New Pages for an Old Playbook – Driving Competitive Advantage

Last Friday, January 30th, the Baker Hughes rig count continued its decline with an announcement that the oil-directed rig count fell the most in any single week since 1987. News headlines trumpet the continuing layoffs as companies execute the bust cycle playbook.

We all recognize that attempting to preserve margins solely by trimming variable cost is a no-win game. Cutting variable costs in proportion to activity decline does nothing to address reduced absorption of fixed overhead or compensate for reduced pricing. Cutting variable costs more aggressively than the activity decreases stresses the organization unnecessarily.

So, companies must take time to make processes more efficient by eliminating waste to trim fixed costs and preserve margins. Limited resources must focus on the processes with the most leverage. Strategically we want to pick the skirmishes that will win the battles and the battles that will win the war to build competitive advantage. So, where do we start?

In "This Time, Don't Forget Your Stopwatch!" we suggest that executives concentrate on eliminating wasted time, as evidenced by idle inventory, to cut costs. The focus on time, rather than cost, yields benefits by improving lead time and process reliability and potentially making the company more competitive.

Create a Customer-Anchored Supply Chain

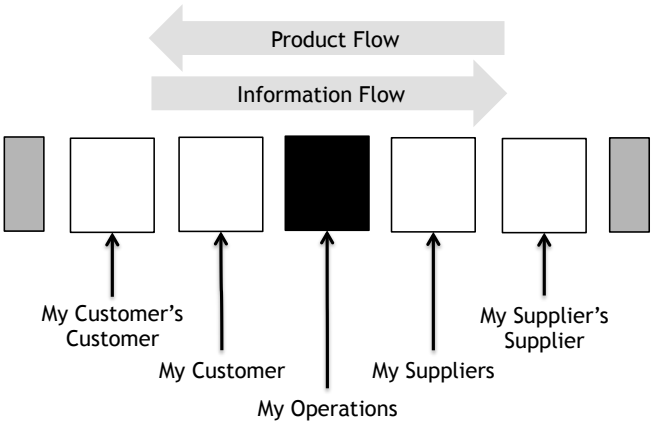
Another, more strategic, approach is to drive initiatives that will create share gains and protect or improve margins. Through a process of anchoring our goals in our customer, we can create a Customer-Anchored Supply Chain© that builds competitive advantage.

Identify Customer-Applications

To anchor in the customer, we must first listen to the voice of the customer. We cannot hear all the customer voices at once (see Bruce Almighty) so we start by focusing on a particular group of customers performing similar applications. The customers should share similar buying practices. Applications are similar to markets but do not include a geographic dimension. Examples of applications include un-conventional oil, conventional gas or heavy oil. We define a "customer-application" at the intersection of the two. A customer-application is a group of customers with similar buying behavior participating in application(s) with similar requirements. Examples might include "Majors in conventional gas" or "Independents in unconventional-oil".

Think Holistically

Think about the supply chain stretching from my supplier's supplier to my customer's customer.



Look beyond your direct customer to their customer (my customer's customer) and ask what does my customer's customer want? Answering this question aligns your

organization with your customer's organization. You will now share the same goal, which is to satisfy your customer's customer. You should understand your customer's customer's needs so well that you should be as good as your direct customer at articulating those needs. Partner with your customer in these customer's customer visits. Respect that maintaining the relationship with the customer is their day job.

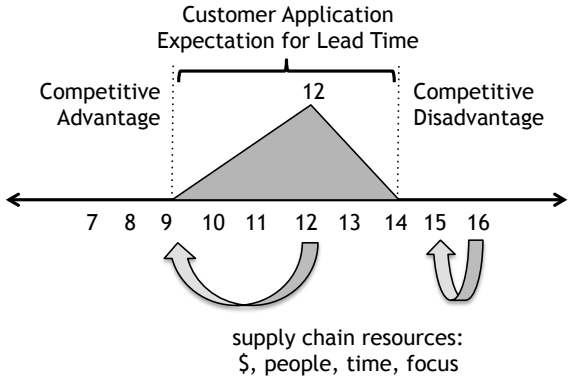
Dig Deep, Beyond Low Prices

Every customer will say they want "lower prices". The mantra is louder now in a down market. In reality, every customer, in every market, purchases the most perceived value for the least price. In our conversations, we want to dig deeper than "lower prices" to identify the critical success factors that the customer values. These factors tell us how to anchor in the customer. Improved performance on these critical success factors that the customer acknowledges, believes is repeatable, and values, leads to competitive advantage.

Because we have carefully defined our customer-applications, we need to ask only a few customers to gain insight applicable to the entire customer-application.

Understanding Critical Success Factors

Learn how your customer values performance. For example, consider a hypothetical customer application and the critical success factor "lead time". The customer's expectation is not a single point – it is a range. On average, they expect 12 weeks but they fail to discriminate between suppliers offering 9 to 14 weeks. If the customer perceives your lead time is over 14 weeks, you are disadvantaged and must compensate with lower pricing or lose share. If the customer perceives your lead time is less than nine weeks, you are advantaged and can parlay that advantage into higher pricing or gain share.



Cast a Bold Vision!

Use what you now understand about your customers' critical success factors and how they value performance, to cast a vision for performance improvement that is bold. Empower employees to develop initiatives to improve performance and realize the vision. Do not settle for marginal gains. In our example, improving performance from a disadvantaged 16-week lead time to a disadvantaged 15-week lead time, or from a neutral 12-week lead time to a neutral nine-week lead time will yield no benefit. We want breakthrough performance. To breakthrough the customer must perceive the company as moving decisively from "disadvantaged" to "neutral" or "neutral" to "advantaged."

Choose Initiatives Strategically

Evaluate each initiative on the improvement in performance it will deliver on the critical success factors. Do not waste your time on changes that will improve performance only marginally. Do not waste resources on initiatives that do not build real competitive advantage. Support the teams that take on initiatives that have the potential to create competitive advantage by helping them overcome obstacles and manage the risk. Encourage the teams "playing it safe" and offering only marginal improvement to "get in the game!"

Closing the Loop – What the Customer Acknowledges, Believes, and Values Builds Competitive Advantage

Improved performance on critical success factors that the customer acknowledges, believes is repeatable, and values, leads to competitive advantage. If the improvement is not measured, the customer cannot acknowledge it. If the improvement is not measured and sustained, the customer will not believe it. If the customer does not value the addition, they will not reward it. Measure your performance the way the customer does and sell the customer on your performance gains. The moral here is that no good deed will get rewarded unless the customer knows about it, believes it. and values it.

SCLinx
PO Box 1491
Bellaire TX 77402

Gary Flaharty
832-993-7743
gary.flaharty@supplychainlinx.com

Noman Waheed
312-375-8708
noman.waheed@supplychainlinx.com