

## 8 A Slick Operation, Why isn't it Delivering The Benefits

The CEO of Xmas Global leaned back in his executive chair, swung his feet onto the polished desk and scratched his head thoughtfully. As head of a successful, global corporation at its peak time of the year he ought to be exceedingly happy. After all, despite the perennial problems in the world and the usual rumours of the steam running out of the 'Xmas concept', business continued to boom. Instead, he was uneasy because competition from the internet sales sector was starting to eat into his bottom-line which, frankly, after several years of steady growth had begun to level off.

**Efficiency initiatives.** He reviewed his efficiency policies of the last few years with satisfaction. He had followed the advice of the best consultants and downsized, right sized, business process re-engineered, introduced Balance Score Card, used Agile, implemented JIT, TQM and LEAN. By introducing the latest automation and process control his packing lines were extremely slick and needed very few elves to manage flawless operations, although the new generation of elves were not as dedicated as they used to be; all wanting to be managers after only one season. Moreover, his CRM system ensured that orders were being placed to match near enough customer requirements. Ah, he muttered, this was where his problems began.

**Supplier consolidation.** As with most other big firms, he had reduced the number of suppliers he dealt with, one for electronic goods, one for wooden toys etc, etc, and aimed to work much more collaboratively with them. Rather than placing bulk orders for stock, very wasteful because of the additional quantities that had to be ordered to cover fluctuating requirements; he wanted to order each customised item individually and to do this in the regional batches needed for efficient delivery to his customers. On top of this he wanted his suppliers to introduce RFID tagging so he could satisfy the growing sustainability lobby's demands for traceability. One day, he thought, he could even get out of packing and just match his customers directly with their wishes through an e-commerce system and concentrate on his core competency, delivering the Santa Experience.

**Supplier relationship management.** He sent his commercial director on a course at a well-known business school in Bedfordshire and set up a Supplier Relationship Management programme a couple of years ago. This involved gathering the suppliers together periodically to tell them what he wanted. He especially impressed on them the need to work together. He even assisted some of them with setting-up the appropriate quality systems and getting them to share best practice ideas. He published a glossy newsletter ever month and held an annual golf day and award dinner where various performance prizes were presented. All this cost him over a million each year and the more he thought about it, the more he realised that supplier performance had not gone up one iota. He suspected that they were just telling him what he thought he wanted to hear. What's more, he was at least a couple of years away from getting them to adopt his SCM objectives. In the good old days when he knew all his suppliers personally, they helped him out when things had gone astray. Now that they were conglomerates in their own right, the personal touch had been lost.

**Stock issues.** In the meantime, he was still sorting bulk orders and holding far too much stock and his flash new ERP system was also causing headaches, even his implementation consultant didn't know what parameters drove which result. Furthermore, he narrowly escaped a near disaster with JIT when one of his suppliers defaulted. Worst of all the quality of the toys and gifts have been getting poorer and tackier. There have been a series of recalls and there is the real possibility of a future law suit if a child gets hurt. He suspects that in an effort to cut "unnecessary" processes and

eliminate costs he is now not so efficient; has problems he didn't have before and is much less customer focussed (in fact he is down-right unfriendly).

**Locked-in supplier relationships.** With his competitors breathing down his neck, he knew things were getting serious. His people had taken to pushing requirements at the suppliers without consultation – “they really think they know it all”; the suppliers are just there to do what they are told. The situation was made worse by the fact that in the last few years so much investment (know-how, IT links, accounting systems etc) had been expended on these supplier relationships that it was virtually impossible, without huge expense and disruption, to replace any one of them. It was obvious he had no option but to improve their performance but, how?

**Departmental meeting.** He called in his secretary, Ms Chris Fairy, *“Set up a meeting of department heads, we've got to sort out our suppliers.”*

He addressed his first question to the Commercial Director who immediately said, *“Let's push for the penalty 'clauses' in the contract.”* The eight elves from the Commercial department and the four from Accounts nodded in agreement.

The Purchasing Director immediately jumped to his feet and fired off a salvo, *“We can't do that we've got our targets to meet this year.”*

*“Furthermore”,* interjected the Ops Director *“If we tick off our suppliers, they will put us at the bottom of their list for deliveries and we'll never meet our deadlines. Are you people aware that we are the ones in the frontline. When you keep us in the dark and do your Jekyll and Hyde impressions, we're the ones who have to sort out the mess.”*

At this point, Mrs Claus, Head of Customer Services chimed in, *“We've had more and more letters of complaint from disappointed youngsters, like this one from little Suzie whose beloved baby doll was recalled on Boxing Day because some heads fell off this model.”*

It was slowly dawning on the CEO despite all their wonderful systems possibly no one in the room had a handle on the situation. *“Does anyone actually understand how the relationship with our suppliers works?”* At the down-cast look on their faces (including the man from IT who was there just in case he got the blame for everything), he realised that relationship management was the key.

**The solution.** Seeing that he had no time to lose, he announced in his best dictatorial CEO-style, *“I'm going to promote Mrs Claus to the new post of Relationship Management Director. She and her team will be responsible for running the alliances, coordinating internal processes that contribute to them, ensuring that information is disseminated to all departments and becoming the centre of collaborative excellence and learning within the company. I want her to go and talk to the suppliers and set up joint teams to manage the contracts; involve other supply chain players as necessary. I want us to work together to continuously improve our performance. We do not succeed unless they succeed. As we all get better at working together, we will all profit. Any volunteers to join the new department?”* Three junior Ops elves put their hands up.



**For Further information contact:**

Telephone: +44 1 908 561892

Email: [sales@sccindex.com](mailto:sales@sccindex.com)

Website: <https://sccindex.com>