Adapting to a Global Marketplace

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Today's food business is a swirling sea. World-wide political, economic and social changes, instant communications and the ceaseless ebb and flow of global trade are radically altering how companies must navigate. Industry players have two options: They can scramble to change supply chain strategy based on every new development, or they can accept that some complexity is not only unavoidable and uncontrollable, but even desirable. Complexity that is managed with skill and foresight creates tangible competitive advantage.

Food sellers must dodge crises left and right to maintain quality by product, brand strength and fiscal viability. The *Wall Street Journal* recently touched on some of these factors, writing that: "Costs are being driven by growing demand for meat in China, India and other emerging markets. That's driven up grain prices, which in turn boost the cost of chicken, steak, bread and pasta. Grain prices also have been nudged higher by drought in Russia, planting problems around the world and speculative trading."

Steering through the Storm

Food executives have four keys to guide them:

1. **Accept and monitor unmanageable complexity.**

World-wide standards of living, dietary habits and prices for commodities, labor and energy are shifting dramatically. Leaders need to understand how each of these trends affect their current and future business. When will inflection points be reached that require change or create opportunities? Firms must align their systems and processes to meet the demands of external complexities while remaining profitable. Processes should assist in making one decision over another, and then help measure success after the fact.

Without a clear, forward-looking view, there is no way to see which path is the right one.

Underpinning thousands of supply chains are assumptions about where and how raw materials, labor, energy and transportation costs mix together optimally. All of these assumptions are undergoing radical and rapid shifts. Executives need easily digestible, timely information to understand when and where changes create opportunities.

Companies that can monitor and adapt will prosper. Those that can’t will be buffeted.

2. **Create a nimble organization to manage complexity.**

It is not enough to put in place a way to recognize new opportunities. Companies must also have nimble organizations that can effectively plan and efficiently carry out new directions.

This means being able to properly balance the goals and drivers of important internal and external functions in the supply chain. This enables firms to plot a course, turn the ship faster and stay on the desired heading. Fighting for control of the wheel between functional groups and external partners may cause the company to wallow in the middle of the storm. Aligning goals, responsibilities, key performance indicators and the reward structure both within and across functional areas can make the difference between smooth sailing and ending up on the rocks.

3. **Get the most value out of operations while maintaining flexibility.**

Shifting complexity requires a different way of thinking, acting and organizing. Decisions should be made on data, not emotion. The proper balance should be struck between efficiency and flexibility while constantly striving to improve both.

Choosing several balanced cross-functional key performance indicators is vital. For example, focus on inventory is a common and important performance metric. The impact of inventory decisions are felt across the company, as they represent significant investment and is important to Wall Street. However, a focus on inventory is often not properly balanced with the ability to react in time, or with the cost of efficient sourcing, manufacturing, storage and transportation. Inventory must be considered as just one part of the mix of realistic total delivered cost to

achieve optimal supply chain performance.

One food industry company recently reduced inventory and production capabilities to match a planned level of business and lead times. At the same time, distant vendors with long, highly time-variable supply lines were chosen to reduce cost and customers were allowed to insert sizable orders into the production system on short notice. By cutting flexibility without reducing variability in the supply chain, the company's ability to serve customers efficiently was diminished.

4. **Change the behavior of people, processes and systems to bring lasting results.**

A culture of creativity, cooperation and data-based decision-making must be fostered. Both employees and functions must be well-organized, working towards the same cross-functional goals, and individual employees should have clear responsibilities and be held accountable for what they control.

For example, a supply chain concept like "Demand Pull" requires accountability and coordination from sales to feed clear and timely information on customer needs to the supply chain. It needs sourcing to be sure that the raw materials needed are on hand; planning and manufacturing need to specify and make the amount the customers demand on time; and logistics needs to deliver it efficiently when the customer expects it.

Each of these functions must be coordinated and working toward a shared common goal, with the ultimate objective of a team always driving towards the same end.

Using the four keys above, executives can more effectively sail through today's storming market and sustainably out-perform the competition.

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