

Crank Cases and Agile Supply Chains

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Editors note: The recent political commentary best seller "Prime Colors" still has the publishing world guessing at its "Anonymous" authorship. Apparently Anonymous is branching out on his or her commentary as evidenced by email received by Rick Dove recently.

Date: Mon, 1 Apr 96 10:36:15 PDT
From: anonymous@atdot.com
To: dove@well.com
Subject: Primal Colors

California has landed on your head: Trust-based relationships, cooperation, long-term relationships, exceeding expectations - real touchy-feely stuff, a kinder gentler world. Wake up already. China ain't playin' by those rules, Japan never has, and Russia won't. Mexico? Europe? Just who is it you are competing/cooperating/supplying/customering with? Even the farmers ain't buyin' it.

"Putting faith in trust-based relationships is like whistling past the graveyard. We need instead a new system of ethics."

So bad guys feel guilty and spend awhile atoning, bringing themselves more to a center balance point - it's about time. I mean we don't need the likes of that Detroit purchasing warrior again.

On the other hand, he is doing something that needs watching. He's building busses without any assemblers on the payroll, and it's not 'cause he's buyin' them already built - its 'cause he found a way to get the

suppliers to put their parts into the assembly at just the right time. This has real possibilities when you run with it a bit. Why pay for the roof? Why not just drive that chassis through everybody's shop, hell, let them run a relay race and drive it to the next shop themselves. All you gotta do is be there when the customer pulls out his wallet.

You gotta admire this guy. Is he payin' those people for anything extra or did he convince them that they just saved all that packaging and shipping expense, so the parts ought to be even cheaper. Hell, he's probably chargin' them for rent on the space, after all, they'd have to pay for it if they built this stuff in their own facility.

I'm havin' fun, I hope you are too. But there really is something to play with here.

Wyck Seelig at Lucent Technologies (nee AT&T) has this idea he calls a "factory mall" - and it looks a lot like Lopez's bus-building idea with a different twist. He wants a bunch of production concessions under the same roof that a product designer can "shop". Any product he designs is fine as long as he can find concessions at the mall that can collectively put this thing together. This is the same thing Lopez is doing - but Wyck is doing it with insiders - not suppliers. At least to start with - though there's no reason he couldn't rent some space to a specialty process that Lucent doesn't have expertise in. Better yet, when a concession "goes out of business"

they can weed themselves out, and Lucent won't have any personnel problems to contend with.

Where should the union fall in all of this? Well, unless they just want to be some big welfare agency that drives everybody out of business in this country, they just might return to the craft days, and provide some real value to those concessionaires that want to be entrepreneurs and operate on a small Agile scale but also need an apprenticeship program and benefits and other common infrastructure items. Better for everyone everywhere. The unions are no longer adding value like they did in the early days of big business. Now business wants to get small - the unions need to respond with a page from history - update it for sure - but it's not like it never happened before.

Wyck has an Agile result, self determining and revitalizing. Ignaz has a Lean result, controlled from the top where he found another way to squeeze the suppliers. Well we'd all like to believe that anyway, of that nasty guy. He's also a smart guy and may just work this beginning into an Agile act with time. But my money's on Wyck. He's working on the common process theme, the infrastructure thing, the self determination thing, and finding a way to bring economy of scale back into the low-volume production run.

Sincerely, Anonymous.

No telling what you'll find in your email in-basket these days. But the thoughts expressed above add to our continuing exploration of Agile supply chain management.

Trust-based relationships? The shoe squeaks on the other foot sometimes. Intel routinely enters its customer's markets and competes with them, eventually driving many of them out. Ill advised in times past, but now a necessary strategy because technology continually migrates functionality upstream in the supply chain as chips take on more sophisticated capabilities.

The discontinuity here (supplier steals customer market) might be fixed if a long term close-knit relationship realized that the product and market each company would be dealing with was changing yearly - but that would make Intel dependent upon their downstream customers to anticipate and service the emerging markets correctly - which is counter to all evidence and unlikely under any circumstance. Even Sun Microsystems was caught napping when the desktop and personal Internet market emerged. Intel needs

the capability to develop and change its customer relationships - and Intel's customers need an equally facile capability to develop and change their supplier relationships.

Welcome to the insecure '90s. Don't tell me what you did for me last year, what are you doing for me now? Don't hope for trust-based relationships. Make them value-based relationships. And know that when you have no value to offer you must be replaced by someone who does. Cruel, you say. Crueler that you think the rest of the organization should die with you rather than have a fighting chance. This picture isn't as extreme as it first seems - one supplier in a tightly integrated lean supply chain can bring all suppliers down - just look at the ripple effects of the ABS shortage caused by the recent Dayton UAW strike.

Build relationships that recognize value in a standardized interaction infrastructure, and know that if one supplier can no longer provide goods and services that are appropriate, they will be welcome back as soon as they can again contribute to the common good. Perhaps you have a program to help redirect their competencies, or help them develop new competencies - but let's get something real clear - you're not doing this out of compassion or because you all agreed to be trusting friends, you're doing this because it's cheaper to retrain them than it is to replace them. Suppliers, too, have a responsibility in this fast changing environment - a responsibility to develop different skill sets in anticipation of replacing ones that will become non-competitive.

To counter the effect of technology moving functionality upstream in the supply chain we must build relationships that move innovation downstream at an equal rate - how do you play this new instrument to your advantage, no matter where you are in the supply chain?

Agility is determined by the nature of the interaction links among business elements. It is possible to build an Agile enterprise from elements that are themselves very rigid and in-Agile - provided the interaction framework allows you to engage, disengage, and replace the elements at will with high proficiency. Examples abound in construction and entertainment industries - and neither customers nor suppliers feel put upon or unfairly treated as a result.

Intel and Microsoft have both shown excellent leadership capabilities in their respective industries, thriving while they make and break alliances according to the mercurial markets they serve. And they continue to serve those markets as a result.

Conversely, we see ample evidence that building close-knit supplier relationships builds a new inter-company bureaucracy along with the need to maintain and protect the relationship - both non-value-added activities that siphon off funds better spent in new relationship development. The book *Hypercompetition* by Richard D'Aveni makes the point quite well: protecting and shoring up old products and relationships is obsolete barrier strategy that diverts money away from innovative breakthroughs (which is what your competitors are killing you with if you haven't noticed).

The supply chain management focus must be on the inter-corporate interface and the framework of plug-compatibility. Trading one set of problems for another - getting tight with your suppliers to gain cost advantages - creates bureaucratic problems of another type, and exposes the entire chain to costly single point failures. We should focus on the nature of plug-compatible relations that facilitate

synergistic engagement and operation, and painless disengagement - rather than on the building of long term integrated activities that just mimic the existing corporate structure in the end.

These new supply chain strategies: Trust-based relationships, cooperation, long-term relationships, exceeding expectations, voice of the customer, are just that - strategies, not objectives. They are ephemeral like any other business strategy, and will come into disfavor as people find their operating warts - they are neither universal nor timeless - though they may offer real value today for those who master them early, and can use that mastery to advantage while others lack it. The playing field will level with time if in fact these are good operating modes. The advantage will then go away and the mode will not be useful in competitive leadership.

The vision painted by these strategies requires a large degree of intimate integration, the antithesis of Agility. That's why CIM never worked. Better to have a society of interacting cooperative free agents seeking mutual benefit.

The company that masters the ability to reconstitute its supply chain at will can have the steady-state way when that makes sense, and can also create something new when that is necessary - such a company will have the means to act when opportunity presents itself as well as when innovation promises an advantage.

Putting faith in the emergence of trust-based relationships is whistling past the graveyard. We need instead a new system of ethics - for starters:

- Early warning of pending relationship changes, don't surprise your "partners".
- Early warning of commitment problems, don't surprise your "partners".
- Protection of knowledge obtained in more intimate relationships.
- Relaxation of Intellectual-Property-Right shackles on useless stuff we insist on keeping secretive.
- Realization that we will all do business together again.
- Realization that cheaters and bullies can't hide their sins in this mobilized information age.

A recent study identified a framework of twenty-five "Critical Business Practices" for the current US competitive environment. That supply chain management is prominently featured among them should come as no surprise. This framework provides a useful tool for examining maturity stages of critical practices in different industry sectors; and that will be our subject next time.