

Questions: Jean Murphy, Editor Emeritus, Supply Chain Brain

Answers: John White III, President, Fortna

JM: Today I am speaking with John White, President of Fortna. Welcome John. As a professional services firm I know that you have worked with a lot of supply chain transformation projects. Tell us from your perspective what are the keys to success?

JW: When I first begin I believe the key to success is making sure there is clarification around the business case. And that focus is much more on realization than on installation. Too often times companies will focus on installing systems or installing material handling equipment or making change that they are focused on those particular areas of effort. As opposed to understanding the full breadth of the realization they are trying to embark on and what is required. So, very often you will find companies will begin the idea of justification around the project but they lose sight sometimes regards to all the things that are implications of those things relative to people, process, systems, equipment, risk, flexibility and be sure the full breadth of that is understood.

Another key to success of course is making sure that once the business case is defined that you have all the resources in place to support it. That can include having the right people it can include having the right timeline and expectations around what is going to occur. Unfortunately, some of the most important projects in some of our clients' experience, they don't put their best people on. They view availability as a skill set. And it is not. And so if you are going to embark on transformational efforts, making sure you have you have the best advice of your company involved and that they have their power and are accountable they adopt the change that is going on as critical. The consultants and outside partners are going to go away at some point as they need to. But making sure that there is that ownership within your organization from the best people that have the best ideas is critical.

Henry Ford actually made a comment that I like to quote "If you need a new machine and you do not buy it, you pay for it without ever getting it." And so the reality is that many companies need to make change but the question is are they going to do it and are they going to embark on it with the same focus and energy that they need to. Because one way or another they are going to pay for it.

JM: So when they sit down to build this business case what are the key components that need to go into that?

JW: Well, first is the clear understanding of the scope and the objectives of the particular referenced initiative. Following behind that would be of course an understanding of the benefits, a timeline of that of course the cost associated with that, the timeline to achieve the effort. Of course you would also want to understand the financial ramifications of that. It is not a surprise to anybody that in any company today that people are competing for dollars by

which to invest across a multitude of projects. So making sure you can get the best return on your invested dollar is very important relative to having a justifiable project to be able to move forward with.

The other aspect that is important that many companies view the justification against “doing nothing”. So the “do nothing” alternative is always the alternative that has to be evaluated. What we’ve seen recently in the last few years is that many companies don’t have the “do nothing” alternative as an alternative and the reason being because if they do not do something they will lose market share, they won’t be able to grow, they won’t be able to service their customers with their current service requirements. And so they have to make that investment and the question is... what is the right investment to make to get the best return on that invested dollar?

JM: So are there other issues than the ones you’ve already talked about that cause the transformation project to underperform or to fail to meet its goals?

JW: I’d say the first one is typically, usually, people. Again, I mentioned that if you don’t have the right people involved you’re going to probably pay for that one way or another. The other is recognizing that it’s change that is really occurring and it’s people going through change that ultimately is occurring within any project. Yes you can install systems and equipment and so forth, but it’s the people and their ownership and sustainability around those efforts that really can decide whether a project is actually going to fulfill its realization and grow business.

The other thing that often happens is that there will be a lot of effort up front to define what the benefits are going to be for a project. And that allows there to be competition around where those dollars are invested. But often times companies don’t go back and see if they actually realized them. Or if they do, they do it only probably the first year and they move on and forget about it, only to wonder why there may be diminishing returns in future years. It’s not uncommon for some business cases to have a view of two, three, four, five, maybe seven years in regards to a return that is expected. So the question would be... are you setting yourself up to be able to support that on a year over year basis and focus around that?

JM: Did the recent recession have a big impact on companies’ willingness to make investments and to embark on these kinds of project?

JW: I think over the last few years you’ve actually had a situation of the “haves” and “have nots”. The “have nots” are the companies that have struggled, they’ve lost market share, they’ve had difficulty being able to manage their supply chain in regards to inventory that was purchased versus cost and relative sales that came from that inventory. Then, you have the other companies that have been thriving. They have made acquisitions, they’ve grown, they’ve taken this opportunity to create a better platform for growth in the future. In addition to that, there is a lot of cash that’s sat on the sidelines. Balance sheets of new companies are ripe and

filled with cash to be able to deploy. The question is how are they going to do that and are they going to be able to do that in a way that provides the return that's needed?

The other thing we've seen over the last few years is that while there's been a decline in the overall economy, there has been an emergence relative to consumer driven supply chain. So the direct channel, whether that be through primarily web based services and/or products, that ultimately has changed the way in which a lot of companies have had to look at their customer base. There are many companies that were only able to access the consumer by sending their products to a retailer for example. Many of those companies now have direct access to consumers which has required a very different point of view in terms of how they manage their supply chain. Smaller more frequent orders have become much more common so the need for a company that used to be a wholesaler, to be able to pack for a consumer versus just packing for a store is been a lot of the changes that have gone on.

In addition to that we have also seen, because of the macro-economic environment and the unemployment situation, there are a number of people that had planned on retiring have not retired. So they are staying in roles and because people have a hard time hiring they have not been bringing in young people who will ultimately be the future leaders. They may be paying the price for not hiring junior people in years to come because of the ability for them to develop the skills and the focus to be the leaders of the future. In addition to that, if you take the older population that's in the industry today they may not have a clear understanding of the consumer view of what is required to be a sustainable company. So, those companies who are late to adopt multi-channel environments in a retail arena are not setting themselves up for flexibility or cost efficiency... ultimately also may pay the price down the road if they do not embark on different ways of thinking about it.

The last thing I'll bring up on this subject is around tax. We are all aware today in the economy around taxes being an issue on a personal level as well as a business level. A tax efficient supply chain is also something that has to be thought of ever more so now when you have states that are struggling to figure out how they're going to get revenue. What they are going to do relative to how they are going to tax companies as well as individuals and it's not uncommon for tax savings to drive a distribution center network differently than maybe logistics cost and/or inventory cost and something that has to be considered more and more in coming years.

JM: So could you maybe identify three issues that you think companies will be most focused on in the coming years?

JW: I think a statement of the obvious relative to what a lot of publications have highlighted as well as conferences. There has to be a focus on oil. I think that if you evaluate transportation as being one of the largest drivers of supply chain costs and the fact that you have challenges in the Middle East right now, you have oil prices that seem to be going up, oil futures that seem

to be going up, whether that be gasoline or diesel, ultimately I think that will put people in a position where they have to evaluate their supply chains. Within our company we've seen a lot of our clients asking for help relative to supply chain strategies in terms of what do they need to do to address these tipping points relative to oil prices and if oil goes up to double its current value in terms of its cost what does that mean for their supply chain. Playing the "what if" scenarios so they can be prepared for those types of issues in the future.

In addition to that I think you have issues relative to people as I mentioned. I think that a very common conversation with executives of most of our clients is around people and making sure they are able to retain and attract top talent and be able to develop the future leaders within their organization. And that weighs heavy on them relative to the work force situation that they've been in and being able to look for those future leaders. The third thing I would highlight would be relative to inventory. Inventory is a big driver of cost, typically its transportation inventory drives a lot of the cost, ultimately the ability by which to manage that. There are many companies that still have a real struggle with figuring out the right balance of inventory they should hold, and within their supply chain and where to hold it and what version of inventory should they hold. The finished good or a good that is not quite packaged fully or has not been completed and the ability for them to evaluate that combination over near shore options that may challenge the off shore options they've done to date and/or potentially bringing things back in domestically. I think there are some things a number of executives across supply chains are going to be evaluating.