



# Keys to Successful Supply Chain Transformation

Weathering the Perfect Storm

**To maintain competitive advantage, organizations must change and evolve over time. Often, Supply Chain Leaders are responsible for delivering on the business case for organizational transformations. But major transformations are notorious for not delivering on the original intent of the change, and supply chain programs are not immune to these challenges.**

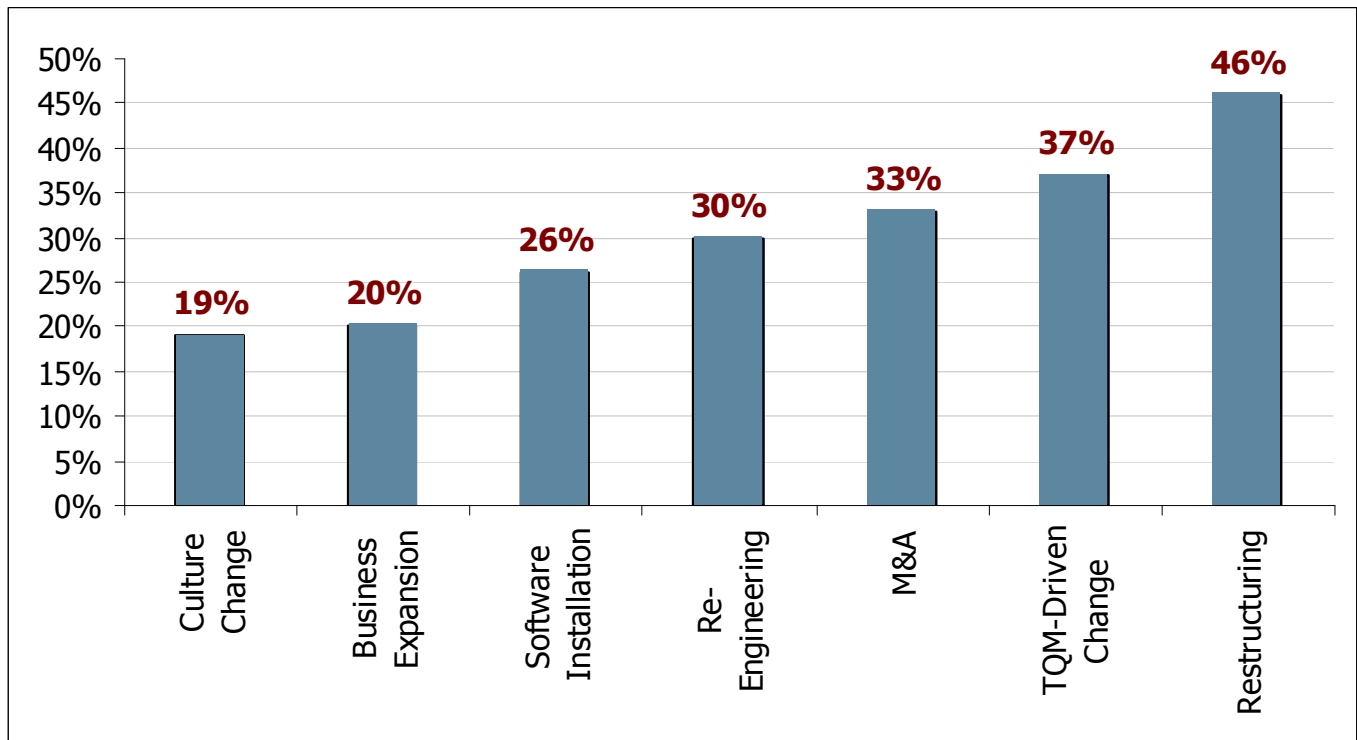
## **Executive Summary**

Riddled with cost and schedule overruns, critical projects often miss delivery results, negatively impact service, and directly affect profits. This paper delves into the specific approaches, issues, and challenges of three companies that struggled with large-scale, business transforming programs. Despite their best intentions, these companies failed to deliver on the promised business value. As a result, customer service suffered, stock prices declined, organizational and personal reputations were damaged, and many careers were negatively impacted. These companies and individuals did not successfully “weather the storm.”



### What's the Problem?

Simply stated, large organizational change is hard. Conner Partners has over thirty-five years of experience leading transformational change. They suggest the success rate for transformational business imperatives is only 30%; 70% fail to realize their full objectives. In further support, Martin E. Smith, PhD suggests the "Success rate for different types of organizational change" ranges between 19% and 46%, as shown below.



M.E. Smith "Success rates for different types of organizational change".

And based on research by Jennifer A. LaClair and Ravi P. Rao, organizations most skilled at implementation realized 143% of their initiative's expected value. But least-skilled organizations realized only 35% of the anticipated return.

### What's Wrong with the Traditional Approach to Supply Chain Projects?

The traditional approach to large-scale change often consists of:

- Implementing multiple, disparate point solutions and/or systems without a comprehensive and integrated strategy, approach, and resource plan
- Not investing in clarifying and building sufficient leadership alignment around a common goal
- Failing to address the human side when determining if the organization is ready for implementation (addressing issues like resistance, commitment, cultural impact, etc.)
- Failing to connect business goals with implementation efforts making it difficult to realize the business case as outlined and intended
- Limiting buy-in across all the stakeholders resulting in conflicting interests (what's in it for me?)
- Relying heavily on consultants and/or 3rd parties to drive success



Unfortunately, this traditional approach delivers unsatisfactory results including:

- Key components of the business case are not met
  - True purpose of the initiative not fully accomplished
  - Diminished service levels
  - Increased operating costs
  - Stifled business growth
- Unrealized expectations
  - Loss of customer goodwill
  - Diminished reputation & negative impact on careers
  - Company value being downgraded by Wall Street or others
  - Morale issues
- Schedule delays
- Capital budget overruns
- Long stabilization periods
  - Excess labor
  - Poor service levels
  - Reactive vs. proactive approach to supporting business

## Case Studies

The following table summarizes the journeys of three companies that embarked on less-than-successful supply chain transformations.

	Case Study 1: Specialty Retailer	Case Study 2: Parts Wholesaler	Case Study 3: Large Business Unit for Conglomerate
<b>Intended Business Imperative</b>	<ul style="list-style-type: none"> <li>• Enable Growth – need for new DC (existing site at capacity); desire to drive sales through automated Value Added Services (VAS) (i.e. personalization)</li> <li>• Improve service levels through productivity and throughput improvements; reduce order cycle time 45%</li> <li>• Implement IT strategy to improve support and reduce cost required move from homegrown to Tier 1 systems</li> </ul>	<ul style="list-style-type: none"> <li>• Enable Growth – expansion from the Midwest to the West to take advantage of competitive opportunities</li> <li>• Reduce transportation costs in dedicated network (closer to customers, fewer miles)</li> <li>• Improve customer service levels and response times</li> <li>• Business Continuity – redundant operations to alleviate cold weather issues which impacted operations and customer service commitments</li> </ul>	<ul style="list-style-type: none"> <li>• Enable Growth – ability to support e-commerce strategy (no longer wholesaler only)</li> <li>• Relocate facility to the South to reduce labor costs by 20%</li> <li>• Improve customer service levels and response times to wholesale customer base (largest part of their business)</li> </ul>
<b>People</b>	<ul style="list-style-type: none"> <li>• Multiple consulting firms engaged (separate firms for Conceptual Design, Detailed Design, Material Handling Equipment, Systems, etc.)</li> <li>• All training performed in a classroom setting (no floor training) - inhibited adoption</li> <li>• Most users saw the new DC for the first time at go-live; only “key people” allowed prior access to the building</li> </ul>	<ul style="list-style-type: none"> <li>• Top management verbally supported program objectives, but failed to provide authority to work stream leads and accountability for results; leaders lacked courage and discipline - “decision by consensus”</li> <li>• Program resources lacked in number, experience, level of dedication</li> <li>• Resistance to adoption of best practices; maintain status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Executives supported program objectives, but failed to consider key issues relative to order management, procurement, inventory management, processes, technology</li> <li>• Project was “very strategic” – lacked “doers” of the work</li> <li>• Invested heavily in consultants to keep local staff from knowing what was happening</li> </ul>



Business	Case Study 1: Specialty Retailer	Case Study 2: Parts Wholesaler	Case Study 3: Large Business Unit for Conglomerate
<b>Processes</b>	<ul style="list-style-type: none"> <li>Added new processes for personalization (VAS), as well as quality audits</li> <li>Limited existing SOPs (operations, finance, HR, IT)</li> <li>Lacked program management structure (documentation, discipline, accountability)</li> <li>Lacked understanding of transition management and the impacts of change</li> </ul>	<ul style="list-style-type: none"> <li>Cross-functional design processes not utilized</li> <li>Limited existing SOPs (operations, finance, HR, IT)</li> <li>Lacked program management structure (documentation, discipline, accountability)</li> <li>Lacked understanding of transition management and the impacts of change in processes</li> </ul>	<ul style="list-style-type: none"> <li>Experienced workers in existing facility had “tribal knowledge” of processes; were excluded from new facility process development</li> <li>Lacked program management structure (documentation, discipline, accountability)</li> <li>Lacked understanding of transition management and the impacts of change in processes</li> </ul>
<b>Assets (Inventory, Equipment, Facilities)</b>	<ul style="list-style-type: none"> <li>Retrofit of a building that had not been used in years</li> <li>New unit &amp; shipping sorters, AS/RS, returns systems &amp; conveyor</li> <li>Operations design based on too many assumptions; each party was working with different assumptions; design was over-engineered and lacked flexibility</li> </ul>	<ul style="list-style-type: none"> <li>Moving from 1-DC to 2-DC Network (largest transformation in company's history)</li> <li>Numerous capital investments required for MHE, ERP, WMS, inventory, transportation were underestimated</li> <li>Limited funds earmarked for Program Management</li> </ul>	<ul style="list-style-type: none"> <li>Brand new facility</li> <li>Required specialized equipment to accommodate shift to e-commerce business (company lacked experience with this type of equipment)</li> <li>Inventory strategy issues (allocation of SKU's for wholesale and e-commerce were often at odds)</li> </ul>
<b>Systems</b>	<ul style="list-style-type: none"> <li>Implemented industry-leading WMS</li> <li>Multiple point solutions, with no integration among the various efforts</li> <li>No field testing; WMS commissioning non-existent</li> </ul>	<ul style="list-style-type: none"> <li>Brand new ERP with WMS functionality required to support multi-site network</li> <li>New WCS required</li> <li>Upgrade of demand planning and forecasting software</li> <li>General upgrades relative to ancillary applications (&gt; 20)</li> </ul>	<ul style="list-style-type: none"> <li>New OMS to support e-Commerce</li> <li>Underestimated impacts on Transportation Management Systems (TMS)</li> <li>WMS issues relative to order allocation and prioritization and WCS logic</li> <li>No cohesive testing (end-to-end, integrated testing, operational readiness)</li> </ul>
<b>Business Impacts and Results</b>	<ul style="list-style-type: none"> <li>Total lack of Operational Readiness – facility did not operate as planned; seen as massive failure. Cumulative effect of: too many assumptions, lack of integration, inability to manage and adapt to changes in business requirements.</li> <li>3rd Party providers and vendors washed their hands of the issue claiming their point solution ‘worked’ (sum of the parts was not greater than the whole)</li> <li>Stock price plummeted 58%</li> <li>Company had to throttle orders and turn away business – loss of sales in one quarter exceeded \$100M</li> <li>To regain business, offered steep discounts on future volumes</li> <li>Many leaders/stakeholders either dismissed or resigned</li> </ul>	<ul style="list-style-type: none"> <li>Go-live delayed by 3 months (Operation Readiness not achieved) led to unplanned transportation costs, unmet service commitments to new customers; inadequate systems infrastructure to support business imperative</li> <li>Inventory accuracy was reduced resulting in lower fill rates, excess costs to recover lost sales, cost per unit increases, etc.</li> <li>Failed implementation resulted in dismissal of key management team members</li> <li>Poor inventory strategy (20% greater than planned ~ \$20M) resulted in interplant transfers, driving costs up</li> </ul>	<ul style="list-style-type: none"> <li>More Full-Time Equivalents (FTE) and overtime than planned led cost per unit 20% higher than baseline</li> <li>Margin erosion resulted in company earning 15% to losing 5% annually</li> <li>Due to morale issues and stress, attrition rates led to associate turnover exceeding 50% resulting in quality issues, increased training costs, high shrink, etc.</li> <li>Business unit was sold at a deep discount to another company</li> <li>Many existing leadership team members were replaced by purchaser</li> </ul>

So what was the common element that caused these program failures? A simple internet search for “why projects fail” can lead to some insight. Note that every company exhibited at least 8 of these common characteristics of project failure.



Top 10 Reasons Projects Fail	Case Study 1	Case Study 2	Case Study 3
Lack of Top Management Support	Yes	Yes	Yes
Too Few Resources (People, Time, Budget)	No	Yes	No
Lack of Project team knowledge and accountability	No	Yes	No
Poor Methodology and/or Communication	Yes	Yes	Yes
"Silo" approach (not assessing impacts across people, process, systems and equipment)	Yes	Yes	Yes
Lack of cross functional participation and end user involvement	Yes	Yes	Yes
Poor Program Management (Timeline and scope ill-defined or not well managed)	Yes	Yes	Yes
Poor Transition programs	Yes	Yes	Yes
Misaligned expectations of the applications (ERP, WM, WCS, other).	Yes	Yes	Yes
Resistance to Change	Yes	Yes	Yes
	<b>8</b>	<b>10</b>	<b>8</b>

What these programs needed was a combination of both Program Management and Transition Management. Program Management focuses on leading a group of interdependent projects to achieve a business imperative. Transition Management is broader and includes assisting the individuals, teams, and organization as a whole, as they move from the current state to the desired future state. The focus is on achieving the full business outcome that was outlined in the original business case for investment.



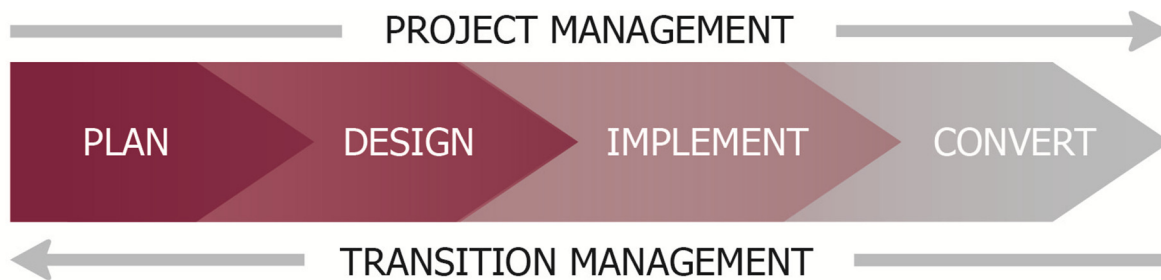
### The Recommended Approach

Successful programs begin start by defining the business case for change. Transformation is not about installing a system or implementing new processes. It is about achieving significant business results. With an “end in mind” approach, clearly define the qualitative and quantitative success metrics to which the team will be held accountable.

Next, successful transformations integrate both program and transition management principles into the project. Let’s consider a supply chain transformation that involves hiring a 3<sup>rd</sup> party to focus on integrating systems (ERP, WMS), a construction management firm to manage site selection, and a systems integrator for MHE implementation.

Program management provides a framework for effectively leading each of these work streams to achieve their respective goals. And Transition management has a goal to ensure adoption throughout the organization. So interdependencies across work streams are identified, leaders are assigned and held accountable to deliver, stakeholders are provided visibility to program status, and the overall program effort is integrated and synchronized. Additionally, transition management outlines the personal benefits the program will deliver to the each stakeholder, knowing that motivating people will make or break success.

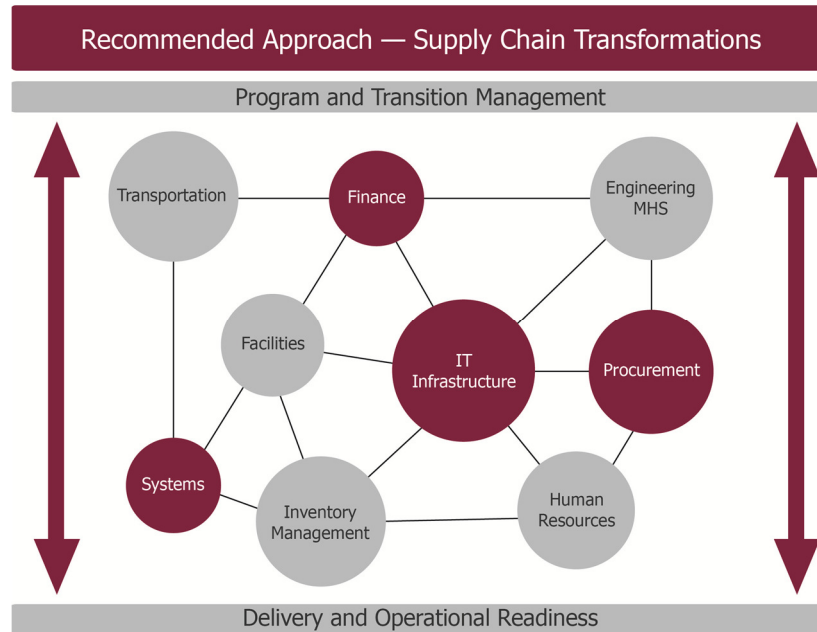
A good way to think about it is that program management begins with planning efforts and progresses through conversion. Transition management begins by defining the end state and moves backwards to identify the changes that need to occur to achieve that end state. A combined approach leads to a superior end result.



### Contrasting Program Management and Transition Management

The graphic, below, illustrates Fortna’s recommended approach to Supply Chain transformations. The foundation of the transformations is Program and Transition Management. Coupling this with Delivery and Operational Readiness ensures all work streams (i.e. sub-projects) support and are supported by other interdependent work streams, while the program’s intent, direction, integration, and interdependencies are fully aligned. For example:

- Associate training cannot take place until the WMS functionality has been designed, tested, deployed, and tested
- Material handling systems cannot be installed until the site is capable of receiving equipment (i.e., the roof has been completed)
- Delivery and receiving of initial inventory cannot occur until the WMS is operational, storage media is installed and labeled, and associates are available who have been trained in receiving processes



### Recommended Approach for Large Scale Supply Chain Transformations

This integrated approach ensures that:

- 1) A formal business case is developed up front as the basis for all program activities;
- 2) "End in mind" thinking is employed from the start;
- 3) Interdependencies across all work streams are defined and understood; and
- 4) The entire organization is ready to successfully operate on day one, achieving the business case.

Successful programs must also incorporate tools and communication vehicles to enable success:

- Integrated Master Schedule (focused on work streams – i.e., projects)
- Master Calendar (focused on resource availability)
- Weekly or Daily Status Update Reports
- Risk Assessment, Issue Tracking and Decision Logs
- Program Repository for all documentation (contact lists, calendars, charters, logs, etc.)

Lastly, successful programs incorporate an on-going Quality Assurance (QA) process to help ensure that program goals are met and the original intent and business case are realized. QA generally relates to the quality associated with the solution and not the process. Fortna recommends a QA process that focuses on 9 key areas:

- Quality of Work
- Skills & Experience of Team
- Communication Tools and Effectiveness
- Value Being Delivered and Realized
- Trust Between Team and Stakeholders
- Relationship and Synchronization Between Work Streams
- Commitment to Success
- Project Administration
- Risk Management

### Summary

Major transformational change is difficult. Up to 70% of large-scale programs fail to realize the intended benefits. Successful companies follow a proven approach that includes both Program Management and Transition Management methodologies, and incorporates a strong Quality Assurance program. They realize that their projects are as much about the “humans in transition” as they are about achieving tasks. They understand that key areas of the business must be integrated and synchronized around a financial business case.

### About Fortna

Fortna is a professional services firm helping companies with complex distribution operations meet customer promises and competitive challenges profitably. We develop a solid business case for change and hold ourselves accountable to those results. Our expertise spans supply chain strategy, distribution center operations, material handling, supply chain systems and organizational excellence.

### How Can We Help?

Fortna helps companies implement large-scale supply chain transformation. To learn more, ask to speak with an organizational change expert.

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