

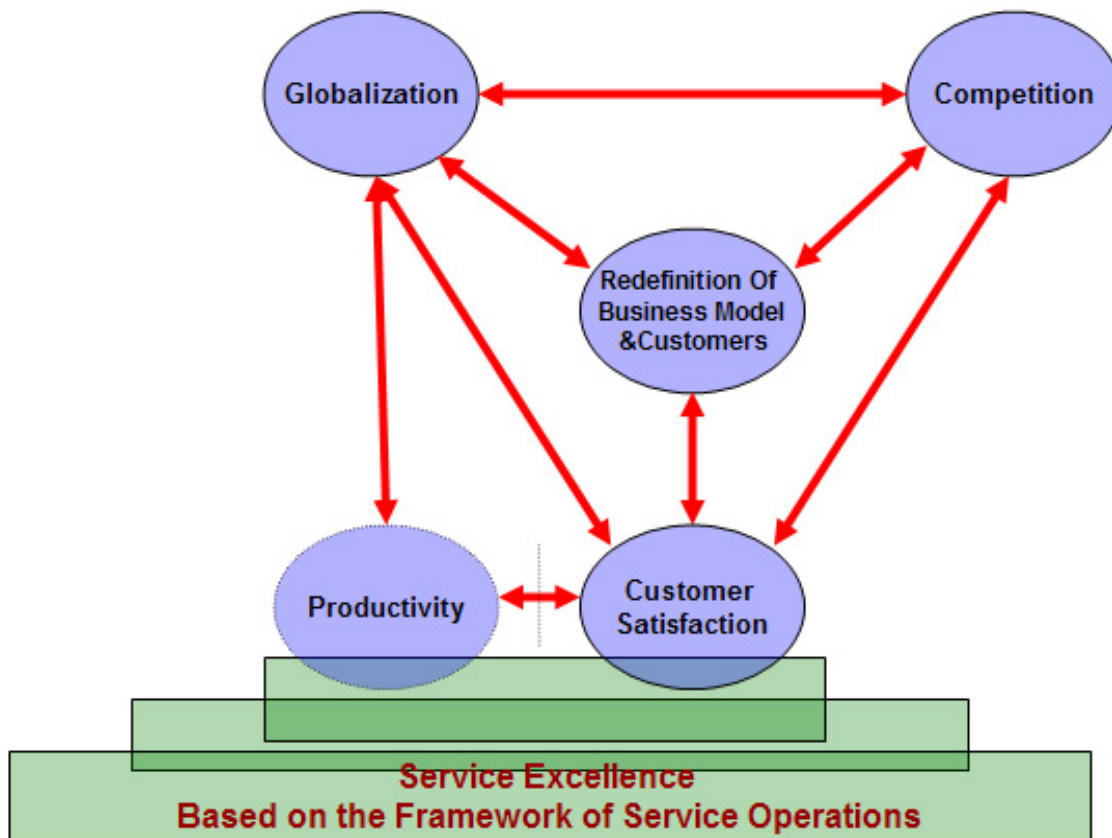
Lecture 20: Course Summary and Wrap-Up

Class Outline

Overview of critical concepts
Review of past discussion and key points
Questions

Course Review

Today, we'll wrap up with the following observations.



In this slide, we see three ideas that are especially important: redefinition of our business model, customer satisfaction, and a balance between customer satisfaction and productivity. These ideas are driven by forces you see in the diagram: globalization and competition.

The future of supply chains lies in the introduction of and in the management of services. Accordingly, we studied:

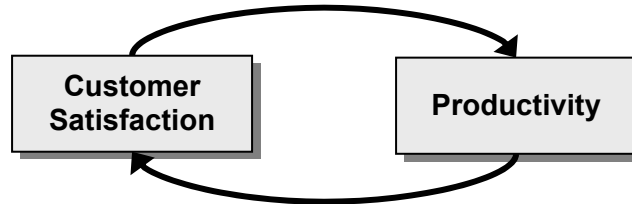
1. The nature of services: what they are, how to introduce them, and how to manage them
2. How services will affect the supply chain

This course is an *operations* course but not an *operational* course because we're moving from the domain of transaction to that of relationships. For too long, we had supply chains that were primarily transactional in nature. Now, however, we're discussing relationships within a supply chain.

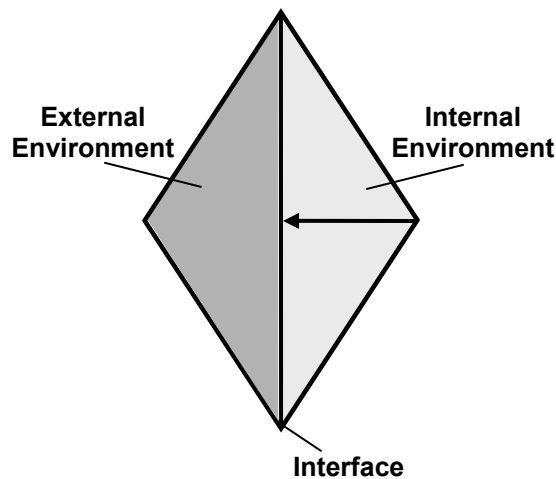
What is the future of the logistics industry and who will play a role? UPS has typically been conservative, but their new role will require them to share risks and rewards, which means a change in their business model. This resonates with what Armand Feigenbaum said about the importance of management capital. This relies on the leadership of firm and of the supply chain. The organization needs individuals who are transparent, dedicated to the firm and its employees, a member of PSP family, and can reinvent themselves all the time. It is a rare set of companies that can achieve all of this.

Take a simple example: McDonald's. You know the type of management each McDonald's has as soon as you walk in. Look at the floor and the tables – are they clean? If they are, it is probably a well managed place. What's true here is true in other companies as well. Think of organizations you have been in – the most successful ones are invariably aligned with the description I gave you. The managers of these successful companies believe in social responsibility and human value at home and at work. Be yourself and be everything you can be. Be aware and sensitive to others.

Explanation of diagrams:



This diagram shows that you have to reinvent yourself.



This shows the connection between the internal, the external, and the interface. The interface is the moment of truth. Adriana Ferreira separated her company's customer service and technical support, putting customer service in the interface and pushing technical support to a more internal place. You can do both well and also measure them. Merrill Lynch was trying to redesign their interface. The role of financial advisor was now to work with existing customers and to look for customers with certain characteristics. The new interface involves a good deal of risk, and the company may not have understood that institutional change would be difficult if they didn't accept some of that risk.

The management of change can only be understood when we realize we're dealing with humans. It simply won't work otherwise. That's why we come back to PSP: we heard from Carmen Baez that the key is people, people, people. How do we test that? Her company Omnicom acquires winning companies instead of losers, and backs them up with the financial strength of Omnicom. Her work is in recruiting the right people, not trying to train the wrong ones. Ms. Baez can afford to be hands-off with her employees, because she's done her homework beforehand and hired the right people.

As we've said, this is an *operations* course, but it is not *operational*. We chose to focus on strategic and tactical issues in supply chains. I did not focus on operational issues because the techniques that are standard fare in such courses may not hold true in today's supply chain environment anymore. We can no longer talk about lot sizes because we're in a "pull" not a "push" world. The way Barilla conducted business – managing lot sizes, creating a lot of inventory, pushing the product onto customers, using gimmicks to sell products – is not acceptable anymore. Problem with that is we're abandoning hope of managing the supply chain because we're creating a lot of variability and uncertainty in the system. In today's world, we sell through pulling, and we can manipulate the pull by having a simpler system. We need to be asking "who is the maestro?" and "At what level will we coordinate?" We might even be on verge of going back to vertical integration because the complexity and risks of doing business are increasing in many industries. Those forces could take us to other side of "double helix".

What are the overriding reasons that systems have been changing? Information technology and globalization have changed the rules of game. How can companies who have conflicting interests play as a team? Who will orchestrate? Now, we have the big customer (Wal-Mart) who gives orders because it is an easy way to start. Or third parties like UPS come in and offer to do it for them. This is a tremendous change for UPS because they're not used to doing it.

We talked about the framework of PSP and how relationships are based on the human element of how people are being treated. We need to educate customers to realize their importance – they are not a passive element in the system. A company can do a lot of things to get a customer to help them. In the Ritz Carlton case, employees are dressed well, empowered to help, and well trained. Then customer plays accordingly. My friend is the owner of a security company, and they have a very low turnover of employees even though he admits he recruits people who only take the job because they have no other options. Even though he's the owner, he has a shabby looking office. Why? He said the choice came down to spending the money on a nice office or giving personal dignity to his employees. He spends more instead to give his security guards nice uniforms, which leads to pride and low turnover. I think he understands the business better than anyone else - because he understands people.

Service guarantees are an outcome of having a PSP organization. We could have looked at service guarantees in isolation, but instead chose to connect it to the frameworks we've learned so we understand the psychology of the individual or company. The need for guarantees lies in the variability that exists in service operations and supply chains. Guarantees give power back to the customer in phases of the encounter where they are most vulnerable. Customers are not the only ones who benefit, though; the company offering the guarantee is often the biggest beneficiary because it forces changes internally that they wouldn't have to made otherwise.

This leads naturally to the quality framework. First is the definition of quality, which is the difference between expectations and perceptions, the difference between what we do and what our customers think we do. Look for gaps. We make drill bits and customers buy holes. We sell makeup and they buy hope. In Benihana, we're processing people but they think they're having fun. British Airways moved the complaint process from internal (customer writes a letter and waits weeks for the airline to investigate) to the interface. Often in matching supply and demand, variability gets in the way of reliability and trust. Many companies don't have a predictable link between input and output, which increases lead time and distorts the chain.

To satisfy the customers in the chain and the end customer, you need to dig and find the sources of variability. Invest the first money in the most important problem – since the curve is exponential, the first dollar can have a bigger return than the subsequent ones. “Just in time” is the limit of this idea, but JIT needs “just in case” to back it up.

We also need to look at supply chains not as transactional, but as value added. If you build a supply chain from scratch, keep it simple.

How do we motivate senior managers to buy into the frameworks we’ve discussed in this course? Take them to visit companies (even in a different industry) who have already made the change and let them talk to the managers – seeing it is much more effective than just saying it. Let their peers tell them that it can be done, and how.