



# MANUFACTURING VALUE STREAMS & SUPPLY CHAINS

## Seven Characteristics of a Value Stream Leader

by

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There is perhaps no manufacturing discipline that has undergone more dramatic change over the last decade than value stream and supply chain management. These closely-related concepts have revolutionized how raw materials morph into finished goods by arrival at their final destination and have altered the relationships among corporations, countries, manufacturers, and their suppliers.

Manufacturers of all sizes now realize that there are profits to be made from an efficient and effective value chain. While the challenges are significant, the benefits of analyzing and improving your value stream are beyond debate. A clearly defined and precisely managed value stream can:

- Dramatically improve service to your customers
- Improve global access to markets, suppliers, and distribution channels
- Provide invaluable analytics for continuous improvement

Those valuable analytics are derived from value stream mapping, a process that documents and quantifies every input and output of your entire value stream. What kind of valuable analytics do value stream analyses create? They provide insights into such important Key Performance Indicators (KPIs) as:

- Leads generation
- Inventory turnover
- Days of supply in your inventory
- Fill rate
- Cost to close

These and other data points create transparency for often complex processes and can equip manufacturers with the knowledge necessary to compete in a global environment.

Data generated by enterprise information systems is immensely important. But it should be coupled with a new approach to sourcing and vendor relations—an approach that emphasizes cross-functional management and planning skills, and creates successful relationship management through a win-win orientation with each partner in your value chain.

### **What to Look For?—Seven Characteristics of a Value Stream Leader**

Such an approach requires intelligent, sophisticated, and broad-based leadership. Ultimately, value stream/supply chain success is about finding the right people and creating a cooperative culture of success. Successful manufacturers realize how important excellent leadership is in this area. As an executive recruiter in the manufacturing arena for more than a decade, I've placed a multitude of executives in manufacturing

positions and, increasingly, in value stream/supply chain positions. I have crisscrossed the country helping companies find transcendent talent that can help them establish and/or enhance their value stream/supply chain management. Their expectations are high and mine are even higher.

Based upon scores of successful placements and 10 times as many client and candidate conversations over the years, **I've identified seven key traits for successful value stream executives** who consistently deliver results for their companies. Some may be obvious; others far less so. Look for these traits in your value stream/supply chain leadership and you too will be well on your way to success.

### **Political Leadership**

Interestingly, two major public policy developments from the last two decades may have forever changed the manufacturing landscape. The North American Free Trade Agreement (NAFTA) and the admission of China to the World Trade Organization crumbled trade barriers, opened up the world to manufacturing, and fueled global value chain management. Further, the tragic events of 9/11 have changed the way commerce moves internationally by increasing the complexity around how goods and people move across sovereign borders.

While political expertise is not a necessity, skilled value stream executives possess an awareness of the impact of public policy and political rhetoric on their company's operations. How does the "Arab Spring" force changes on an oil and gas distributor in Houston? How might Irish austerity measures impact high tech manufacturing operations in Silicon Valley? How do new immigration laws in Arizona and Georgia affect a food manufacturer in Texas? Manufacturing policy will continue to impact how, where, and in what fashion manufacturers operate. Your leadership needs to appreciate this subtle and continually-evolving trait.

### **Communications Leadership**

One of the more nuanced elements of value stream/supply chain management is relationships. The dynamic of supply chain relationships has changed considerably in recent years. The old paradigm was that one company was "in charge" and all of its vendors did whatever they dictated. It was a zero-sum situation in which money saved by one company was money lost by another.

But successful supply chain management requires a more reciprocal and integrated approach to vendor relations. Cooperation, not competition, with sourcing and delivery partners is the trend, and your senior executives need to be excellent communicators in order to achieve this more mutually-beneficial dynamic.

In this age of globalization, it also means cultural understanding and sensitivity. Earning trust is tough enough. Your company can't afford a cultural faux pas while negotiating win-win agreements with partners and vendors. Excellent communication from your leadership means understanding where you are and with whom you're dealing.

We recently completed a successful search for a supply chain vice president for a major power generation company on the Eastern seaboard. As we always do at the outset of our relationship, we asked our client to describe the ideal candidate traits for this position. Their answers were both interesting and illustrative. In addition to the requisite insistence for financial, operational, managerial, and industry expertise, this company asked us to find them someone skilled at--among other things:

- *A combination of project execution mastery, experience of building and operating diverse relationships, building and leading organizations, across multiple geographies, and understanding the commercial objectives and environment in which we operate;*



- *Proven track record of having successfully delivered contracting strategies for a range of different fiscal, political and contractual environments;*
- *Proven track record in commercial negotiations and vendor management.*

When we asked our client to characterize the personality of the ideal candidate, they replied with, among other attributes someone capable of developing, “internal and external relationships”.

Finally, when we asked our client what they wanted their new VP to accomplish for them, they responded with, “Review strategic purchasing efforts to ensure an adequate orientation to the future and creation of a proactive vs. reactive approach.”

Take a careful look at the words this company used to describe their ideal candidate and the scope of his/her duties and then review the totality of the verbiage. These requirements are a far cry from only a few years ago when companies viewed this specialty as purchasing or procurement-focused and were simply looking to squeeze every dollar possible out of their vendors. The contemporary value chain leader is someone who is adept at communicating in a variety of ways and in a variety of environments. This is a company that clearly understands the importance of excellent communication skills and relationships in their value stream management.

## **Financial Leadership**

Undoubtedly, the most important element of any value stream/supply chain improvement program is cost reduction. Companies around the world have realized billions in savings by thoroughly assessing their procurement, manufacturing, and distribution processes, and successful value stream leaders must have a strong financial orientation. Executives who cannot demonstrate both short and long-term savings will not be in leadership for long.

For those without an Ivy League M.B.A., financial details can be intimidating. The mix of esoteric economic concepts and cold, hard, real-world applications has discouraged many a good manager. Finance, like technology, can seem highly specialized and wholly separate. Yet like technology, finance touches every component of the value chain.

Successful value stream leaders don't need to be financial experts. But they should possess financial literacy. As with technological leadership, strong value stream leaders should be working in concert with your CFO and a few key people within his/her operation. They know how finances drive the culture of your particular company and can provide insight into what metrics are highly valued and the supply chain impacts those metrics influence. For those without formal financial training, they should consider taking a class in financial management for non-finance managers. Looking no further than an alumni association or local public university, community college, or technical school for these resources, they will be making a worthwhile investment.

To appreciate the importance of finances, consider this case of a high tech manufacturer. This manufacturer was facing strong price pressure on a product that had enjoyed market domination for years. As lower cost providers gained market share in a highly competitive marketplace, this technology giant looked at its supply chain organization to create products that could compete at the lower end of the pricing scale.



The focus of this company's supply chain assessment was organizational inefficiencies that inflated overhead costs. Their approach was to diminish supply chain silos and barriers, allowing them to effectively compete at any price point.

To do that, the company marshaled its supply chain experts to work cooperatively across all organizational barriers. From logistics and materials, to manufacturing and fulfillment, these people stepped out of traditional roles and organizational cultures to coalesce around the goal of creating a more competitive, lower cost product.

Their initial assessment quantified all of the costs associated with the supply chain, including operations, transportation, and inventory expenses. Prior to this assessment, many of those costs were seen as independent of the supply chain and were accounted for in various ways throughout the organization.

Because these costs were never tied back to individual products, they often failed to capture the attention of senior management. But undertaking this assessment shined a bright light on these costs and created the impetus for action. With that awareness, this working group was charged with creating a vastly different supply chain in an effort to achieve cost saving targets.

Ultimately this integrated and geographically diverse team reached their targets by smashing internal and external silos, dramatically improving communication throughout the supply chain. More importantly, this assessment delivered cost savings by reducing cycle time on critical operations by more than 50 percent and reducing supply chain related costs by 30 percent.

That led to the introduction of a more cost-competitive product. And that's real financial leadership.

## **Strategic Leadership**

The Chinese philosopher-warrior Sun Tzu once said that, "All men can see these tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved."

Strategy and tactics are inseparable so it's important that the people leading your value stream/supply chain efforts excel at the big picture while understanding the operational details. Strategic vision is especially important with value stream analysis because it requires a clear understanding of how each element of the production cycle relates to another. Without a broad, integrated, empirical, and creative perspective, successful value stream assessment and improvement is impossible.

Conducting value stream/supply chain assessments forces companies to relate each manufacturing process step to each component of the supply chain. Value stream mapping and analysis provides organizations with a holistic perspective on their entire operation, allowing them to develop and sustain innovative improvements. In a highly practical sense, value stream mapping allows companies to see waste and implement processes to reduce and eliminate it. Saving money is Job One for value stream/supply chain management. Why else would you engage in something so complex?

But equally important is using value stream/supply chain management to drive competitive advantage. That advantage could be speed to market. It could be superior customer service. It could be global reach. But value stream/supply chain management can forge a more nimble and adaptive organization and allow a company to better distinguish itself in the marketplace.

Saving money and generating increased revenue are the end result of superior strategic leadership. I have recently been working with a consumer products manufacturer in the Northeast to help them find someone to lead their supply chain efforts. Like many manufacturers, they moved their operations to China in an effort to compete on price.

But with this move came a number of significant and unanticipated challenges, including:

- *Product integrity issues that reflect poorly on a hard-earned, positive brand*
- *Logistics issues and rising transportation costs*
- *Warehouse inefficiencies and distribution problems*

They had achieved coveted cost savings. The challenge now is to improve quality, address existing inefficiencies, increase transparency and forecasting throughout their supply chain, and continue to find savings moving forward. With an economy on the rebound, they need a senior executive who will help them compete by raising quality, driving down costs, and improving the efficiency of their entire supply chain. Sound familiar?

## **Management Leadership**

Restaurants in my neighborhood increasingly espouse their excellence by touting their chef's skills in preparing locally grown and sourced ingredients. Words and phrases like "local", "sole-sourced", and "farm-to-table" pepper their marketing. By contrast, manufacturers are looking for senior value stream leadership that possesses global and cross-disciplinary expertise, someone who understands every aspect of the business and can work with a variety of suppliers to achieve cost savings and competitive advantage. Further, the scope and complexity of their operations require the ability to forge a talented and dynamic team of people who embrace their comprehensive roles. Solid managerial skills are essential to recruiting, hiring, and training an outstanding staff.

Consider this example from one of the world's leading consumer products companies. As with many companies, this global giant was forced to cut both costs and staff. But their product refinement efforts, and all of the related administrative work, didn't diminish. One of the most labor-intensive support efforts within product refinement was the assignment of SKU numbers. What sounds like a trivial responsibility was anything but.

A little research at the outset of their assessment revealed that the company averaged 23 SKU revisions per day and each revision required five hours to set up. Any change to the product (ingredients, new label, new packaging, etc.) resulted in a revised SKU. But the process was poorly designed and managed. Changes to the product could be initiated by any number of company divisions or by the customers themselves, and no single department was responsible for issuing or revising a SKU. Finally, there were no clear guidelines to follow in making the changes.

A supply chain mapping assessment revealed a total of 218 steps in SKU assignment process. It further revealed that:

- Of those 218 steps, only seven were considered as value added
- There were 33 decision points in the process
- There were 21 handoffs and 27 points of delay

A rigorous assessment from multiple cross-disciplinary teams ultimately revamped the entire SKU establishment/revision process. This diverse approach to a complex and ingrained company problem proved to be highly effective. By focusing on cross-organizational coordination and collaboration, structured problem solving, and standardized processes, the company has dramatically improved the SKU process and achieved more than \$1 million in annual savings.

This solution required leadership from people with a broad view of the company and a clear understanding of each major component. Without stellar managerial leadership, such savings would have not been possible.

### **Operational Leadership**

Operational leadership is a given for value stream/supply chain executives. You need to understand the nuts and bolts of the business. Ultimately, supply chain management is intended to minimize uncertainty in demand without producing inefficient excess inventory. It's imperative to appreciate this foundational goal. Doing so requires detailed knowledge of every step in your manufacturing and distribution process as well as broad knowledge of your industry as a whole. It demands deep understanding of what you do and who else—anywhere in the world—can help you do it. Thomas Freidman's seminal book "The World is Flat" highlighted the global supply chain. It's now up to your supply chain leadership to extract the benefits of this global phenomenon.

Easier said than done.

But it's important for both offensive and defensive reasons. For offensive purposes, finding the best mix of pricing, quality, and operational efficiency can help you achieve competitive advantage. For defensive reasons, protecting your supply chain with multiple redundancies and crisis scenario planning is imperative in a world fraught with natural and human-made catastrophes. Some of the world's finest organizations have developed sophisticated supply chain management to improve the efficiency of their complex, global supply chains.

Consider the experience of a global technology manufacturer. This company was able to use supply chain management to shift suppliers and revise orders within a few days after a 2008 earthquake in Central China. Their ability to quickly switch to alternative supply routes allowed the company to dramatically minimize the impact of the disruption on their customers.

This same company employed sophisticated supply chain management (SCM) analytics to reveal that key suppliers faced financial difficulties in the last few years. They employed alternative supply chain arrangements to shield themselves from any adverse impacts. Ultimately, those key suppliers filed for bankruptcy. But this manufacturer was largely unaffected. Such strong operational leadership allows companies to compete and thrive under the most challenging economic circumstances.

### **Technological Leadership**

If politics created the opportunity for value stream/supply chain management, technology certainly accelerated its importance. Enterprise software has both advanced and bedeviled executives and continues to be an asset and a challenge. Successful executives understand the technological tools available and appreciate the importance of planning for its adoption and monitoring its Net Present Value or capital return.



The cost, complexity, and cultural impact of enterprise software require more than a passing knowledge of technology by value stream leaders because technology is central to value stream improvement. It has become so central that some companies have moved the IT department into the value stream/supply chain function. While many value stream leaders may recoil at this prospect, it underscores their interdependence.

In order to fully realize the organizational and financial benefits of value stream management, you have to understand the technology behind it. Just as in the financial arena, it helps if your value stream leadership works closely with your CIO. He/she is probably communicating with leading software purveyors in this space and can inform the work of your value stream operations—what's out there, how it works, its potential impact on the organization, and tactics for improving the adoption of the software throughout the organization. If your value stream leaders don't understand the technology opportunities and challenges, your organization is in trouble. Consider the benefits achieved by this global food products manufacturing conglomerate that employed sophisticated technology to manage its high-volume transportation program.

This company recognized that it needed to enhance its relationship with supply chain partners in order to improve transportation management and leverage its considerable scale to achieve sustained competitive advantage. They turned to two leading enterprise software companies to capture real-time data and employ those data to reduce costs, improve their operations, and enhance their value. In the first year of the program, the company was able to leverage this technology to reduce truck miles driven by 500,000. They were also able to considerably reduce their carbon footprint by minimizing unproductive miles and reducing the time spent idling.

Details and technical nuances are better handled by people on the ground. But understanding how to leverage technology to achieve those types of savings is a critical skill set for any value stream executive.

### **The Multi-Talented Value Stream Leader**

Today's value stream leaders are far more than procurement experts. They oversee vast, global supply networks and interact with partners from Malaysia to Brazil to Arkansas. They are technologically savvy with strong communications skills. They usually have extensive management backgrounds and are quick studies in understanding corporate organization and culture. Most importantly, they understand their responsibility for driving financial success for their companies.

Fulfilling all of these requirements is not easy. But these are the common traits that my clients seek in this globally-sophisticated era in manufacturing. And those who find them enjoy significant success.

From both an operational and financial perspective, are you getting the most value possible out of your value stream? Do you have the right people with the right skill sets leading your efforts?

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