve service dramatically in order to command a price premium--by responding to customer needs better, faster, and more uniquely.

One answer to this dilemma is to quit thinking about a "supply chain." Instead, think of it as a "lean enterprise" and a responsive "partnership pipeline," through which all the partners benefit by moving material as fast as possible with the least possible waste. An essential step is to develop partnerships within the supply chain.

This will make it easier to calculate the total benefit of responsive service. Without an information-sharing partnership, it is difficult to determine the value of the better service.

Few companies do a good job of calculating the total cost of acquiring a product or material. An intimate understanding of all the logistics costs provides a big head start on such a calculation--and a truer understanding of why a certain price is justified.

More responsive customer service is one area where real gains have been made in recent years. For decades, we launched products and services by trying to satisfy the aggregate/average demand of groups of customers. Often we ask only a few what they really want, and satisfy even fewer. The new paradigm is to ask first and then respond on a customized basis, letting customer demand "pull" materials and finished products through the system.

The most effective way to responsively fulfill the customer's "bill of rights" is through communication and sharing of information in a partnership network. Responsive companies will practice "lean logistics" and use information technology to pull goods through the partnership pipeline--rather than pushing them in clumps into the "supply chain (pipeline) —plugging it up."