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THE THREE DIMENSIONS OF CHANNEL MASTERS

by Bill Belt

You're a small or medium-sized company in an increasingly turbulent environment. What can you do when the customer gives you terribly variable orders or no planning information at all and still demands instant delivery?

Often in this situation, somebody else in your supply chain(s) is the channel master, the one who makes product and information ebb and flow in the value stream…the "Master" Master Scheduler. The channel master is supposed to manage demand and resources so that the entire supply chain attains the best customer service at the lowest cost. But many times the channel master doesn't want to accept that.

Three key dimensions characterize the channel master, and there may be a separate channel master for each. The three are political, economic and planning.

The political channel master has the decision-making power and dominates the value stream. The big hypermarkets are an example for many consumer-goods supply chains. The economic channel master dominates the money and resources in the supply chain. Usually this goes with political power, but not always, particularly when supply chains are changing over time.

For example, as Charles Fine illustrated in his excellent book Clockspeed (www.clockspeed.com) IBM held dominant political and economic (and planning) power as the undisputed channel master of the computer supply chain through the 1970's. This concentration of power was an ideal situation for all the companies in the supply chain (although not ideal for competitors!). But as Microsoft and others fractured IBM's economic channel mastery, Big Blue still retained its political clout…for a while. Nowadays, most of the political and economic powers are in the hands of Microsoft and Intel…for the moment.

The planning channel master directs the traffic of other companies in the channel by correctly managing the channel's physical and information flows. It is less celebrated and less familiar, but offers an important service. In the resource-challenged 21st century (without forgetting the 22nd and 23rd centuries), this service should be included in the price the downstream customer(s) pay to any supplier that provides it. It's not a rip-off, because correct supply-chain planning and execution is a win-win proposition.

Automobile suppliers have long been forced to play part of the role of planning channel masters, because their big customers often don't do their own planning job. Just sending raw market demand to suppliers accompanied by explanations of "changing customer demand" is more of a cop-out than

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anything else. It's too easy to dump demand-variability management on suppliers. Sometimes the information coming from downstream customers is so bad that suppliers can't use any of it and prefer to do their own planning on Excel. This is not a good solution in the long run and puts the entire supply chain at risk.

Sometimes upstream companies which receive little or no planning information from their large customers downstream, look at sales of their customers' products to gauge demand for their own. This is usually not a good idea since the demand (and the takt time) of the overall value stream is not the same as the demand and the takt for the various member companies upstream. In an ideal world, maybe, but in the real world inventories, order sizes, lead times, and other factors make sure that upstream demand is different. Demand at the end of the value stream should be used for information only, for identifying trends.

One company I work with, a manufacturer of a large range of home and industrial equipment, combines political, economic and planning power. It consciously maps its value streams (supply chains) from the customer of its customer to the supplier of its supplier. It has a powerful Sales and Operations Planning process. It works with suppliers and subcontractors to help them become better performers.

Another company I know has little political power, because it is an affiliate of a much larger company which siphons off most of its profits. To leverage its remaining economic power, it decided to become a planning power and intentionally upgraded all of its manufacturing and logistic systems to excellence status. It has survived, introduced new products and been a good employer over the years.

Some political and economic channel masters abuse their power. At least one big distribution chain puts its suppliers in difficult positions intentionally by making impossible demands and then assesses them penalty costs. This is anti-Lean and anti-Supply Chain Management, where the bywords are respecting the supplier and helping him succeed.

What can a company buffeted by powerful supply-chain winds do? First of all, any company can become a planning channel master. Sales and Operations Planning technology and Manufacturing and Distribution Resource Planning technology is in the public domain, available to anyone. As shown in the examples above, planning power defends against abusive political and economic channel masters.

Secondly, any company can increase its economic power, by implementing Lean thinking to identify and eliminate waste in its processes. Lean technology is also in the public domain, available to anyone. Lean frees resources to do other things. People who were correcting defects can work on new products. People who were managing parts with work orders and associated paperwork can set up Kanbans with suppliers. Engineers and technicians, instead of correcting BOM errors can go talk to customers to find out their wants and needs for new products and services.

Thirdly, having increased its planning power and its economic power, the company more or less naturally acquires political power as its prowess in innovation and in reliability becomes known, and customers seek it out.

Mapping the value stream in a few of your major supply chains, is a good place to start. The only way for hard-buffeted companies to survive is to get out of fortress mode and into supply chain thinking, preferably of the Lean variety. Identify key customers and suppliers, connect with them, become more aware of the only person injecting fresh money into the supply chain: the final customer.