



COMPETITION - Good for Sport, but is it a Winning Asset Management Strategy?

Competition today has become one of those “good things” that you can’t have too much of. Moreover, it has morphed from being “good” because it achieves desired aims, to being “a good thing” in its own right. *But is it good for asset management?*

Whether your role is to determine high-level asset management policy in a central government role, to set the directions of your agency’s asset management strategy, or to ensure that asset management happens ‘on the ground’ – it may be time to look again at competition. In this issue we ask: Is competition necessarily the right strategy for asset management?

And we look at one non-competitive strategy that is now being widely applied in business, particularly in manufacturing— **Supply Chain Management**

There are now not only courses to teach this, but whole institutions! We supply a simple guide. Suspicious of the trust and sharing required by Supply Chain Management? Well, that’s only natural. We look at some of the issues. Finally, we ask whether SCM ‘works’ within a government environment and provide on-line references for further research.

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Going Beyond Competition (with De Bono)

Recently, a news item caught my eye as indicative of the unthinking attitude that is sometimes taken towards competition, as if it is a good thing in its own right, instead of serving a quality enhancing or cost reducing purpose.

Are we losing the plot on Competition

David Nankervis in the "Sunday Mail, Feb 15, 2004" writes: 'The gas industry claims gas market deregulation will cost \$87 million over the next five years. These costs will be passed on to the state's 340,000 industrial, commercial and domestic consumers. "The costs are associated with setting up systems to introduce competition to the retail market and consumers will have to pay these costs", Essential Services Commission of SA chairman Lew Owens said

If the costs of de-regulation are not offset by the benefits in terms of cost reduction over the next five years, when will they be? And if not, why is competition being introduced at all? This leads one to ask: Has competition as a strategy over-rated?

Is Competition over-rated?

De Bono argues that this is the case in his book "Sur/Petition: going beyond competition". In the introduction to his book he writes

'Competition is a fashionable concept vigorously pushed by such gurus as Michael Porter of the Harvard Business School. But any business school has to be about ten years behind the times in its thinking in order to be credible. This is true because its ideas have to be immediately acceptable; since there is a considerable time lag, the ideas of the future are not instantly acceptable. Therefore, such concepts do not necessarily enhance a school's reputation.'

Maybe he is right, because the ideas in his book – written 12 years ago – are the ideas now being pursued by the gurus.

Paradox 1 "You cannot truly be competitive if you seek to be competitive"

According to De Bono, competition is the baseline – i.e. necessary but definitely not sufficient. Thus to have 'being competitive' as your aim, is actually to aim to fail. You must do more! You must go 'beyond competition'.

Paradox 2 'Perfect' competition is no competition.

In economics, 'perfect' competition is usually typified by potato growers, - many sellers selling an undifferentiated product, a situation where no individual player has any market power, where each player is a passive recipient of 'the market price'. 'Perfect' competition is thus seen as a state in which there is no competition at all! In order to really compete, potato growers have to differentiate their offerings – and pit one potato variety against another to attract the consumer.

Is Competition a “Stage” we are going through? - and is ‘beyond competition’ therefore a ‘higher state’?

De Bono suggests three stages of business as follows:

Stage 1 - Production

Demand is so strong that just about anything that functions will sell. He suggests that, when cars were first introduced, it was sufficient to produce it to sell it. This stage, he suggests, happens not just once in time, but over and over again, as new commodities are introduced.

Stage 2 – Competition

‘In time, businesses become established and profitable. Existing businesses start to expand and newcomers are lured into what they see as lucrative markets. The simple hunger for goods becomes more or less saturated. There is still a need for goods, but now it becomes a matter of offering a better quality and of persuading people to buy products.’

Stage 3 – Integrated Values

Integrated values are not simple product values or competitive values: they are values that integrate into the complex values of a customer. Nor is it just a matter of asking the customer what he or she wants. Customers may not know what they want until it has been suggested it might be available. (The example given by De Bono is of the French Club Med. ‘The French do not like travelling abroad, partly because they do not speak foreign languages and partly because they believe (rightly so) that they have better standards of cooking than almost anyone else in the world. The concept of Club Med integrated directly into these concepts; they could now go abroad, but they would take a piece of France with them. A French person would be abroad, but he or she could speak French and enjoy French cooking.’)

Are there parallels in Asset Management?

Stage 1 - Construction

In Australia in the late ‘50s, throughout the ‘60s and into the ‘70s in some cases, demand for infrastructure and facilities was so great that little attention was paid to how much they cost or how long they would last, simply how fast they could be constructed. The engineer and project manager dominated.

Stage 2 - Competition

With basic essential infrastructure constructed, attention moves to the ‘nice to haves’; competition for finance and political attention develops. Agencies need to show that they are worthy recipients of government and public monies, so price and profits/surplus become more important. We ‘commercialised’. Competitive tendering was ‘in’.

Stage 3 - Integrated Values

Are there examples of integrated values in the current trends in asset management?

What about the move to long term community council plans where councils are regarded as a contributor, only one (albeit an important one) to desired community outcomes?

What about the move to ‘joined up government’ - the seamless integration of different aspects of the supply chain in government across different agencies and even different levels of government?

This latter could probably benefit from the experience of the manufacturing sector in Supply Chain Management.

(see next)

Supply Chain Management

(This basic guide is drawn from one of a series of 'fact sheets' available from the Constructing Excellence site in the UK www.constructingexcellence.org.uk Others include benchmarking, business process improvement, knowledge management, etc. You will need to subscribe but subscription is free.)

Not into manufacturing? Not to worry – the principles of supply chain management still apply, just think of the agencies that you need to deal with to fulfil the functions described below. In many cases these will be other government departments, they may be others sections of your own organisation.

Can't trust other organisations? Well, the private sector doesn't either. Suspicion of others is natural. See "Suspicious? – It's natural!", following this fact sheet.

Supply Chain Management

Construction businesses are beginning to realise that their success is increasingly dependent on the organisations they supply to and buy from, and that for continued success they need to co-operate and collaborate across customer/supplier interfaces. This way of working in a structured and organised manner is called Supply Chain Management; each company is a link in a chain of activities, adding value at each stage, designed to satisfy end-customer demand in a win/win scenario.

The supply chain encompasses all those activities associated with moving goods from the raw materials stage through to acceptance of the product or service by the end-customer. This includes sourcing and procurement, production scheduling, order processing, inventory management, transport, storage and customer service. It also embraces all the information systems necessary to support and monitor these activities. The supply chain runs through as well as between companies.

Successful Supply Chain Management co-ordinates and integrates all these activities into a seamless process. It embraces and links all the partners in the chain. The practice of Partnering is normally a major feature of successful Supply Chain Management.

WHY?

The benefits to the contracting industry include having a better understanding of key customers' needs, starting with the end-customer, and of suppliers' capabilities. This leads to reduction in delivery times and costs whilst being more responsive and improving the quality of products and services. This in turn creates higher customer satisfaction levels and improved reputation for the industry.

Individual companies will benefit from:

- Increase in net sales
- Increased repeat business with key customers
- Improved production effectiveness, perhaps by up to 30%
- Reduction in real costs; 10% may be possible, with margins maintained
- Greater confidence for longer term planning
- Greater certainty of turnout costs
- Improved value for money in a win/win scenario

HOW?

Supply Chain Management has to be introduced progressively and under control. The following points will help to start the process.

- Identify key strategic supply chain partners
- Share plans and visions
- Learn from each other
- Be less confrontational
- Become proactive rather than reactive
- Explore joint initiatives and be receptive to change
- Set SMART objectives for marketing, operations, financial performance
- Ask for assistance if required
- Look at the guidance that is available on Partnering

With partnering arrangements operating satisfactorily with immediate customers and/or suppliers, encourage them in turn to roll out the culture with their customers or suppliers. It is advantageous for each organisation in the chain to appoint a champion who will have a very positive commitment to the process and its success.

The champion will have a powerful and influential role in the partnering process in their organisation. They will reinforce the team approach and communicate regularly with senior managers to ensure they are fully aware of the supply chain relationships and committed to progress in their development. Champions will also be regularly in touch with partner champions, and will ensure appropriate channels of communication are maintained between relevant levels and disciplines, and actions taken to resolve issues.

As the Supply Chain Management process extends, it would be expected that partner champions along the chain would develop a means of understanding and communication beyond their immediate partners. The prime contractor would have a major role and initiative in co-ordinating the information flow.

On-Line Further References

The Seven Principles of Supply Chain Management. In Supply Chain Management Review, Spring 1997. <http://www.manufacturing.net/magazine/logistic/scmr>

The seven principles of supply chain management can enhance revenue, cost control and asset utilisation as well as customer satisfaction. These principles prove that you can please customers and enjoy profitable growth from doing so. (*The Supply Chain Management Review has many more valuable articles and access is free*)

<http://www.cio.com/research/scm/strategy.html> Supply Chain Management Research Centre – a fund of information.

Suspicious? – It's only natural!

Don't believe that Supply Chain Management would work for you? Figure you can't really trust your supply chain partners? Well, join the club! This is a very natural reaction. According to CIO Magazine (Jan 15, 2003) everybody is initially suspicious of any form of collaboration, especially when it involves sharing confidential information or IT.

Some business reactions:

from a supplier to a manufacturer:

"If we share more information, you're going to squeeze us on cost even more."

from a retailer to a supplier:

"If we share promotional information, our competitors will find out."

from a manufacturer to a supplier:

"If we share more information, you'll go directly to the customer and cut us out of the loop."

from all parties:

"If the collaboration project does prove to be useful, the other side will get more value than we do."

"We can't share information or processes. That's our competitive advantage."

The article "Suspicious Minds" (which you can access in its entirety at www.cio.com/archive/011503/minds.html) argues that, nevertheless, it is worth persevering with. This excerpt summarises how to get started:

Six Ways of Getting to Yes

by Lauren Gibbons Paul (from CIO Magazine, Jan 15, 2003)

'So successful collaboration boils down to trust among partners. And trust has to be built up over time. "You have to earn it," says Applica's Fisher. "You can't walk in the door with bright eyes and bright ideals. It takes time." Acknowledging that there are no quick fixes, here are six ways CIOs can lay the foundation for trust.

1. START SMALL.

Begin by collaborating on a small scale—such as synchronizing one type of sales data—and with a partner you already trust (hopefully, the feeling is mutual). Pick a project that is likely to provide a quick return on investment for both sides. Once you show real benefits and create a climate of trust, then it's time to go for bolder stuff. Spalding, the sporting goods manufacturer, launched its collaboration with Wal-Mart by initially exchanging data via EDI. Today, the companies share forecasts and real-time sales data over the Internet. The key to the successful venture, says Spalding CIO Rousseau, was establishing a track record of collaboration, however modest.

2. LOOK INWARD.

As Lowry found at Goldman Industrial Group, the necessary precondition for establishing trust with outside partners is establishing trust with one's internal peers. That means the CIO and his staff must make peace with the supply chain folks, the e-commerce team, the marketing and sales force, and whomever else might be involved (which is to say, everyone). Give the same pitch you would to external partners, singing the commonsense benefits of working together and grinding along toward consensus. Your internal political situation might be a mess, but that's no excuse. If you can't break down barriers with the people you play alongside on the company softball team, you don't have a hope in hell of doing it with outsiders.

3. GATHER 'ROUND.

This is no time to use e-mail or videoconferencing. There's no more sophisticated method to build up trust than to meet with people the old-fashioned way, around a table. Listen to the objections, find out what the agendas are, buy them lunch (better yet, cocktails), and then do it all over again as people leave and management changes. Boston-based Partners HealthCare System recently began sharing some data with Blue Cross Blue Shield of Massachusetts, a health insurer. The undertaking makes sense for both sides, but first the parties had to overcome antagonism caused by fractious negotiations on reimbursement rates that happen every few years. John Glaser, vice president of IT and CIO for Partners, and his counterpart, Blue Cross CIO Carl Ascenzo, discovered that a small humanizing touch is sometimes all that's necessary to get collaboration working. The person who does claims processing at Partners got together with her counterpart at Blue Cross for the first time. "The social glue didn't exist because they had never met. One part of collaborating is getting to the point where you realize you like the other person," says Glaser.

4. GO FOR THE WIN-WIN.

It's a cliché, but be prepared to hear—and say—"win-win" (or even "win-win-win") over and over again. That's because collaboration really is a new way of doing business, a system in which the biggest parties do not bully and abuse their partners because they can, but rather help create an environment that optimizes business for all supply chain members. If you can't demonstrate that the collaboration initiative will benefit everyone, no one is going to get behind it—in their hearts, minds or wallets.

5. DON'T GIVE AWAY THE STORE.

Declare that no one has to, or should, share all information. Even in this day of the extended enterprise, some information should remain proprietary. Acknowledge that point right away so that people can relax. You don't have to share everything to improve your supply chain's performance. Simple exchange of demand, consumption and capacity forecasts can go a long way.

6. JUST DO IT.

One of the best ways to build trust is simply to start sharing information. If all goes well, success breeds trust, emboldening the partners to go on to bigger things. Rousseau doesn't worry that sharing data will lead Wal-Mart and other customers such as Kmart to try to drum down Spalding's costs. "That will happen anyway. We're not afraid of that. We just have the kind of relationship where it's beneficial to both sides to share as much information as we can," she says.

Having a history of successes together goes a long way to maintaining trust, Rousseau says. "Nothing bad has ever happened with the information they send to us. And vice versa. Trust evolves through reliability and being able to have accurate, timely data".

DISCUSSION FORUM

**Supply Chain Management:
Can it work in Government?
Does it work in Government?**

Have you tried the trust principles of Supply Chain Management?
Successfully/ Unsuccessfully?
What have you learnt?

Share your experience at

www.amqi.com/forums

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