Podcast Episode 4: Steven Daugherty on Disruption as a Competitive Advantage



Key Takeaways

- It’s important to make sure your supply chain planning strategy is tightly linked to the company’s larger competitive strategy within the industry.
- By forging close ties with marketing and commercial teams, supply chain leaders can respond to innovations from competitors with greater speed and agility.
- Avoid the mistake of viewing sales and operations planning (S&OP) as a supply chain process. It should be seen as a *business* process.

Can supply chain disruptions create a competitive advantage? In this episode of The Patient-Driven Supply Network podcast, Steven Daugherty of The Kraft Heinz Company shares lessons in supply chain transformation and agility from a 20+ year career across multiple industries.

Transcript:

Can supply chain disruptions create a competitive advantage? Steven Daugherty

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of the Kraft Heinz Company shares lessons on supply chain transformation and agility from a 20-year career across multiple industries, this week on The Patient-Driven Supply Network podcast with Roddy Martin.

Roddy Martin: Hi, Steve. It's an absolute pleasure to have you on this thought leadership supply chain series with us. I'm firstly going to ask you to introduce yourself and tell us a little bit about your background. Then we'll get into some of the areas of expertise that I'd really like to talk to you about, as we all, after COVID-19, explore how to make sure we have resilient and agile supply chains going forward into the future. Steve, over to you to introduce yourself.

Steven Daugherty: Thank you for having me today. My name is Steve Daugherty. Let's see: The joke on me is that I've had the guy's perfect career. I've made pickup trucks, televisions, and beer. A couple of stops along the way in other places but for the most part, those three industries, all in supply chain and logistics.

Roddy: Good. The one thing that I always associate with you, Steve, is the fact that you've always been in the center of planning and planning transformation, sales and operations planning (S&OP). One of the things that we've seen in COVID is the impact of disruptions on the whole supply system and the supply chain.

I'm sure that through your trucks, beer, cookies, and now electronics, you've seen massive impact of disruptions on the supply chain. Can you tell give us a few anecdotes of where you've seen disruptions and how they've impacted the business?

As I'm sure you'll appreciate, in the pharmaceutical industry, they live on the hangover of 85 percent margins, 300 days' worth of inventory, and if it expires, just throw it away because it costs you 15 percent.

We don't have that luxury anymore. In COVID-19, we saw what happens when you run out of PPEs, and vaccines, and test kits. Give us a few of the anecdotes in the

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fast-moving industries that you've been through.

Steven: The interesting thing is I've been on both sides of the disruption. I was with a large crane electronics company—that's when you and I met—right when digital disruption was taking hold as a concept. It was something that we were actively pursuing, to drive disruption within the industry and use that to drive share for ourselves.

I've seen the flip side of that. I was with Anheuser-Busch, a massive beer company, right as a lot of the craft beer business was taking off here in the US. Suddenly, you have three new competitors showing up every day with dozens of new SKUs, all fighting for the same share of throat, as we like to say.

When you take a business that had been very stable and suddenly, we're doing a lot of dynamic activity, both from a competitive perspective and then internally, in terms of, "How are we bringing new products to market to sustain and manage all of that competition?"

Roddy: That's interesting that you talk about using disruption as a competitive weapon. That, to me, is the ultimate epitome of agility. If you are so agile and you know your process capabilities so well that you can disrupt your competitors, that's an incredible form of competitive advantage. The joke between you and I is that we were both on both sides of the beer industry. You were in Anheuser-Busch, and I within SABMiller.

When Anheuser-Busch came out and said, "Our competitive advantage is you're going to get your beer the day it was put in a bottle," and that disrupted the beer industry because it was taking us weeks to get beers to market. You were basically saying, "You want it fresh? We label it on the day it was packaged, not when it expires." That disrupted the beer industry.

In terms of disrupting and in terms of being able to, in a sense, respond in such a volatile environment, what pieces of advice and insight would you say are critical

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to supply chain leaders understanding so that they can be more responsive, more agile, more resilient the next time around? We've made some really stupid mistakes, like visibility is the vogue, but visibility about what? Can you give us some thoughts on what you think are some of the cornerstones of resilience?

Steven: My thoughts on supply chain is that you always need to make sure that you're linking supply chain into the larger business strategy, and then that competitive strategy within the industry.

At Samsung, it was very much about, how do we drive data downstream, pulling information from our customers and using that to manage backup into our factories and our suppliers? That was a key advantage for us to be able to respond faster to the marketplace than other players at the time.

At Anheuser-Busch, for us, one of the big activities became, how do we link closer with our marketing and commercial teams in order to ensure that we've got the right plans in place, the right scenarios to expect for a sudden influx of innovations?

Because you're not going to leave a business with only two major brands like Budweiser and Bud Light and let that decline forever. You have to have a competitive response. You need to be working with the commercial team hand-in-hand to understand what they want and how they think they can respond. You need to build the supply chain to be ready for them before they need it.

Roddy: Let's pick up on the point you reacted to when I said “visibility.” Visibility has become the holy grail of the industry. My take on the word "visibility" is visibility of what, and so what? There's visibility of toilet paper. There's visibility of beer packaging that's running for hundreds of thousands of cans an hour. That's two different kinds of visibility and two kinds of impacts. What do you do with that visibility? I think that's, unfortunately, the reaction we've seen, is "Oh, we can't see it, so we've put in another IT tool to get visibility," but it's not going to make the

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problem go away. I know that there's great stories about visibility, but I'm sure you have a couple of points to make.

Steven: Listen, we could go as far as—and I talked with a couple of providers—we could get satellite imagery and link that into our planning processes and understand what's happening with our customers and our competitors if we needed to. For what purpose?

At the end of the day, visibility is great to have. It is a must as much as possible, but it's not the end. It's the beginning for analysis. I have this saying I tell my teams—that every good bit of analysis gets you maybe one answer, and probably two more questions.

How are you going to have the team in place, the tools in place, to make sure you're asking the right questions? Don't be afraid when you don't like the answers. Figure out, what do you need to do from there?

Whether visibility is downstream data, which is always my go-to, or everyone right now is talking about the Amazon model, where they want to know when the product is going to be delivered to the consumer based on the truck driving down the street.

Roddy: If you go back 10 years, we were in the same vein. As we're talking about visibility today, we were talking about demand forecast accuracy then. Everybody was off on this chase to get more accurate demand forecasts.

Some of the leading companies, and I think you were one of them, that said, "Look, don't chase after 100 percent demand forecasts there. You're never going to get it. It's going to cost you a fortune. You're never going to get it. It's not going to be that worth it from a business value point of view.

"If you can get it to 90, 95 percent and have really agile, back-end supply systems, when you get demand forecasts wrong, you're still going to be able to respond,

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because you know your business, your suppliers, your contract manufacturers well enough."

Let's talk about the work you've done in downstream joint value creation with customers. In other words, when you were in a beer company, electronics company, you were working with the retailers, the liquor wholesalers, the marketplace to try and get them to share information with you that you incorporated into your planning process, which in turn drives the supply process. Can you talk a little bit about that?

Steven: On the electronics side, as I mentioned, we were looking to disrupt the industry. We had a very interesting product portfolio in the works as things were coming along, but in that business, the product basically declines in value so quickly that you can't have a massive amount of inventory anywhere. It's the true Lean business, if you will.

In order to ensure that we didn't have excess inventory in our own barns, the first focus was, "OK, work with the retailers, get their data, and make sure they don't have excess inventory." Basically, treat the supply chain as a collective whole.

It's a little bit academic, I suppose, but in the discussions with the supply chain teams that major retailers that you can imagine happened here in the United States, the questions are always: "OK, we're going to improve our supply for you. We're going to improve our on-time performance with you, but we need data to make that work." That’s just the nature of how a supply chain can work together. That was always pretty well-received.

In the beer business, it’s much more fragmented. A lot more distributors, as you know. A lot more wholesalers. A lot more players throughout the channel and throughout the chain.

There, we had great visibility into what was happening with our wholesalers. We had okay visibility with what was happening downstream. Interesting thing, one of

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the things I've dealt with there—as you know, everyone nowadays talks about, at least in the forecasting and demand-planning space, they want a one-button forecast.

We actually had that. When I came into the North America team, for the sake of efficiency, we had moved demand planning over to a service and eventually had turned it into essentially a push-button exercise. It worked great for big, massive brands that sell millions of cases. Doesn't work for new schemes. Doesn't work for the small things.

We needed to pull that activity back, bring more of a segmented approach, if you will, and help the supply chain figure out, how do we treat the Goose Islands and the various malt beverages and margaritas or cola flavors or ciders or whatever was the vogue at the time, and treat them separate and special from the mass suppliers.

Roddy: That's a really important point, because what you've just said is what John Gattorna in all his books always says. If you've got a very good demand forecast, big brand, you've got great relationships with all your distributors and wholesalers, it's a replenishment supply chain.

You've got to be efficient. You've got to make sure you know what inventory is out there so that you never run out. If you've got a small selection and those demographics around flavors, depending on where you are, you better be agile and flexible, because not everybody's looking for a Bud. They might be looking for a grapefruit-flavored beer, or a raspberry flavor— whatever the case may be.

Segmentation, I think, is starting to creep into the healthcare. It's amazing that the healthcare industry is 10 steps behind where consumer goods and consumer electronics has gone. Consumer goods, consumer electronics had short life cycles.

A software change meant a new product so exactly to your point, you couldn't afford to have low-resolution cameras sitting around in the channel if you just

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brought out a new product, because what are you going to do with the old stuff?

In pharmaceuticals, as we move toward personalized medicines where you're making a drug for a community of 10 patients, or 1 patient, not millions of tablets for a community of everybody. It's a very, very different model.

Let me ask you a question about segmentation. How well did your leadership team and how well did you galvanize around the idea of segmentation? Because it takes a whole lot of extra work and extra processes and much more cross-functional activity. It's not a planning function. It's a business function, and I'd like to understand how to jointly create value with different partners. What was your experience in introducing a outside-in, segmented approach to planning?

Steven: We brought in the external consultant and had 'em do their study and provide their packaged solution. They did perfectly good work, but really, the approach needed to be, what was the transformation PMO that we were going to lead after they left? It started off with an awful lot of "fix the basics." How do we pull that client back? How do we get S&OP in place? Then building out the advanced capabilities.

It just made that journey very clear for both the operations and the business leadership that we need a certain roadmap. We've got to build some foundational elements. Then we're going to add these new pieces, and we're going to cement it all with one common process.

Roddy: Right. S&OP became the holy grail, literally for the last 10 years. Everybody was down the journey of trying to make S&OP or integrated business planning work. The work you did and the work Sam did in my opinion is still best-in-class.

Why do you think so many companies have battled to get S&OP working to bring the demand and the supply side of the supply chain together and deliver business results? What's been so difficult?

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Steven: I'm of the belief that you can't approach S&OP or IBP as a supply chain process. It's a business process. It's how you run your business. It needs to be linked with the financials, with the commercial teams, with their promotional plans. It needs to be driven by what the business is driven by, not by a supply chain imperative for forecast accuracy or low inventory.

The trade-offs you have to make in supply chain, be it planning or operations or logistics, are the same you're making across the business. You're always trading off service, which is more or less revenue, cost, and working capital.

Roddy: Do you think that the supply chain has been reticent to let go of S&OP and hand it to the business since they look at this as really a business process capability that we should all be working on together?

Why do you think it hasn't moved to the business? Because the business doesn't know how to lead and manage the change, or because the supply chain won't let it go because they're still being held to numbers and efficiencies and costs?

Steven: That's a great question. Ultimately, it's got to be hand in hand with the finance team. That's who I've always found to be the best partners in an S&OP process. I have an MBA in finance, so maybe I speak that language a little bit better than some others do.

You've got to be able to be flexible to manage your S&OP process in dollars and units. I think a lot of organizations are reticent to do that, or to build that capability and to build that linkage between the two pieces.

Roddy: That's interesting. You've come up with a couple of real nuggets. I love your perspective that it's less about visibility than it is about sharing data from downstream to the upstream team so that they can plan and manage supply networks efficiently. That is what this industry is grappling with.

By the way, that is the one of the big changes that healthcare is going to have to

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make because healthcare has always made millions of tablets because they could do it at 85 percent margins and throw away the stuff that expires.

To pivot that to say, "Well, now we're not going to make 300 days' worth of inventory. We're going to make enough to keep all these patients happy. By the way, now we're also segmenting the patient population from millions of people down to segments of maybe 10, 100, 1 patient."

Inventory and outside-in demand planning starts to become really critical. The ability to share data down the network with all partners in the supply network is absolutely critical.

That, unfortunately, is one of the Achilles' heels of healthcare because there's so many agendas. There's distributors who, like in the beer industry, don't necessarily share their information. It's not in their interest to share information.

There are contract manufacturers who are being asked by many different brand owners to make and package products. It's in their interest to shuffle their capacity around, keep the big boys happy, and not necessarily satisfy the small ones.

You make a very valid point. Let me make sure that I interpret you correctly. It's less about visibility than it is about sharing accurately real-time data from the demand side of the supply chain down through the supply network to all other partners in the supply network.

Steven: Yeah, at the end of the day, it's all about getting rid of that bullwhip effect. I always joked at AB that we played the beer game every day. Some days we lost, some days we won, but every day we played. It's what do you do with the data, to your point, right? You get as much as you can. You analyze it. You figure out what you're missing. You go after that, and then you continue to drive yourself to improve.

Roddy: This has been a really, really good discussion. Two points that I'm asking

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you to get your perspective on. One is agility, and what do you think the big gaps in agility are? The second one is, what piece of advice would you give a young supply chain leader, climbing up the ranks to be a future supply chain executive? Because supply chain leaders of tomorrow are business leaders. They're on the bridge of the ship with the sea level team guiding the ship. They're not managing efficiencies and taking out costs. It's a much bigger role today.

Let's start with the first point, agility. The beer industry pervasively built agility as a capability because they needed to be responsive to market and demand changes. What's your perspective on agility?

Steven: Well, I had a couple of different experiences in the beer industry. My last role with AB, I was doing more on the craft beer and e-commerce side, some investment activities that we were doing around the world. In that space, we really focused on the agility because there was so much dynamic activity going on in each marketplace.

Agility comes back to this segment approach, as you already referred to with John or Professor Hau Lee. There are pieces and areas where you need to focus on efficiency, and it should just be efficiency, should be efficient response all day long. It's important to then understand, "Where do you need to invest in the agility? How do you set up teams focused on agility?"

If you have one team looking at a large efficient process and an agile process on the side, they're only going to focus on the big numbers because that's how their metrics are all going to be based off of.

You need to segment not only your supply chain and concept but in team, then in your tools and, to an extent, your processes. That's my thoughts on it.

Roddy: I like that because that is where healthcare is going. As we go to personalized medicine, if you don't understand the patient, as much as people will say, "Well, we don't get close to the patient. That's private data." Look how fast

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consumer goods got over that information privacy. You don't need to know every patient's personal data. When you start grouping smartly, then outside in, you can start doing some really clever things in the supply chain.

Second point, and last point, a new leader coming, somebody who's interested in moving up the ranks to supply chain leadership, being on the business leadership team, and being at the helm of the growth strategy of the business, what is one piece of nugget advice would you give them?

Steven: To me, the most important thing is to make sure you're listening, listening to the leaders, the commercial leaders, listening to your customers, listening to your consumers, and trying to pull insights out of that. That can then help you build a supply chain that's going to be effective and efficient.

Roddy: That's a great point to close off on. I will say it's great because, today, and about six months ago, before we had the pandemic, I heard a pharmaceutical supply chain executive say, "I thought we'd nailed down pharmaceutical supply chain, and then came digital. Now, we're all confused."

I love the accent on listening because we can actually get blindsided by looking at systems, blindly interpreting demand and data from IT systems, not actually thinking, not listening to the business, and not continually doing these trade-offs that are so important to keep the business balanced.

I love that point. Just listen because, if you listen, you'll also learn. There's nothing worse than coming across some of the supply chain leaders who want to tell you what the problem is all the time. That's not necessarily what's called for today as we flip from inside-out, supply-driven to outside-in, demand-driven.

Roddy: Steve, any closing thoughts from your side? This has been great.

Steven: No, I've really appreciated this. This has been a lot of fun for me. It sounds like there are a lot of very interesting challenges in the pharmaceutical and

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healthcare supply chain. I wish you well.

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