Sense and Respond

Why relationships are essential to demand-driven excellence

One of the goals of the Certified Supply Chain Professional course work is to stress the importance of an effective relationship among a company, its customers, and its suppliers—referred to as demand-driven excellence. But what exactly is demand-driven excellence, and how do you achieve it?

According to a recent article from Gartner, it is “a system of technologies and processes that senses and responds to real-time demand signals across a supply network of customers, suppliers, and employees.” The APICS Dictionary adds that a demand-driven supply network is “a situation where a customer purchase initiates real-time information flows through the supply chain, which then causes movement of product through the network.”

This is a relatively straightforward concept to understand. The challenge comes in how to measure it. In the article, Gartner ranked the top 25 supply chains, primarily using financial performance data and peer opinions as surrogate measures of both operational and innovation excellence. Interestingly, there were few assessments of how well these top performers did with product and service quality and responsiveness. Granted, these data are not readily available for comparison.

Quality and responsiveness are the leading metrics that provide early warnings about customer satisfaction levels. It is refreshing to see that, in a recent McKinsey survey of 639 chief executive officers (CEOs) of global companies, the CEOs’ perspectives shine a bright light on issues related to product and service quality and responsiveness. In digesting the data presented, perhaps the biggest takeaway is that the low-hanging fruit (reduced inventory levels) is withering, and company leaders must refocus on the basics.

The surveyed executives ranked the top challenges for the next five years, which include:
- reducing operational costs (41 percent)
- improving customer service (36 percent)
- getting products to market faster (34 percent)
- improving quality of products and services (29 percent)
- creating a greener supply chain (16 percent)
- reducing risk (16 percent)
- reducing overall inventory levels (12 percent).

Compared to similar responses from previous surveys, the noticeable changes in the CEOs’ perspectives were the relative emphasis on improving customer service, quality, and responsiveness versus reducing inventory. The focus on quality and customer service will help these businesses retain current customers and possibly gain market share from new ones. Of course, the focus on cost reduction will remain at the forefront in order to survive in an increasingly uncertain marketplace. Here, some will say the business environment always has been uncertain, so cost reduction always will be on the operational agenda. But notice how closely cost reduction is ranked relative to the position of service quality, product quality, and responsiveness.

When one looks closely at the challenges of service quality and responsiveness, the sense of time suddenly is condensed down to the moment of truth—in real time—when frontline employees interact with customers. So how does the concept of demand-driven excellence help supply chain managers provide in real time the right strategic focus, guidance, and resources to succeed? Perhaps the answer lies in recognizing the importance of operating your supply chain as a set of key integrated relationships between you, your customers, and your suppliers.

At many organizations, the ability to improve internally is potentially limited by relationships with major customers and suppliers. Thus, for continued success, it’s necessary to actively engage and leverage these bonds. Productivity improvements through internal efforts can take you only so far. Time lost in production often can be attributed to poor communication or coordination throughout the supply chain.

In order to climb to the next level of demand-driven excellence, you must focus on effective ways to accurately convey to both customers and suppliers how important their partnering is to all stakeholders in the relationship. Remember that you are only as strong as your weakest link—and improving product and service quality and responsiveness starts with better supply chain relationships.

John P. Collins, CFPI M, CSC P, is chief executive officer for Nichols Brothers Boat Builders. He may be contacted at johnc@nicholsboats.com.

Eric P. Jack, Ph.D., CFPI M, CSC P, is associate dean at the University of Alabama–Birmingham. He may be contacted at ejack@uab.edu.