

## Companies Beat The Crisis



**By Bill Bronsky, Managing Director OBA**

During this recessionary period a select number of strong performing companies have managed to grow at a rate that significantly outstrips their peer group. What are they doing differently and how can more companies adopt a similar approach?

This research conducted by **OBA** and **London Business School**, covered the responses and interview feedback from over 40 Business Directors/Managers from FTSE 100 & Fortune 500 companies

### Growth despite the recession

During this recessionary period some of the best companies have managed to grow at a rate that significantly outstrips their peer group. That means for the majority of companies some persistent issues have proved too difficult to solve. The results from this survey highlighted the following biggest challenges:

- Internal conflicts of interests destroying value,
- Cost cutting and reducing inventory levels at the expense of a focus on growth
- Inconsistent inventory management and planning processes,
- Unreliable planning systems,
- Lack of collaboration among key stakeholders,
- And a shortage of talent.

Now that we have entered a period of cautious, slow economic recovery, there should be a new goal for Supply Chain Management (SCM) executives – demand management and growth. From this survey the focus on growth is what differentiates the best performing organisations compared with the rest of the pack. Instead of structurally planning for future growth and focusing on those key processes that manage demand - many companies appear to be either tied down or focusing on several of the issues highlighted above.

## Follow the strong performers.

From this survey the strong performing companies seem to have avoided the following key pitfalls:

**1. DON'T ALLOW INTERNAL CONFLICTS OF INTERESTS TO DESTROY COMPANY COLLABORATION.** When asked about the importance of Supply Chain Management to drive company performance, nearly three quarters of Business Managers agree that it is a vital part of the company-wide decision making process, **but** conflicts of interest and misaligned performance metrics between functions and business units are causing bad customer service and internal “wheel spinning”. Responses indicate that larger multi national organisations are today still suffering from multiple business units acting independently as silos. In some companies the S&OP (Sales & Operations Planning) incentives are working against the attempts align and focus different departments on the same objectives.

**2. DON'T BLAME UNPREDICTABLE DEMAND AND RISING COMMODITY PRICES FOR MAKING FORECASTING AND PLANNING MORE DIFFICULT.**

Flexibility and responsiveness is particularly important in industries that are influenced by seasonality of demand and the problem is further compounded by today's economic volatility.

Inability to cope with the current volatility of demand was cited as the main reason for poor forecasting, further exacerbated by economic uncertainty and structural industry changes. The strongest performing organisations have made the Demand Planning function the single most important area of focus “volatility is here to stay – we need to get better at managing it”. The accuracy of forecasts is crucial for companies inventory management and capacity planning.

**3. RISING COSTS AMID AN ECONOMIC CRISIS PUT PRESSURE ON STRUCTURAL LONG TERM CHANGES.**

Almost half of our respondents stated that their supply chain related costs have increased or are expected to increase in the near future.

Managers in the manufacturing sector are seriously concerned with rising commodity prices, fueled by growing demand in emerging markets, political instability in the Middle East and natural catastrophes – all of which seem to be escalating in 2011. Although, most of the global companies are expected to benefit from economic growth in developing countries, notably China, commodities inflation puts pressure on their profit margins and overall

competitiveness. Many companies are now questioning the resulting long-term feasibility of structural changes such as outsourcing; only half of surveyed SCM executives have stuck to their earlier decision to outsource some key activities for what was a perceived low cost advantage.

#### **4. TRANSPARENT COMMUNICATION AND TEAMWORK IS REQUIRED ALONG THE ENTIRE SUPPLY CHAIN IN ORDER TO MAKE IT MORE RESPONSIVE TO VOLATILE DEMAND.**

Whilst all the Business Managers in this survey unanimously agreed with the importance of strong teamwork and fast information flow - only 60% of our respondents believe that they have a close collaboration with all of their supply chain stakeholders

The strongest companies depend less on systems and much more on consistent processes, using the right KPIs to align cross-functional objectives and promoting a strong open, teaming ethic.

**5. DON'T IGNORE YOUR PEOPLE IN A CRISIS - NO TALENT = NO MOTIVATION = NO GROWTH.** Cited as one of the most important factors, the best performing organisations pay much more attention to initial recruitment/training and motivation of SCM professionals than the rest of the group. This has a direct impact on performance and retention. Additionally, to address the shortage of qualified supply chain professionals, graduating from universities, the strongest companies have developed their own in house educational programs that promote core skills training as well as behavioral/performance guidance.

**The strong performing companies have solved most of the big issues** - while many of the root causes of the problems faced by business managers are common across a lot of the companies surveyed, successful companies have a certain set of characteristics that are responsible for their performance (see [OBA - Winning Supply Chains of The Future](#)). There is also a common pattern amongst the top performing companies regardless of the industry in which they operate. They have 3 things in common: **1)** a strong, identifiable culture (or ethos) and fast decision making capabilities **2)** alignment across functions – both in behaviours and objectives and **3)** little dependence on the type of IT systems implemented.

**For further information on this research, please contact [info@obaconsulting.com](mailto:info@obaconsulting.com). Bill Bronsky is the Managing Director of OBA. [www.obaconsulting.com](http://www.obaconsulting.com)**