Value Chain Leadership

Balance five value trade-offs.

by Michael O'Keeffe

Leading companies conceptualise and execute new ways of creating value for their customers. Companies such as Macquarie Bank, ABC Learning Centres and Flight Centre create new business designs and change the rules of competition in their industry.

Value chain leaders extend this philosophy by developing new business models that incorporate the total supply chain. Companies such as Wal-Mart, Benetton and Waitrose have introduced new ways of including their suppliers and customers in the value creation process.

Such change is not easy within a single firm, let alone across a system incorporating other firms. Value chain leaders balance five important trade-offs, which are discussed below.

The Present and the Future

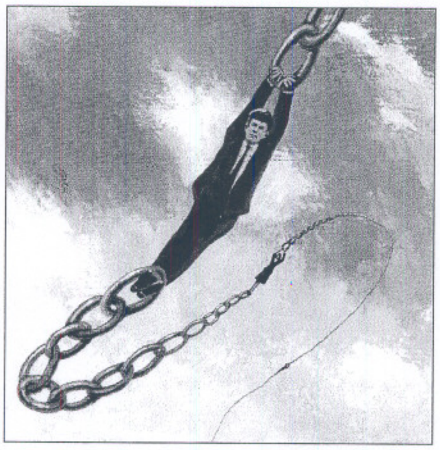
Value chain leaders develop value chains that perform extremely well in the present, and at the same time are adaptive for future performance. They resist the pressure from other members of the chain—often customers and suppliers—who are more interested in short term benefits. For example, two years ago a fresh food supplier to Tesco supermarkets in the UK told me that the battle between Tesco and ASDA (owned by Wal-Mart) was placing a high degree of pressure on them for short term results. The supplier, however, recognised that its leadership responsibilities included maintaining investment for innovation and preparation for future performance. In the past few months, Tesco has been placing renewed emphasis on innovation and the supplier is well positioned to be rewarded for its long-term perspective.

Hard and Soft Incentives

Value chain leaders understand that the only trouble with hard incentives is that they work. It is far easier to develop hard incentives around reducing costs and short term performance, compared to the nebulous world of seeking new ways of doing business. The danger is that the hard incentives will swamp the soft incentives. Value chain leaders achieve balanced incentives by focusing on shared meanings, culture and vision, and being prepared to mute the hard incentives.

Value chains not only require the development of total chain metrics—they also require a balance of hard and soft approaches.

Shared meaning is the glue; for example, Wal-Mart's passion for continually reducing total chain costs and passing the rewards onto shoppers pervades the Wal-Mart chain from the shop-floor to the primary producer. And, importantly, supplier margins do not suffer in the process. In a similar



vein, UK retailer, Waitrose, has a commitment to food with flavour which is understood and appreciated by the whole chain.

Incremental and Major Change

Value chain leaders recognise the limits of incremental change. Small local changes can assist the chain to drive down costs and improve the current system, but sometimes an integrated package of significant changes is required (the underlying system may need to be addressed)—value chain leaders have the vision, commitment and persistence to execute such change.

Under the vision of Richard Sadler, Waitrose Supermarkets introduced an integrated value chain strategy that relied on a single supplier per category supported by dedicated producer groups. This strategy was supported by complementary activities, such as new management systems to assist the buyers manage their relationships with suppliers and to ensure that the suppliers developed the necessary capabilities. The buyers' role was expanded and they were placed in control of the new initiative.

A Balance of Trust and Power

We all appreciate that trust is at the core of successful value chains. Leaders also appreciate the positive role that power can play. Power, put simply, is the ability to achieve, and value chain leaders ensure that their staff have the information, resources and support to get things done. Staff who don't have genuine power are the ones who create havoc.

Traditional command and control power systems just do not work in successful value chains. The ability to articulate a powerful vision, to manage information and to encourage chain partners to invest in new capabilities are the sources of value chain power.

Points of Decision Making

Value chain leaders understand that sometimes shifting information up and down the chain is not the optimum approach—it may be better to shift the point of decision making to the point of information. Decision points can be shifted along the chain and new capabilities developed in the process.

Toyota, for example, is an outstanding example of a system that nurtures the development of suppliers. Wal-Mart provides another example, with many of their (smaller) fresh food suppliers developing new capabilities in order to better contribute to the Wal-Mart chain.

Value chain leaders are wary of the success trap. Successful chains naturally tend to repeat the strategies that have led to success. Value chain leaders remain vigilant on the performance of the total system; they continue to improve chain metrics and develop capabilities, reinforce shared meanings and shared information, and are prepared to modify the underlying business design when required. LE

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