

**SDI Point of View**

*Achieving consensus to ensure you're on the market-shaping side of a changing industry.*

**SDI**



**POV**

***Additive manufacturing and 3D Printing innovations, compressed product life cycles, and changing consumer expectations are forcing manufacturers to transform their operations across all industry segments. Disruption is underway and many manufacturers are moving beyond their traditional view of core competency and primary industry to redefine their value proposition and reshape their business models.***

The Pharmaceutical Industry is moving to continuous manufacturing in an effort to produce batch sizes of one. Medical Device Manufacturers are applying image printing technology to produce hip and knee replacements personalized for an individual. The Footwear Industry has developed a new manufacturing method - computer controlled knitting technology - to produce high quality athletic shoes with zero waste.

The change is dramatic, visible and industry agnostic. Still many organizations struggle with conflicting internal interests

and have difficulty in gaining consensus to solve the problems that will make the organization more effective. Unable to work through the change management process, they succumb to thinking the status quo is good enough, limiting the organization's ability to evolve.

Transformation will require a fundamental shift in current leadership structures, operating processes and information flows. To succeed, an organization must ensure that its direct, indirect, and MRO (Maintenance, Repair and Operations) supply chains work in tandem.

#### Why MRO?

In leading organizations MRO is a core-enabling, mission-critical integrated business process that, when managed as a well-defined process, helps enterprises become more effective and adaptable.

However, in most organizations MRO is not a well-defined business process. It's not the MRO is unimportant; it's just difficult to manage effectively because it cuts across so many business functions - including storeroom operations, procurement, finance and operations. MRO has many functional owners, but not one process owner. MRO is traditionally viewed as

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transactional in nature. MRO can have tens of thousands of SKUs, thousands of suppliers, but accounts for less than 10% total spend. Also, the manner in which we speak about MRO relegates it to a cost of doing business. Elevating MRO beyond piece price of spare parts and a cost of doing business will be extremely difficult unless we consistently communicate the way MRO impacts adaptable, flexible, and intelligent operations.

MRO management and alignment must be part of any sustainable change initiative, but MRO leaders are scarce. Will you be the leader that won't accept business as usual – and all of the inefficiencies, work-arounds and added costs of MRO? The reliability of your entire operation depends on having critical spares, strategic suppliers and cost structures aligned to achieve maximum uptime and organizational agility at the lowest total cost. But how can you make your supply chain more agile and efficient when accepting an inefficient and unmanaged process for something as critical as MRO? If you take on this challenge, you'll be fighting the greatest headwind in business – organizational and management structures that support the status quo.

### The new winners.

Disruptive Innovation is the introduction of new technologies, products or services in an effort to promote change and gain an advantage over the competition. It stems from the need to evolve and stay 6 months, a year, or even 5 years ahead of clients' needs.

Manufacturers, in particular, are entering an era of unprecedented innovation and change driven by many forces in the market. Not only are the stakes high for established companies in manufacturing; they're also getting higher. Across all industries, the Global Center for Digital Business Transformation Center has found that the average time to disrupt an industry is just 3.1 years<sup>1</sup>. That's 3.1 years for your company to be on the market-shaping side of the disruption. You don't want to be left behind. But how can you be a market disruptor when you are constantly reacting to process disruptions?

40% of all incumbents, across all industries will be displaced by digital upstarts in five years, according to Global Center for Digital Business Transformation. And with more than 100 so-called unicorns – venture capital

<sup>1</sup> Source: The Digital Vortex, Where Disruption is Constant and Innovation Rules. <http://blogs.cisco.com/ioe/the-digital-vortex-where-disruption-is-constant-and-innovation-rules>

backed private companies with valuations over \$1 billion and a testament that bets are being placed on this disruption – startups are free to employ technology to completely reimagine any industry.

That disruption, the market changes forcing manufacturers to be more agile, will define who the new winners and losers are in business. Winners are those who can be agile and adapt to what the market is telling them, focused outwardly on the needs of their customers. Their organizations are aligned, not disconnectedly operating in functional foxholes. Their processes and partners become strategic assets, creating value and differentiation in the market. And the new winners have a balanced perspective of value, risk and cost – understanding how they inherently play into each other.

To be a disruptor, your company has to have an effective, adaptable, flexible and well-defined process-driven supply chain – both direct and indirect.

### Good enough is no longer good enough.

A recent McKinsey study found that only 25% of companies that try to undergo an organizational-wide change initiative actually complete it. No wonder the status quo seems so attractive. Change is always met with resistance. It

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feels like any change initiative might not work. Why should this time be any different? And of course you have denial: this won't impact me. Take into consideration as well that the broader the impact of the change, the more the organization will try to diffuse the risk. A 2013 CEB member poll shows that 78% of companies are requiring more and more stakeholders to make a decision – an average of 5.4 decision makers<sup>2</sup>.

There's a false sense of security in the status quo. Change is disruptive, expensive and risky. And the chance of failure seems pretty high. There's a perception that doing the same thing, or doing nothing, doesn't cost anything. But failing to assess the risk of the status quo doesn't mean the risks won't materialize<sup>3</sup>. It just means you won't be prepared when they do. And having no transparency into what your sub-optimal MRO processes is costing your enterprise doesn't mean that the costs aren't there – and they're substantial both in terms of dollars and in terms of the value that's literally being left on the table.

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2 Source: Executive Guidance – Winning Consensus-Based Sales. CEB, 2015.

3 Source: Davey, Liane. The Status Quo is Risky, Too. Harvard Business Review. May 02, 2014. <https://hbr.org/2014/05/the-status-quo-is-risky-too>

Clayton Christensen, a Harvard Business School professor and author of *The Innovator's Dilemma* and other books on disruption, says the right question is not whether an industry is safe from disruption. Better, he argues, is to look at whether or not the conditions facilitating disruption are present in an industry.

Let's take a look at the conditions surrounding MRO and why the status quo has such a strong grip on this mission-critical, core-enabling business process:

- While a high volume of transactions – requisitions, purchase order processing, confirmations, validations and payments – are spent on MRO, it's a relatively low spend when compared to direct materials. So it seems not as important as managing the direct supply chain.
- MRO is highly political because it touches so many stakeholder groups – from procurement to maintenance to reliability to finance.
- Traditional supplier relationships keep manufacturers hostage to their supply programs.
- Companies have become dependent on their legacy systems. Those systems may have worked well in the past, but as industry has changed, bolting on to those systems

eventually breaks the system.

- Risk! From a personal perspective, it's always riskier to change when the reward doesn't seem as great.

But the status quo can be risky too. Before organizations can even explore alternate courses of action, they have to come to the realization that change is here – the status quo no longer works and if you feel like it works well enough, market conditions will soon render status quo irrelevant anyway. Executive teams typically explore the risk of different courses of action – scenario planning for “acts of God” and how to prevent an information breach. But neglecting to make a similar assessment of the risk of staying the course is a huge mistake.

### Deliberate disruption for sustainable growth and success.

The negative impact of disruption isn't inevitable. Christensen says that “disruption works because the incumbents don't respond.” It's those companies that respond, creating their own disruptions, which will thrive in the face of this change. To make it today, every company, no matter how big or small, no matter how long they've been in business, has to be nimble and quick. They only have 3.1 years before it all changes! Successful companies must be willing to jump markets and change industries with a

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start-up style boldness, just to keep pace with the frantically shifting demands of their consumers.

*“The advantages of the past have been commoditized and the rules of the game have fundamentally changed. We can no longer rely on the past as a game plan for winning. Deliberate disruption is the only path.”*

-- Josh Linkner, The Road to Reinvention

Disruption is not just finding ways to cut costs. Unlocking value trumps cost-cutting every day. Forward thinkers across the industry seek catalysts for acceleration beyond traditional labor arbitrage and transaction processing into a more collaborative, entrepreneurial and value-driven business world. They seek services that deliver simplified, intelligent and nimble operations<sup>4</sup>.

Simplification is going to be critical. Once you embrace this change and start looking for ways to change your indirect supply chain, you'll need a model that removes complexity, kills poor processes and eliminates manual ones. This is the only way to

4 Source: Accenture Operations. Beware of the Smoke: Your Platform is Burning. The Evolution to the As-a-Service Economy Poses Major Opportunities and Threats to Enterprises. HfS Research, Ltd. 2015.

become more agile and work on demand in this plug-and-play world.

Once you make the leap into change, you still need a vision in mind. So what do you need to do? What does the end state look like?

There are a couple things you want to keep in mind.

### Improved decision making to increase the speed of business.

Because consumerism has changed the way your customers go through their buying process<sup>5</sup>, you need the ability to make more intelligent business decisions faster and across all functions. This is powered by improved access to information, analytics and insight, which, in turn, allows you to respond quickly and smartly to fleeting customer opportunities and increase your speed to value.

### Best talent.

Over the next decade nearly 2 million manufacturing jobs will go unfilled<sup>6</sup>. This skilled labor gap directly impacts your ability to meet customer demand, provide effective customer service, innovate and develop new products and expand internationally.

5 Source: IDC Manufacturing Insights. IDCWPO2W, 2014.

6 Source: The skills gap in US manufacturing 2015 and beyond. Deloitte and Manufacturing Institute, 2015.

### Transparency and visibility across the ENTIRE supply chain.

The supply chain isn't just your direct supply, and it doesn't stop at your front door. Taking a full view will enable you to work more effectively, stimulate collaboration, maximize responsiveness and improve performance. Lack of visibility can delay the discovery of anomalies or problems in supply chain and manufacturing operations that need attention. While end-to-end transparency, on the other hand, allows you to make keen process improvements and be able to identify where is the best use of emerging technology and complementary capabilities in your supply chain and in your process.

### Shorten the supply chain.

Consolidating your suppliers means more transparency across the supply base and a more streamlined business process—all resulting in your ability to be more responsive to market opportunities.

### Make-to-one. Buy-to-one.

The impact of additive manufacturing will go far beyond production. Making the industry much faster and more competitive than today. Shortened supply chains means a dramatic increase in the number of transactions. How do you reduce suppliers while increasing

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transactions? Accelerate the supply chain by taking advantage of the opportunities available to leverage purchasing power. Your partners should sell to how you buy. You shouldn't have to buy to how they sell.

### Buy closer to the point of need.

Informed, impatient, brand agnostic, experience-seeking customers (B2B2C) are going to grow the businesses of those who can identify (analytics) and react quickly (process-driven) to emerging opportunities. If you haven't already, you'll need to move your business from transactional business to real-time business. The ideal world would be just-in-time delivery in a planned maintenance domain, as opposed to stockpiling and hoarding in a reactive domain. Point-of-use technology both in delivery and in searching/ordering helps get you there quicker—all resulting in being able to respond more quickly and to market opportunities you couldn't address before.

### Take advantage of a supply chain ecosystem.

Social, mobile, analytics and cloud (SMAC) adoption is gaining speed<sup>7</sup>. SMAC is an essential

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7 Source: 5 Manufacturing Trends that will Shape the Market in 2015. Industry Week. November 14, 2014. <http://www.industryweek.com/technology/5-manufacturing-trends-will-shape-market-2015>

tool kit for enterprises to drive higher customer engagement and growth opportunities. To take advantage of this, you'll want to gain access to innovative partners, emerging technologies, research and academia.

### Shared vision.

The more diverse the interests and agendas of the various stakeholders in the buying or change process, the more dysfunctional the decision-making process.

This dysfunction, not surprisingly, rises as the diversity increases<sup>8</sup>. Because MRO touches so many different functions of the business – IT, production, maintenance, storerooms, engineering – the diversity index is going to be high. In order to implement any kind of change, you need to align the interests and perspectives of those various stakeholders with a shared vision. How will this initiative not only impact and improve each function represented, but improve business enterprise-wide?

With an average of 5.4 stakeholders and increased customer dysfunction, you have to find a way to better connect those same individual stakeholders to each other. You have to agree on a common

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8 Source: Executive Guidance – Winning Consensus-Based Sales. CEB, 2015.

course of action. You get there by confronting disagreements, engaging in productive debate and considering what alternatives you have. Ultimately, you need to collectively embrace change.

### Mobilize.

Because most organizations try to avoid change, you need to have a mobilizer. Someone who is willing and able to build consensus - who also has an openness towards driving organizational change. And if you want to drive change in your organization, you'll need to identify the profiles of each of your stakeholders, so you can find your mobilizer and overcome any hurdles...or if you are the

mobilizer, so you can rally others into action. The mobilizers are the ones that are particularly good at building consensus and really drive change<sup>9</sup>.

What do you do with these mobilizers to help drive change in your organization?

After you've identify mobilizers – not just evangelists – you'll want to engage them with commercial insights, equip them to coach the other stakeholders for collective change and provide them the support, encouragement and confidence to push through.

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9 Source: Executive Guidance – Winning Consensus-Based Sales. CEB, 2015.

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### But you can't do it alone.

True leaders seek a catalyst to accelerate this change. They seek collaboration and gain access to entrepreneurial businesses and entrepreneurial-minded people with new models to transform business and become more value driven.

MRO business process integration and outsourcing will help you drive the change to reduce cost, balance risk and increase value. You'll want to become part of a supply chain ecosystem that provides a collaborative learning environment, provides access to an entrepreneurial business partner with the latest thinking and emerging technology, and that transforms the conversation from cost to value.

Choosing a partner isn't going to be easy. Everyone says they do the same thing, but not everyone can deliver. Some things to keep in mind when looking for a partner are discussed in the article, [6 Things to Look for in an MRO Service Provider](#).

The main thing you'll want to look for is whether your partner has optimized the process and the technology all in one supply chain ecosystem to make MRO work the best for more simplified, nimble and intelligent operations.

### About the author.

[Debra Yorkman](#) is the Vice President of Marketing for SDI. She sets and guides the overall strategic and tactical execution of the company's marketing and branding initiatives to meet both client and employee engagement goals.

She is the driving force behind the company's creative development, ensuring SDI's values and ideals are communicated consistently while building an environment where innovation can be born and thrive.

With a history in integrated facilities management and the distribution industry, the underlying theme throughout her career has been to design marketing as an integral part of the organization to ensure that every interaction delivers on the company's brand promise.

### About SDI

By helping organizations understand how each link in their MRO supply chain impacts the entire enterprise, SDI helps them achieve year-over-year savings, enterprise-wide efficiencies and newfound control.

Using a custom suite of products, services and tools, SDI's platform coordinates, aligns and optimizes every step of the MRO indirect process.

Lower costs, smarter inventories and more reliable production are all natural results from a more connected MRO supply chain.

To learn more visit [sdi.com](http://sdi.com) today.

