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The Responsiveness Advantage

GAIN AN OPERATING ADVANTAGE WITH THIS ELUSIVE CAPABILITY-SET
A ZYOM INDUSTRY REPORT

Contents

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Responsiveness – An Introduction

As Product companies grow – steadily or rapidly – they invariably face headwinds to growth.

They try to buck the trend using various vehicles - financial, commercial and innovation (M&A, expansion into new geographies, new product/ product line and new technologies).

Surprisingly, they overlook an area of process innovation, that is available to companies of all sizes.

However, this channel of innovation is only available to those that pause to focus on their *cross-functional operations* – Sales/ Sales Ops, Supply/ Supply Chain Ops, Product Ops and Financial Ops – to understand what's missing from their capability set.

Contrary to widespread management wisdom, well-run younger companies, or contrarian older ones[i] and Startups often have this salient set of capabilities in spades, which starts to atrophy quite rapidly as companies grow larger.

This capability set is ***Responsiveness*** –

the ability to understand and quickly capture signals that can convert to customer demand (orders).

The ability to process the signals at time-bending speeds, to convert the signals utilizing all relevant data, into actionable information (plans, decisions) that can be utilized to provide the "right" supply response, no matter how often the signals change or where in the world (Sales Geos) they come from,

And follow-through with impeccable execution.

Startups and younger companies being smaller and leaner, have inherent advantages, but it is short-sighted to think that Responsiveness is simply a function of size (i.e., smaller = more "Responsive").

It is not. The best companies develop and hone ***interconnected-processes and systems*** that ensure their responsiveness remains razor-sharp as they climb up, indeed even race up, the growth ladder.

Responsiveness requires careful design, planning, implementation and rapid re-planning and re-implementation energies as changes take place.

It behooves companies to find and work with a partner that is committed to and has demonstrated operational success in this area.

For the last 15+ years, as a part of a startup, the author has worked in the trenches alongside operations leaders and their teams at some dynamic startups and large companies to help them design and develop this capability-set, with high-impact results. Before that he worked with larger, well-run enterprises as they redefined competitiveness by utilizing operations and systems.

In this Report, he shares an outline which contains the kernel of what this capability-set is, and how it can set companies apart from their competitors - giving them an unassailable lead, no matter where they are in their growth and development cycle.

However, this capability-set is elusive.

So, read on to learn how this responsiveness capability set could help your company set itself apart from its competitors.

A vital question

What is it that makes some smaller product companies in change-intensive industries, such as Hi-tech electronics and consumer goods, keep performing steadily and even make quantum leaps in performance over time, whereas other companies with similar, sometimes even better product and technology portfolios, fall way short of their performance goals and wither away?

Performance here refers to a composite of key financial and operational metrics and its trajectory over time –

Operational metrics	**Financial metrics**
product demand growth	revenue growth
product demand mix	revenue across products (Revenue/ product line)
customer/channel diversity and growth	number of customers, channel partners & growth
product profitability	gross margin
product and related operational costs	COGS[1]

Market and technology leadership of a company's products – i.e., how a company is perceived in the marketplace in terms of its products and technology versus its peers, is outside the purview of the core ideas and actions outlined in this report.

A world of difference – A capability-set needed

Finding clues to this conundrum is not easy. Many things can go right or wrong. In this report, we will focus on <u>one key *capability-set* that a company *deliberately* develops, hones over a period of time, and builds into their business processes</u> – which makes the critical difference between those that make it, and those that don't.

In fact, for the companies that make it, this capability becomes so intricately intertwined with the company's processes, that it becomes a part of its reflexes – the muscle memory of the organization and its ecosystem of partners (referred to here as the value network – both the demand side and the supply side network of partners).

However, to equate the capabilities to faster reflexes only, will be badly miscalculating the sum-total of the value it delivers. Enterprises see substantial time freed up due largely to this capability-set, to conduct thoughtful and complete analyses, have meaningful data and analytics-driven conversations

[1] COGS = Cost of Goods Sold

across functions, and a focused, smarter collaboration with partners across enterprise-boundaries as well, before making complex, high-impact decisions.

This capability-set encompasses a set of specific business processes, which cuts across functional and even organizational boundaries and creates a unique advantage for the product company and its value network[ii].

It enables companies to address key questions really fast, utilizing all available data in a smart, cost-effective manner and ensures the follow-through execution.

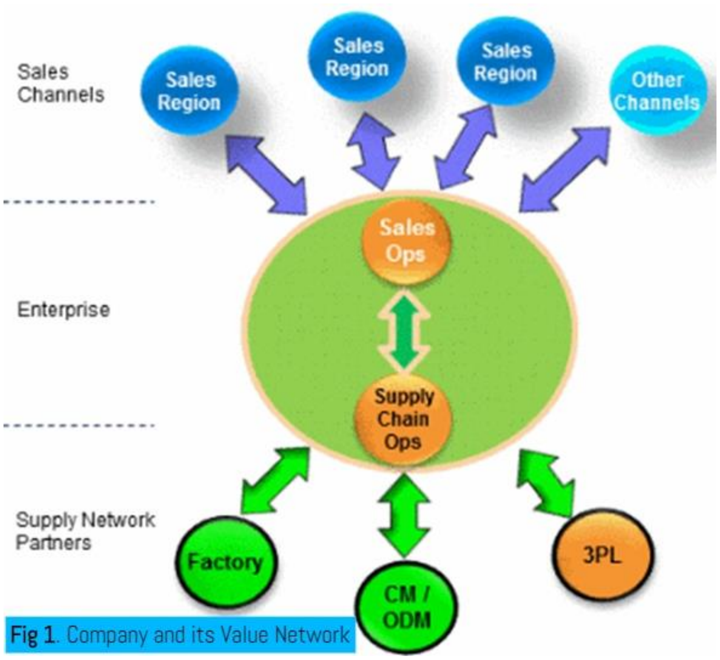

Fig 1. Company and its Value Network

Questions like:

- <u>What is the demand</u> for our products across all channel partners and customers (Demand side of the Value network)? How has it changed or how is it changing (including channel inventory levels)? Is the change in range or did it come out of left field? What's the impact on metrics (**Revenue, Channel Inventory**)?

- <u>Do we have adequate supply</u> positioned in our supply chain (or supply network) to fulfill demand across the different demand strata – from early-stage forecasted opportunities to firm orders/backlog? What are the gaps in the supply plan? Any 'new' gaps due to changes in demand (or channel inventory)? Can they be plugged in time and at a desired cost? What type of shortage (parts shortage, parts with alternate suppliers or not, parts on world-wide allocation)? What are the alternatives in case of potential supply shortages? What's the "best" alternative and why? Is there a chance of excess supply? How to respond to an excess situation? What's the Impact on metrics (**Excess & Obsolescence Cost & Gross Margin**)?

- <u>How are we tracking to supply execution plans</u>? Any gaps in response from the supply network partners (CM/ODM)? How best to resolve execution gaps (including lead-time changes)? Any changes in demand impacting supply execution (product mix, volume changes) or demand impacted by supply execution (changes in shipment against P.O., or changes in commits to build plan)? Can supply partner handle the change? What alternatives? "Best" alternative? Impact on metrics (**Expediting Cost, Cost & Gross Margin, Supplier performance**)?

- How are we tracking to product launch/ product transition plans? What's changed in new product launch plan? Type of transition (phase-in, cut-in)? How should transition plan change? Impact on metrics (**Product Revenue mix** from new & old products, related **Excess & obsolete exposure**)?

- How are we performing to our business operating plan (Revenue, Operational-Cost of Goods Sold/ OCOGS, Gross Margin) – how are these metrics shaping up in current, next Quarter, future quarters in fiscal year? What are the '*gaps*' (performance versus plan) in demand, supply, product? What *impact of gaps* on **Unit** or **$ product revenue**, **operational cost**/ **inventory** by product, **revenue mix** by product/model? What *decisions* and *actions* needed by different process owners (sales[2], operations planning, procurement, product line) to close gaps?

- Do we have the right level of flexibility in our supply network – Are we constrained in fulfilling demand due to our current supply chain or supply network (CM/ODMs, key parts suppliers, etc.)? Are our high-volume products (high runners) single-sourced? What advantages do we gain by multi-sourcing some (or all) of the high running products? Any downside? Can we go from single-source to multiple sources of supply quickly? What's the impact (Reliable fulfillment, resilient network, reduced exposure due to limited supply sources – **Revenue; Predictable supply**)?

It is of paramount importance for companies to understand that a minimum set of capabilities are needed and essential for high performing operations.

At a minimum, the *demand*, *supply* and *supply-execution* related questions should be answered quickly and systematically, utilizing all key data.

Companies that cannot ensure coverage of these 3 areas are operating from a position of disadvantage.

From Startup to Scale – Emerging and growing "gaps"

Well-run Startups and younger product companies have an advantage.

Processes in which a particular functional group specializes (say, supply planning done by Ops/ Supply team) doesn't preclude them from interacting closely with their counterparts in other functional area (say, Sales Ops that are responsible for Sales Forecast or even Demand Plan), getting information quickly, including fuzzy information (e.g., early-stage opportunities) and achieving objectives (shipping

[2] Includes decisions taken along with Marketing /Product Line Management such as Promotions or End-of-Sales

out on-time late-surfacing customer orders that violate lead-time constraints[3]), working like a finely tuned relay team.

Whether it's a garden-variety exchange of data or tricky situations, which requires rapid data sharing, analysis and rapid collaborative decision making, Startups and younger companies move faster.

In well-run startups and smaller organization, close coordination and bi-directional sharing of data works well and fast. Not so well as companies grow (products, geographies, channels) and gain functional mass (size of each functional team grows).

As companies grow, the functional mind-set ("Operations", "Sales", "Product") starts getting entrenched and what used to be division-of-work based, thin functional boundary-lines become bigger, thicker walls.

Communicating and working across these walls becomes a slow and painful exercise. The 'Silo effect[iii]' kicks in, much to the chagrin of the senior leadership team that only find out about its ill-effects through headline grabbers (outcome = lower revenue; margin hit, etc.; potential causes = major shipment missed or shipped partial because orders surfaced late in the quarter).

As a start-up, product companies can count on smart people, individual cognitive capabilities and dedication to get things done.

As companies grow this is not scalable.

For growing companies to remain as sharp and fast as their younger version, it is essential to extract and build that intelligence into process capabilities while remaining agile and flexible.

This is where the capability-set mentioned earlier comes in.

Mind the gap – a new mindset & more in less

When a product company develops and matures this capability set - *Responsiveness*, all the critical operating processes mentioned earlier <u>dove-tail into each other in a fine-grained manner at high speeds</u> (i.e., zero process latencies).

The net effect of this capability set is a major change in the mindset and process capabilities of companies. In fact, it provides a unique *structural cost advantage* for companies that develop this capability-set.

[3] Example, customer orders for a Product not planned earlier (i.e., no inventory), that surface late in quarter with only 3-4 weeks left whereas the lead-time to make and ship the product is 8-9 weeks; typically such orders ship after end of quarter

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FROM	TO
Forecast-centric approach	Responsive Demand Planning[iv]
A Supply chain planning approach	Predictable, real-time Available to Supply data that can be used for both a. near-term tactical execution (weeks to a quarter+) and b. mid to long range supply (current quarter & next 3-4 quarters) planning
Reactive Purchase-order (PO) push-pull with each Manufacturing/ Supply Partner (or other execution changes – such as NPI[4] launch delays)	Rapid Demand-Supply collaboration with Supply network, and Rapid re-planning to estimate impact of changes to conduct manufacturing/supply pivots
Rough-cut estimates of Revenue & Cost; decisions using spreadsheets & eye-balling (margin-analysis absent) 'After the fact' assessment of impact on operational metrics (e.g., amount of margin erosion)	Rapid Revenue planning & Gross Margin projection, with accurate drill-down facilitating real-time, data-enabled decisions & follow-on changes (or pivots) to plans Decisions impacting Revenue, Cost & Margin planned before the fact (e.g., utilize projected contribution margin)

The net outcome?

A super-fast and smart response, including closing the execution loop, that propels companies towards the desired operational metrics.

And, it also appears surprisingly effortless.

In addition, if these capabilities are built earlier in the growth and development cycle of companies, working with a skilled and committed partner, companies enjoy unprecedented cost advantages, which stays with them as they grow.

Looked another way – when companies build the Responsiveness capability-set early on in their development cycle the costs they incur (*one-time* and *recurring*) are far lesser than if they were to build these capabilities at a more advanced stage of their development cycle, leading to structural cost advantages.

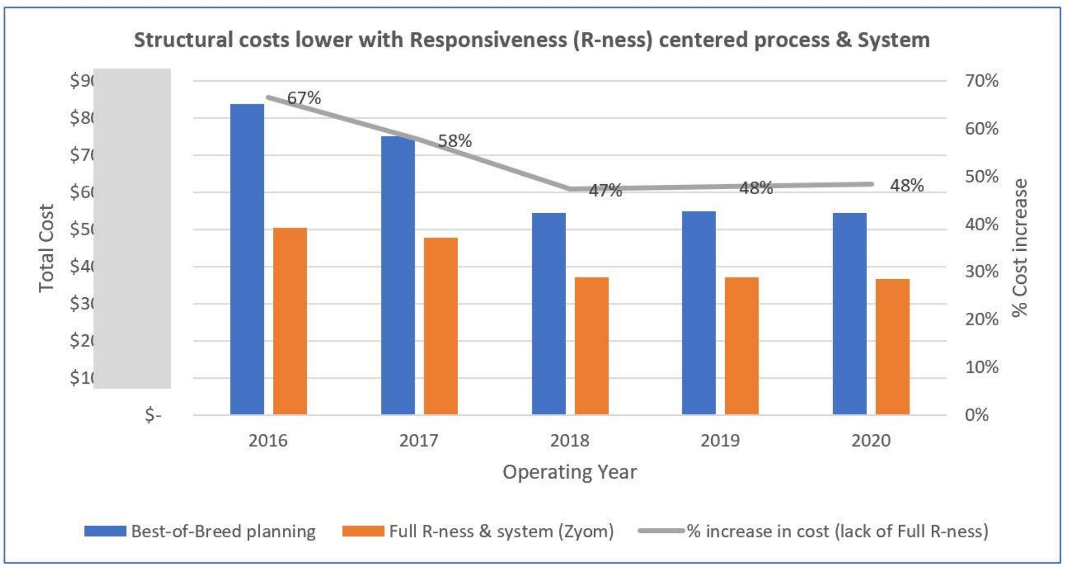
[4] NPI = new product introduction(s)

Utilizing data from multiple customer cases and survey of Operations leaders, the total lifecycle costs was found to be much as 45-60% lower.

Note, the comparisons have been made between companies utilizing a Zyom Operations Responsiveness approach and system, versus companies utilizing Best-of-breed planning solutions (such as Kinaxis and e2Open).

Planning and execution modules of large ERP vendors (such as SAP and Oracle) were not included in analysis due to lack of core capabilities, focus and their stratospheric total cost[5]. The chart ahead shows the cost comparison clearly[v].

This doesn't mean that more mature, larger companies are shut out from getting any value from Responsiveness. They stand to gain sizably as well by building the Responsiveness capability-set – estimated at 15-20% lower total lifecycle costs.



Source: Zyom Inc. - Responsiveness centered system (Zyom) versus Best-of-Breed planning systems - Cost comparison study (2016-2019)

Comparison of 'Responsiveness' *centered* operations processes & system from Zyom versus companies using Best-of-breed planning & execution systems with partial 'Responsiveness' capabilities; Zyom system MozartCC compared against 3 commercially available systems (some data hidden)
Aggregate cost data utilizes multiple Zyom customers data & comparable industry-datapoints from 5 other sources; All data anonymized; For more info contact Zyom, Inc.
Zyom Inc. Proprietary & Confidential information

Zyom **Fig 2.** More with less - Cost Structure superior with Responsiveness centered process & system

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[5] The major challenges with planning modules in ERP systems is a.) that they target providing only 'good enough' functionality versus 'best in class', b.) they do not have the focus nor the ability to *implement* the core planning capabilities required, c.) Operations Responsiveness implies better plans, decisions & operational execution and lower value attached to transactions – an anathema for ERP sellers, d.) *total cost of ownership* at a minimum *100% higher* than best-of-breed (individual ERP modules maybe priced lower) which is itself 45-60% higher than Zyom

However, this capability is elusive.

Companies that don't have it *do not know that they don't have it*.

And, even as they plod forward with their well-defined, (potentially) legacy processes, little do they realize they are so far away from where they can be.

Why Elusive?

Why is this capability set elusive? While there are several reasons, following two provide some key insights –

a) Support & sponsorship for process going across functional boundaries - Responsiveness is composed of processes that cut across major functional boundaries (for example, between Sales Ops which is a part of the Sales function, and Operations Planning which is typically a par of Supply Chain Operations function). It is hard enough to find sponsorship when implementing processes and system-enabled change in one functional area – such a Supply Chain Operations (say, for enhancing Supply Planning) or Sales (for CRM[6] Sales enablement).

   In recent times the Sales & Operations Planning (S&OP) related change initiatives offers clues regarding the tough nature of cross-functional change. While much more was envisioned by the early proponents of S&OP, even in the most successful implementations it is at best used as a forum for capturing inputs and making changes to come up with a consensus demand forecast (or demand plan) – i.e., the end result impacts only 'forecast' data – hardly an operational processes that cuts across functions in a deep manner.

   Responsiveness at its core cuts across multiple functional boundaries – Sales, Operations, Product-Line and Finance, requires strong support from at least 2 functions (Sales & Operations), and ideally, sponsorship from both. This reduces the probability of successfully introducing such a change in larger companies, except if it is championed by a cross-functional leader such as a Chief Operating Officer (COO) or someone with similar stature. A smaller organization with lower functional barriers is much better prepared to adopt and adapt to such a change.

b) Experience & system Implementation barrier – Implementing software systems that enable *analytical* and *planning* capabilities (versus *transactional* capabilities) across multiple functions is extremely difficult. The most ubiquitous software systems that are used across functions are purely transactional in nature (e.g., ERP). Except in extremely rare cases, most providers (both implementers from the software systems provider and third-party implementation consultants) do not bring a critical mass of cross-functional experience (forget expertise) to implement such a

[6] CRM = Customer Relationship Management software systems

cross-functional Responsiveness *centered* system and deliver meaningful, lasting usage across functions.

Gain Amplified

This capability and the virtuous cycle that it creates, makes a company move must faster, make data and analysis-enabled decisions, with multiple feedback loops within a single week, what previously took at least a fortnight.

When decisions impacting significant dollars have to be taken, companies with Responsiveness have a lot more available time to evaluate alternatives seeking multiple inputs, utilizing latest (if not real-time) data and compare across multiple optional decision paths, before making a call. For example, higher shipments – Revenue attainment, total supply chain cost – Margin attainment, or a prudent mix of these. Those without this capability-set are left exposed – operating on a wing and a prayer.

Companies without this capability-set find that they are *mostly reacting* to changes.

Versus being *prepared* for the inevitable bends in the road ahead, as they move from one week to the next and from one quarter to the next.

Often utilizing larger teams with high latency processes, companies without this capability find themselves literally staring at the abyss when one of those bends comes at them too fast.

Those with the capability gain a key advantage which, in fact is available to companies of all sizes – the ***Responsiveness Advantage***.

They can assess the impact of changes faster, and looking across their value network, evaluate optional decision paths faster, acquire operational data in real-time and process it systematically to gain rapid insights.

They gain a huge advantage over competitors[vi] of all sizes that do not have this capability.

This is particularly vital for younger, dynamic product companies no matter how small or big, who now stand to gain a very sharp edge over their (often larger) competitors.

However, maturing companies that are typically larger, or larger enterprises that are anticipating slower or plateauing growth imperil their future if they ignore this advantage.

Interested in learning more about what the elements of Responsiveness are, and how they can be combined effectively and rapidly?

Then let's talk.

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Rakesh has lived through diverse and deep experiences over 2 decades of technology hype-cycles partnering with cross-functional operations teams and their leadership in the Hi-tech electronics and consumer electronics industries, deploying 'bleeding edge' technology and process-change solutions. He has worked alongside colleagues at companies such as HP, Dell, Compaq (prior to HP), 3M among others in the past, and as a part of Zyom, with companies such as Samsung Electronics, 2Wire, Ruckus, Aerohive and Cambium Networks, designing and implementing change-enabling systems and processes. His focus and passion are in the area of understanding cross-functional, end to end operations processes in product companies & their value networks, identifying and fulfilling unmet needs.

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[iii] The Silo Effect: The Peril of Expertise and the Promise of Breaking Down Barriers. By Gillian Tett; Book review by the Economist
https://www.economist.com/books-and-arts/2015/08/29/blighting-the-horizon

[iv] Plan for Demand – A Practitioner-centered Approach: How it enhances responsiveness of Product companies at various stages of growth and maturity, Lead Author: Rakesh Sharma, Zyom, Inc. (Working Paper), 2019

[v] Analysis of Structural Cost – difference in Cost with and without Responsiveness and enabling systems, Zyom, Inc. Study, 2016-2019

[vi] This Report does not cover details of the measurable benefits that are realized due to the Responsiveness capability-set. Direct, measurable benefits accrue in the areas of - *Inventory carrying cost*, *Shortages impacting Revenue*, *Expedited Freight*; For specifics on this reach out and inquire about Zyom's "*Benefits Estimator*"