

## 5.31: Creating Supply-Chain Alignment

Leading companies take care to align the interests of all the firms in their supply chain with their own. This is important, because every supply-chain partner firm—whether a supplier, an assembler, a distributor, or a retailer—will focus on its own interests. If any company's interests differ from those of the other organizations in the supply chain, its actions will not maximize the chain's performance.

One way companies align their partners' interests with their own is by redefining the terms of their relationships so that firms share risks, costs, and rewards equitably. Another involves the use of intermediaries, for example, when financial institutions buy components from suppliers at hubs and resell them to manufacturers. Everyone benefits because the intermediaries' financing costs are lower than the vendors' costs. Although such an arrangement requires trust and commitment on the part of suppliers, financial intermediaries, and manufacturers, it is a powerful way to align the interests of companies in supply chains.

A prerequisite to creating alignment is the availability of information so that all the companies in a supply chain have equal access to forecasts, sales data, and plans. Next, partner roles and responsibilities must be carefully defined so that there is no scope for conflict. Finally, companies must align incentives so that when companies try to maximize returns, they also maximize the supply chain's performance.

### Minicase: Nestlé Pieces Together Its Global Supply Chain (Steinert-Threlkeld (2006, January)).

A few years ago, Nestlé, the world's largest food company, set out to standardize how it operates around the world. It launched GLOBE (Global Business Excellence), a comprehensive program aimed at implementing a single set of procurement, distribution, and sales management systems. The logic behind the \$2.4-billion project was impeccable: implementing a standardized approach to demand forecasting and purchasing would save millions and was critical to Nestlé's operating efficiency in 200 countries around the world.

Nestlé's goal was simple: to replace its 14 different SAP enterprise-planning systems—in place in different countries—with a common set of processes, in factory and in administration, backed by a single way of formatting and storing data and a single set of information systems for all of Nestlé's businesses.

For Nestlé, this was not an everyday project. When it built a factory to make coffee, infant formula, water, or noodles, it would spend \$30 to \$40 million; committing billions in up-front capital to a backroom initiative was unheard of, or, as someone noted, "Nestlé makes chocolate chips, not electronic ones."

The GLOBE project also stood as the largest-ever deployment of mySAP.com. But whether the software got rolled out to 230,000 Nestlé employees or 200 was not the point. The point was to make Nestlé the first company to operate in hundreds of countries in the same manner as if it operated in one. And that had not been achieved by any company—not even the British East India Company at the peak of its tea-trading power—in the history of global trade.

Consider the complexities. Nestlé was the world's largest food company, with almost \$70 billion in annual sales. By comparison, the largest food company based in the United States, Kraft Foods, was less than half that size. Nestlé's biggest Europe-based competitor, Unilever, had about \$54 billion in sales. In addition, Nestlé grew to its huge size by selling lots of small-ticket items—Kit Kat, now the world's largest-selling candy bar; Buitoni spaghetti; Maggi packet soups; Lactogen dried milk for infants; and Perrier sparkling water.

The company operated in some 200 nations, including places that were not yet members of the United Nations. It ran 511 factories and employed 247,000 executives, managers, staff, and production workers worldwide.

What is more, for Nestlé, nothing was simple. The closest product to a global brand it had was Nescafé; more than 100 billion cups were consumed each year. But there were more than 200 formulations, made to suit local tastes. All told, the company produced 127,000 different types and sizes of products. Keeping control of its thousands of supply chains, scores of methods of predicting demand, and its uncountable variety of ways of invoicing customers and collecting payments was becoming evermore difficult and eating into the company's bottom line.

The three baseline edicts for project GLOBE were: harmonize processes, standardize data, and standardize systems. This included how sales commitments were made, factory production schedules established, bills to customers created, management reports pulled together, and financial results reported. Gone would be local customs, except where legal requirements and exceptional circumstances mandated an alternative manner of, say, finding a way to pay the suppliers of perishable products

like dairy or produce in a week rather than 30 days. And when was this all to be done? In just 3 and a half years. The original GLOBE timeline, announced by Nestlé's executive board, called for 70% of the company's \$50 billion business to operate under the new unified processes by the end of 2003.

Mission impossible? The good news was that in one part of the world, Asia, market managers had shown they could work together and create a common system for doing business with their customers. They had used a set of applications from a Chicago supplier, SSA Global, that allowed manufacturers operating worldwide to manage the flow of goods into their factories, the factories themselves, and the delivery of goods to customers while making sure the operations met all local and regional legal reporting requirements. The system was adopted in Indonesia, Malaysia, the Philippines, Thailand, even South Africa, and was dubbed the "Business Excellence Common Application."

But this project was orders of magnitude more involved and more complex. Instead of just a few countries, it would affect 200 of them. Change would have to come in big, not small, steps. Using benchmarks they could glean from competitors such as Unilever and Danone, and assistance from PricewaterhouseCoopers consultants and SAP's own deployment experts, the executives in charge of the GLOBE project soon came to a conclusion they had largely expected going in: this project would take more people, more money, and more time than the board had anticipated. Instead of measuring workers in the hundreds, and Swiss francs in the hundreds of millions, as originally expected, the team projected that 3,500 people would be involved in GLOBE at its peak. The new cost estimate was 3 billion Swiss francs, about \$2.4 billion. And the deadline was pushed back as well. The new target: putting the "majority of the company's key markets" onto the GLOBE system by the end of 2005, not 2003.

To lead this massive undertaking, GLOBE's project manager chose a group of business managers, not technology managers, from all of Nestlé's key functions—manufacturing, finance, marketing, and human resources—and from all across the world—Europe, Asia, the Americas, Africa, and Australia.

These were people who knew how things actually worked or should work. They knew how the company estimated the demand for each of its products, how supplies were kept in the pipeline, even mundane things like how to generate an invoice, the best way to process an order, how to maintain a copier or other office equipment, and how to classify all the various retail outlets, from stores to vending machines, that could take its candy bars and noodles. The system would allow managers to manage it all from the web.

The process for the team of 400 executives started with finding, and then documenting, the four or five best ways of doing a particular task, such as generating an invoice. Then, the GLOBE team brought in experts with specific abilities, such as controlling financial operations, and used them as "challengers." They helped eliminate weaknesses, leaving the best practices standing.

At the end of that first year, the project teams had built up the basic catalog of practices that would become what they would consider the "greatest asset of GLOBE": its "Best Practices Library." This was an online repository of step-by-step guides to the 1,000 financial, manufacturing, and other processes that applied across all Nestlé businesses. Grouped into 45 "solution sets," like demand planning or closing out financial reports, the practices could now be made available online throughout the company, updated as necessary, and commented on at any time.

It was not always possible to choose one best practice. Perhaps the hardest process to document was "generating demand." With so many thousands of products, hundreds of countries, and local tastes to deal with, there were "many different ways of going to market," many of which were quite valid. This made it hard to create a single software template that would serve all market managers.

So GLOBE executives had to practice a bit more tolerance on that score. The final GLOBE template included a half-dozen or so different ways of taking products to market around the world. But no such tolerance was shown for financial reporting. The 400 executives were determined to come up with a rigorous step-by-step process that would not change.

Experts were brought in along the way to challenge each process. But in the end, one standard would, in this case, have to stand. Financial terms would be consistent. The scheme for recording dates and amounts would be the same. The timing of inputting data would be uniform; only the output could change. In Thailand, there would have to be a deviation so that invoices could be printed out in Thai characters so that they could be legal and readable. In the Philippines, dates would have to follow months, as in the United States. Most of the rest of the world would follow the European practice of the day preceding the month.

Progress was slow, however. Nestlé managers had always conducted their businesses as they saw fit. As a consequence, even standardizing on behind-the-scenes practices, like how to record information for creating bills to customers met, with resistance. As country managers saw it, decision making was being taken out of local markets and being centralized. Beyond that, someone had to pay the bill for the project itself. That would be the countries, too.

By the fall of 2005, almost 25% of Nestlé was running on the GLOBE templates. And GLOBE's project manager was confident that 80% of the company would operate on the new standardized processes by the end of 2006. The greatest challenge was getting managers and workers to understand that their jobs would change—in practical ways. In many instances, workers would be entering data on raw materials as they came into or through a factory. Keeping track of that would be a new responsibility. Doing it on a computer would be a wholly new experience. And figuring out what was happening on the screen could be a challenge. Minutia? Maybe. Considerable change? Definitely.

But the templates got installed and business went on—in Switzerland, Malaysia-Singapore, and the Andean region. In each successive rollout, the managers of a given market had 9 months or more to document their processes and methodically adjust them to the templated practices. In 2003, Thailand, Indonesia, and Poland went live. In 2004, Canada, the Philippines, and the Purina pet food business in the United Kingdom joined the network. But, by then, the system was bumping up against some technical limits. In particular, the mySAP system was not built for the unusual circumstances of the Canadian food retailing market. Food manufacturers have lots of local and regional grocery chains to sell to, and promotional campaigns are rife. MySAP was not built to track the huge amount of trade promotions engaged in by Nestlé's Canadian market managers: there were too many customers, too many products, and too many *data points*.

In India, changing over in mid-2005 was complicated by the fact that not only was Nestlé overhauling all of its business processes, but it also did not know what some of the key financial processes would have to be. At the same time it was converting to the GLOBE system, India was changing its tax structure in all 29 states and six territories. Each would get to choose whether, and how, to implement a fee on the production and sale of products, known as a value-added tax. Meeting the scheduled go-live date proved difficult.

And all over the world, managers learned that the smallest problem in standardized systems means that product can get stopped in its tracks. In Indochina, for instance, pallets get loaded with 48 cases of liquids or powders, and are then moved out. If a worker fails to manually check that the right cases have been loaded on a particular pallet, all dispatching stops are held up until the pallet is checked.

These setbacks notwithstanding, GLOBE taught Nestlé how to operate as a truly global company. For example, managers from the water businesses initially rejected the idea of collecting, managing, and disseminating data in the same way as their counterparts in chocolate and coffee. Some managers figured that if they were able to produce all the water or all the chocolate they needed for their market locally, that should be enough. But the idea was to get Nestlé's vast empire to think, order, and execute as one rather than as a collection of disparate companies. This meant that a particular manufacturing plant in a particular manager's region might be asked to produce double or triple the amount of coffee it had in the past. Or it might mean that a particular plant would be closed.

So, while the company did away with data centers for individual countries, each one does now have a data manager. The task is to make sure that the information that goes into GLOBE's data centers is accurate and complete. That means that country managers can concentrate more on what really matters: serving customers.

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