



Tales From DDSN Leaders: Structure Follows Strategy

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A panel of business executives from top companies recently gathered at AMR Research's Executive Leadership Conference to discuss the state of and organizational issues involved in becoming more demand driven. The discussion focused on the governance and organizational problems companies face as they begin their Demand-Driven Supply Network (DDSN) transformation.

The auspicious panel included the following:

- Rick Blasgen, former senior VP of integrated logistics at ConAgra and Kraft/Nabisco
- Marc Brown, VP and CIO of Del Monte Foods
- Tim Cawley, VP of supply chain at Motorola Mobile Devices
- Mike Duffy, VP of global value chain at Gillette GBU
- Keith Henry, director of technical services at Coca-Cola Bottling
- Kerrie Hofman, VP of information management in Johnson & Johnson Consumer Companies' global supply chain division.

We decided to do the panel because our clients have been asking us about the transformation road map to DDSN. Even though there are no companies that could be classified as fully DDSN today, best practices are emerging from companies making the change—thus our choices for the panel.

The DDSN journey: it's not an IT project

The premise of the panel discussion was that DDSN is a journey that is 50% organizational, 40% process, and 10% technological.

Companies are battling most with the cultural aspects of the change. Issues like changing performance management metrics—the progression is from “inside-efficiency” metrics such as costs to “inside-out external performance” such as supply chain speed. The ultimate point is “outside-in” metrics, profitably meeting customer demand with perfect orders.

The panel highlighted the difficulty of transforming performance metrics from historical cost-based measures. They also validated that while IT is important, DDSN must not be positioned as just another IT initiative. It is a business transformation that must be lead from the top down, with clear vision of business outcomes.

Procter & Gamble (P&G) has had tremendous success at this transformation. A significant factor in P&G ranking No. 2 on “The AMR Research Supply Chain Top 25 for 2005,” is P&G's making its “Two Moments of Truth.” When a consumer picks up a product on the shelf and when a consumers uses a product, the core of everything it does.

Traditional supply chain foundations are still strong

As groundwork for the panel discussion, we surveyed companies currently undergoing DDSN transformations and found the following:

- Manufacturing, procurement, planning, and logistics are still behind supply chain decisions and reporting structures, with very limited input from R&D, marketing, sales, and customer service.
- Supply chain reporting structures are (roughly) equally spread across manufacturing, the Chief Operating Officer (COO), or another C-level executive.
- The supply chain strategy, organization, and priorities are still geared to react more efficiently to customer demand in a manner that balances demand and supply. But demand visibility as an aid to building downstream relationships is still a low priority.
- 56% of companies take two weeks or longer to sense changes in demand, a significant constraint to becoming demand driven.
- Downstream data is largely only used for demand forecasting and Vendor-Managed Inventory (VMI) rather than category management or promotion effectiveness to promote growth.
- Only 22% of manufacturers use customer scorecard data as a guiding force in the DDSN strategy.

DDSN transformation has started but has a way to go

The panel discussion and survey results indicate that traditional manufacturing and supply chain distribution

roots in initial DDSN efforts are still pervasive. This is good, not bad, because it provides the core foundation to DDSN. But companies must pay more attention to the value chain organizational structure and the end-to-end business process.

The DDSN strategy absolutely must integrate sales and marketing processes deeper into the transformation strategy. Most companies, including the leaders, are slow to do this integration because old powerbases are still vested in sales and marketing. From an IT perspective, it has been about completing Enterprise Resource Planning (ERP) deployment. DDSN is highlighting the gap in unified downstream data and demand insights. Once this gap is pinpointed and filled, it can be used to intelligently guide operations, innovation processes, and demand shaping.

The benefits of strong supply chain roots are not trivial, and a few panel members commented on the value that came from their lean efforts and the integration of planning, logistics, customer service, and operations to achieve higher levels of responsiveness to customer demand. The overarching message from the group was: reduce complexity, integrate downstream customer-facing processes and roles and, most importantly, get the basic functions in place and working reliably without variability.