From Supply Chain to Value Chain: Collaboration is the Key
Transforming the supply chain from a traditional product- and efficiency-centric business model to an innovative, customer-centric e-business model that also considers top-line market improvement is as much a matter of mindset as technology.

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The art of successfully managing a supply chain for optimum value continues to be one of the most talked about, yet elusive, goals in the world of manufacturing. When it comes to supply chain, manufacturers are too often dazzled by "flavor-of-the-month" management philosophies and dismayed by the sheer number of supply chain technology solutions out there. The goal of this article is to cut through the confusion, define value chain and explain its impact on growth oriented companies.

Growing businesses want to become more competitive in their market space and more profitable to maximize value for all stakeholders. To do this, they need practical solutions that work.

However, in light of today's global economy and speed of business, traditional solutions are no longer working. As a result, companies are searching for new ways to do business -- with their suppliers, their distribution channels, and their customers.

Downsizing, "rightsizing" and reengineering have taken us a good distance in squeezing operational efficiency out of the supply chain. Now the emphasis has shifted from cutting costs to building value, using practical solutions that add value for customers and have a measurable and positive impact on overall business performance. This is the short definition of Value Chain as a critical component of success.

Creating a Value Chain
So, is value chain a process, a technology or a business philosophy? Actually, it includes all of these elements and more. The goal of a value chain is to add value for customers by improving quality and reducing time to delivery, and to add value for the enterprise by increasing efficiency and eliminating or minimizing non-value-added costs.

There is nothing new about the value chain concept. Since the dawn of the Industrial Revolution, all good businesses have been built around delivering value to customers. However, today's advanced information technology (IT) tools -- such as Internet-enabled communications and enterprise-wide software -- have made it faster and easier to create and deliver a higher, more personalized level of value.
What manufacturers are realizing is that value is created not just by the manufacturing company itself, but also by its entire network of suppliers, distributors and business partners. This realization represents a significant departure from the past. Where once decisions were made on product quality and price, today's customer also demands a high level of service, agility and flexibility, attributes which the old-style supply chain was not designed to deliver.

The traditional supply chain model is linear and task-oriented, an internal "command and control" mechanism with cost-cutting and bottom-line efficiency as its goal. The new value chain model is complex, parallel, and relationship-oriented. Its goals include bottom-line efficiency, but emphasize top-line growth and optimal customer service.

Today's value chain is held together by a process of collaboration between trading partners to redeploy and redistribute costs, risk and profits throughout the chain -- a process fraught with challenge. Thinking collaboratively rather than competitively does not come easily to most businesses. With no legacy model to draw upon, management has to rethink the business from the ground up and may be challenged by internal and external fears and negative mindsets as they attempt to create a new and frictionless environment of open communications.

Collaboration is the Key
The value chain process is building a collaborative environment that is flexible and adaptable to changing customer needs. In this new e-business economy, the value chain transcends traditional enterprise ownership boundaries. Today's CEO and management team must "levitate" outside of their own four walls to form collaborative partnerships with trading partners, and even customers. This is their best hope for coping with market and customer volatility. With the walls down and the costs associated with maintaining those walls eliminated, the enterprise and its partners can finally focus on what's truly important -- getting products to customers, how, when and where they want them.

Thus, the heart of value chain is neither information nor process technology. It is the sharing of key information in a parallel fashion to speed up the cycle time from customer order to delivery.

Technology plays a part, of course. With technology-enabled collaboration, automation can speed up information flow and a wide range of redundant, non-value-added tasks can be replaced with real-time information to all parties.

One of the most important steps a company has to take in building a value chain is reforging its relationships with the supply and distribution base. Unless these relationships are redefined at their very core, attempting to build a value chain
will be a lesson in futility. Coercive negotiations must be replaced with collaborative agreements. Adversarial relationships must give way to trusting partnerships. In this new paradigm, companies can no longer squeeze their suppliers or pit them against each other based on price. Quite the opposite. Fixation on price will give way to an emphasis on total costs and other collaborative goals. To create real value for customers and the enterprise, supply chain members must work as a team -- sharing costs, risks and profits -- and focus on serving the customer.

The Business Side of the Equation
To create an efficient value chain, those things that do not add value must be eliminated in order to hasten product delivery and reduce costs. In a supply chain of trusted partners, you can save significant time and costs by eliminating redundant tasks and streamlining time-consuming processes, such as Purchase Orders, RFQs and other partner/manufacturer paperwork. You can also deploy time-saving tactics such as Internet-enabled networks, Vendor Managed Inventories, automatic stock replenishment and more.

Many companies experience real problems when it comes to forecasting and demand planning. They may be good at manufacturing and shipping products, but fall short in estimating what customers will want and when. By speeding up and streamlining the demand cycle, manufacturers can gain the flexibility and agility to deal with market volatility. The key to a responsive value chain is to do things so much faster and more efficiently that the need for forecasting as a key business imperative is significantly diminished.

Likewise, some companies have adopted a "demand" or "flow" manufacturing mode by rethinking and redploying supply chain resources to tap into each member’s core competencies.

For example, they have suppliers who take over packaging responsibilities, and others who look after the entire logistics area, from warehousing to transportation, shipping and invoicing. The secret is to leverage the capabilities of the team to maximize value.

Technology as Enabler, Not Driver
Rapid information flow enabled by IT may be the "legs" of the Value Chain, but not its heart. Information access alone is not a solution -- it's what you do with information that counts. A company implementing and APS or ERP system may think it is creating a value chain, but that's an illusion. In fact, even if demand information is made available to trading partners, if that information is not used to shave time and costs off the delivery process, then nothing has been gained.
Value chain is not about data, but about relationships. Raw data is meaningless unless effective mechanisms are in place for using the data, such as vendor stocking, blanket ordering, and customer response systems.

Lack of supply chain integration is one reason why so many ERP implementations have gone down in flames and many more, while implemented, have severely underdelivered. These failures can usually be tracked to a lack of visibility between the back and front office, or lack of timely communication between the enterprise and its business partners. It's not the technology that failed, but the relationship between key elements.

How, then, can growth-oriented companies evaluate and select the appropriate technology solutions for building a value chain? First, they need to redefine business processes and supplier relationships towards a customer-focused orientation. Automating bad processes will never yield good results. And, as explained earlier, if you have not first redefined key partner relationships, just speeding data through the system will not have a beneficial effect, and may even do harm.

It's important to remember that building a value chain is a business challenge, not a technology challenge. So don't let the technology or the abundance of choices confuse you. As with any business challenge, the best approach for a CEO and management team is to analyze the company's needs and goals, find out what customers want, focus firmly on business return, build a cross-functional team and strong business case. Only then should you evaluate technology solutions that can enable you reach your goals.

**Growing Closer to Customers**

Another valuable and long-lasting benefit of building a collaborative value chain is the dramatic improvement it can make in customer service levels. With such a network, the minute something happens with a customer or in the factory, everyone involved is instantly aware and can act effectively to handle it. Better customer service leads to top-line value stemming from increased customer retention, greater market share and increased revenues.

In any business, customer service is whatever customers perceive it to be. The key to getting close to customers is to extract their definition of value and to implement processes and technology that can help you organize, analyze, distill and disseminate customer information in the form of strategic business intelligence. Companies that do this well experience not only higher customer retention, but also more effective demand chain management and e-business enablement.
Building a value chain is not a one-time event but rather an evolution. Customers can be capricious and their perceptions of value change over time. To remain competitive, a company needs to know what its customers value most. One of the traditional supply chain’s biggest flaws is that it forced companies to focus on the mechanics of production to deliver quality and price -- when what customers sorely wanted was personalized service and on-time delivery.

**Evolving Towards Value Chain: A Journey Worth Taking**

Building a value chain is not an overnight process. Rather, it is an evolutionary journey that involves changing the way the company does business, streamlining the processes involved in delivering product, and applying technology solutions where they make good business sense.

The successful companies of tomorrow will be those that manage to keep customers happy, while building bridges with the supply and distribution base to deliver value, however their customers define it. They will be vigilant enough to detect change and agile enough to respond quickly.

Today’s customer needs to be in control. If they are not, they are gone. At today’s speed of business the admonition to “Be One With the Customer” is more than just a slogan -- it’s an imperative to compete. Responsiveness to customers is the new path to prosperity, and collaboration is the ideal way to get there.
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