

Delivering Business Agility: Earning the Agility Dividend

Michael Hugos

CENTER FOR SYSTEMS INNOVATION
[c4si]

Agile 2010, Orlando USA

Overview of Presentation

PART 1 – Business Realities

PART 2 – Becoming Agile & Responsive

PART 3 – Real World Examples

PART 4 – An Agile Case Study

QUESTIONS - Ask any time...

PART 1

Business Realities

A Continuum Between Two Needs

Efficiency ←————→ Responsiveness

- Efficiency requires **predictability** and **stability**
- Both are now *conspicuously absent*
- Responsive enterprise is to real-time economy as assembly line was to industrial economy – **source of wealth creation**
- Use responsiveness to differentiate yourself or else participate in **“grim race to the bottom”**
- Tale of evolving mobile phone... is it just a phone anymore?
- Respond to changing customer needs by wrapping products in blanket of tailored, value-added services (information based)

People Want More than Low Price

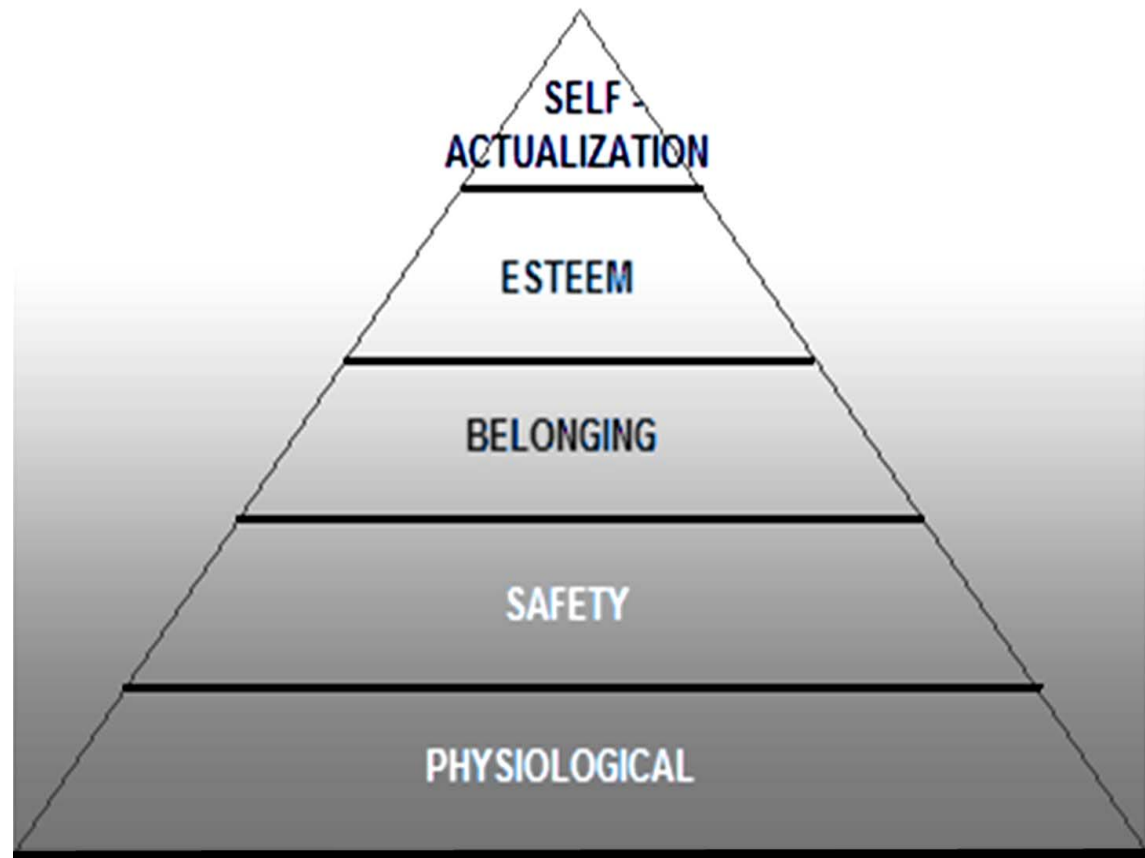
Products meeting higher level needs are worth more

Sneakers cost: \$20
or >\$100

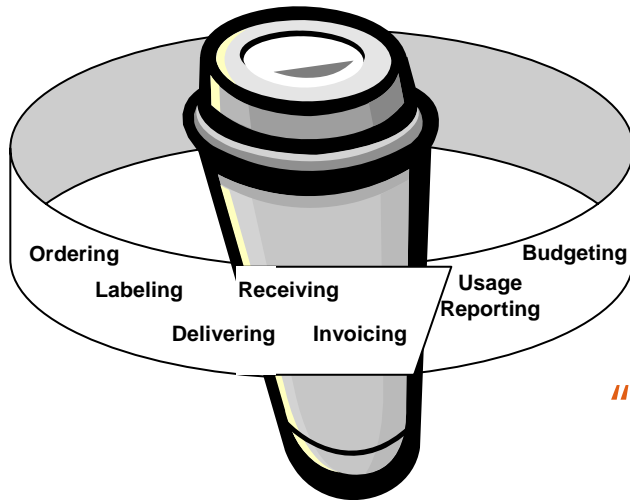
Cars cost: \$16,000
or >\$40,000

As soon as basic needs are met, people want something more

Maslow's Hierarchy of Needs



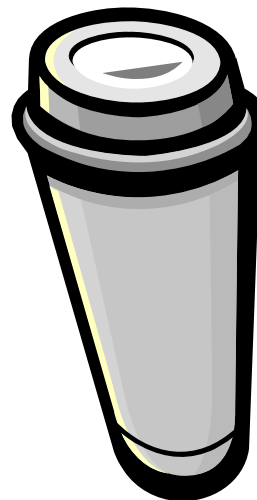
The Value-Added Paper Cup



Surround commodity items with tailored blanket of value added services to increase their value by 2 – 4% (and sometimes more) to **key customers**

“Never sell a naked commodity”

Every product has two components



Actual Item or Service

commodity, easily copied, low margin – *efficiency* driven

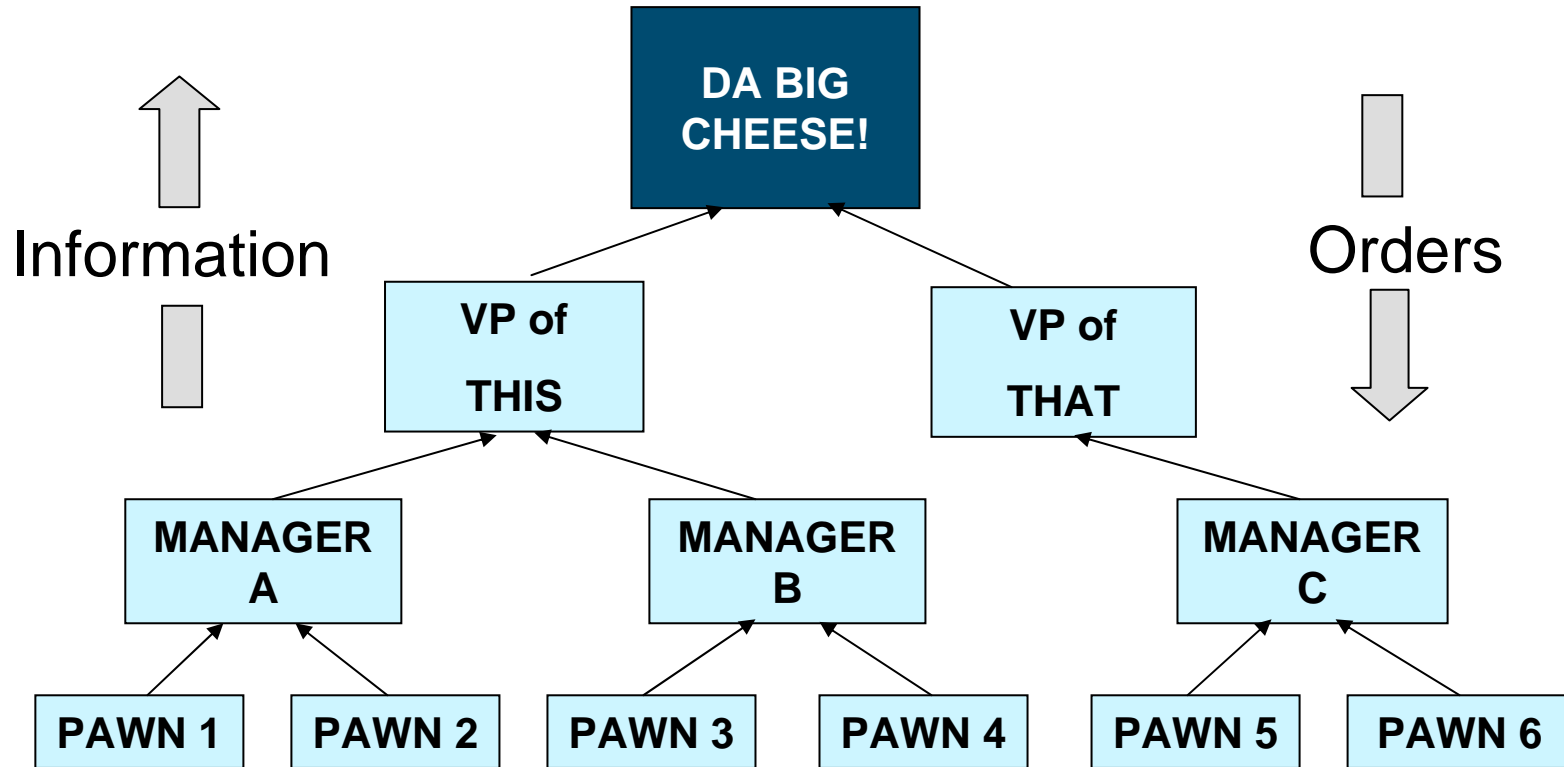
Information Component

tailored to each customer to achieve desired results – *responsiveness* driven

PART 2

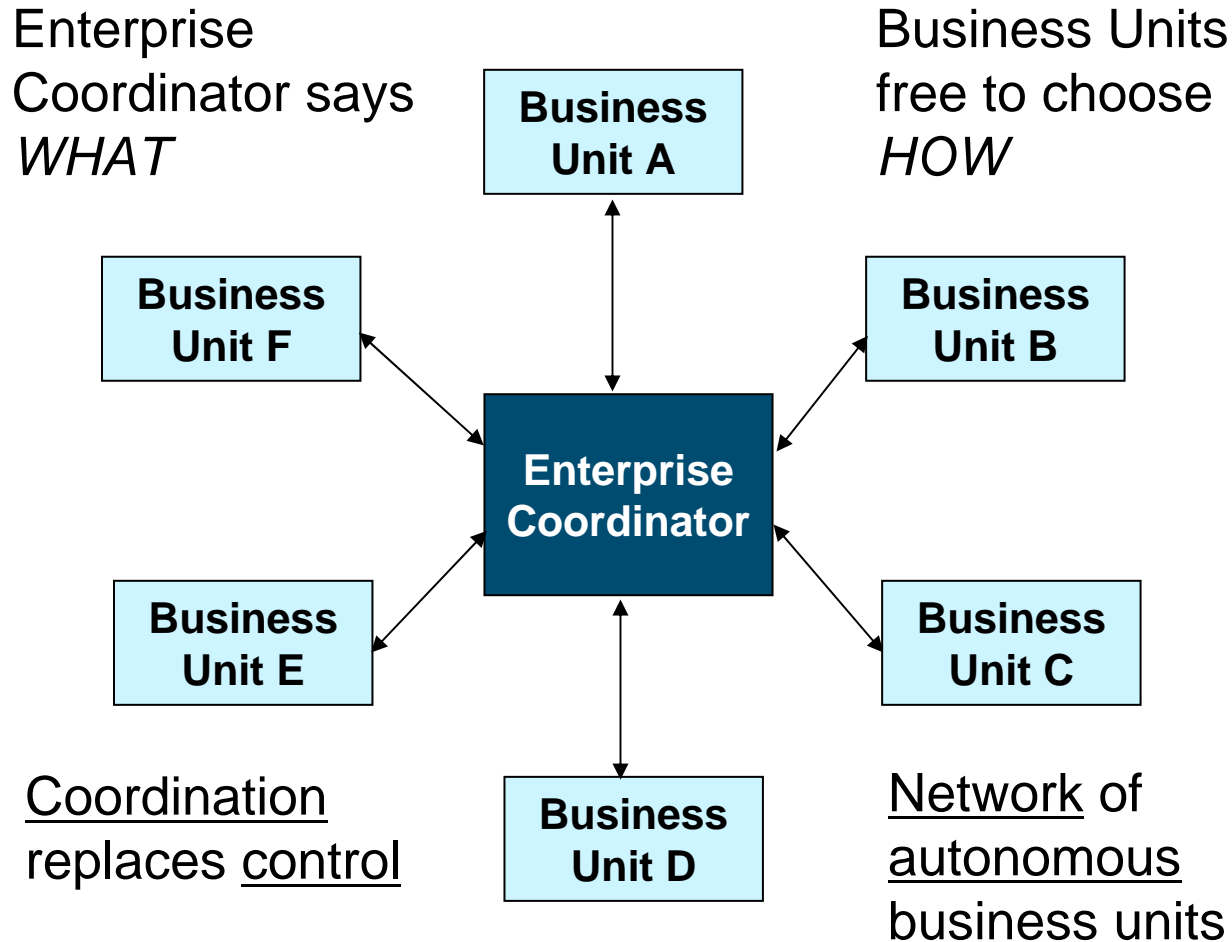
Becoming Agile & Responsive

Business as Usual



Centrally controlled hierarchies move too SLOWLY

Agile & Responsive Business

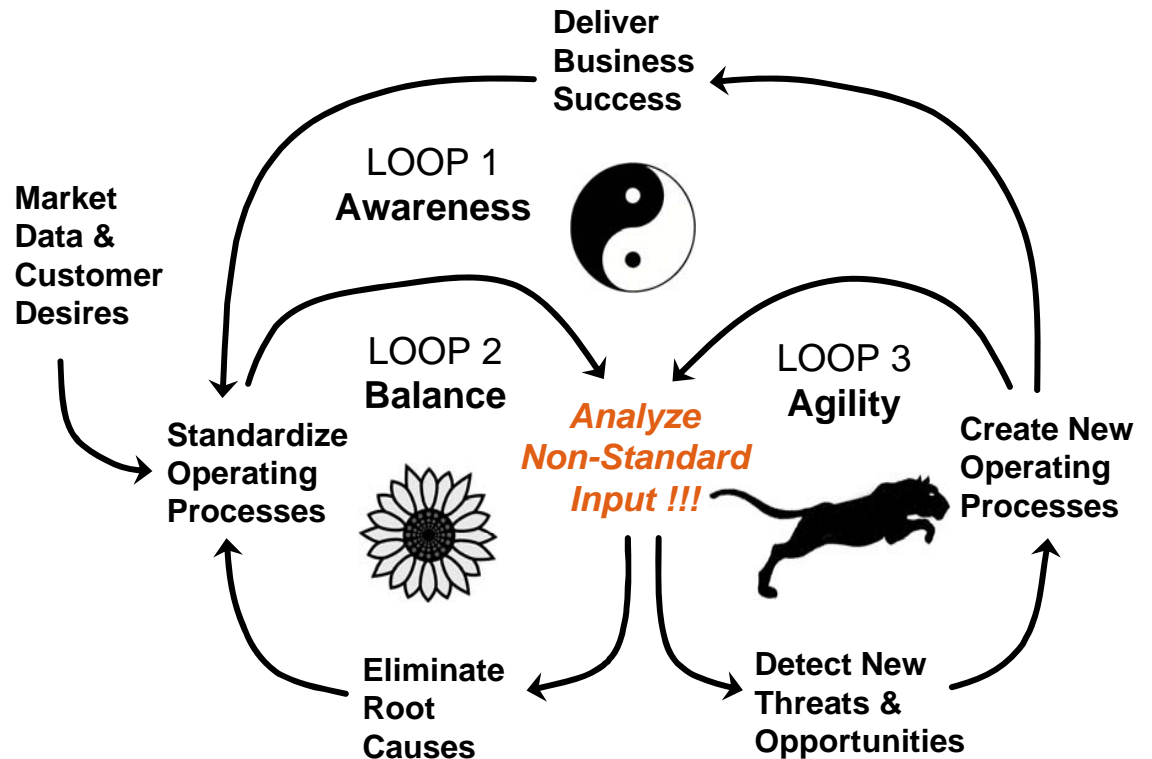


Responsive Organizations

- **Whole Foods Market**
 - Basic operating unit is the store team (10-20 people)
 - Senior managers say WHAT, teams say HOW
 - Very profitable grocery company in highly competitive business
- **U.S. Marine Corps**
 - Basic operating unit is the platoon (20-40 people)
 - Philosophy of command requires decentralized decision making
 - Epitome of effective modern, mobile, military
- **Network Services Company**
 - Network of 86 independent distributors
 - Owner operators insure quick, autonomous decision making
 - Profit opportunity for each distributor on national accounts

Strategy of Focus and Response

- Three feedback loops illustrate how focus and response works
- Responsiveness is a blend of balance and agility with the awareness to know when to do which
- **Continuous incremental change...**
[consistently yields extra operating profit of 2 – 4% and sometimes more]



LOOP 1: Awareness = Observe and respond
LOOP 2: Balance = Improve existing processes
LOOP 3: Agility = Create new processes

Agile Works Best for Responsiveness

- “...basic business strategy determines whether the agile enablement strategy is strategic or tactical. My experience has been that it is very difficult to implement a full range of agile practices and principles in an organization whose basic business strategy is efficiency.”

Jim Highsmith

“Responsiveness or Efficiency -- Pick One, But Agile Works Better with the Former”

- Software development group makes **TRANSITION** to agility
- Whole company makes **TRANSFORMATION** to agility and responsiveness
- Agilists talk about changing cultures to fully implement agile
- Fighting uphill battle if company culture is shaped by fundamental business strategy of efficiency [instead of responsiveness]

PART 3

Real World Examples

Profile of High Value Customers

- Products you sell are “Mission Critical” to customer operations
- Spends significant portion of their procurement budget on your products
- **Interested in tailored bundle of products & services**
- Open to outsourcing certain functions
- Profits compared to industry average: Above? Same? Below?
- Company is: Expanding? Steady? Contracting?
- Other characteristics ...
- ...
- ...

Six Key Principles

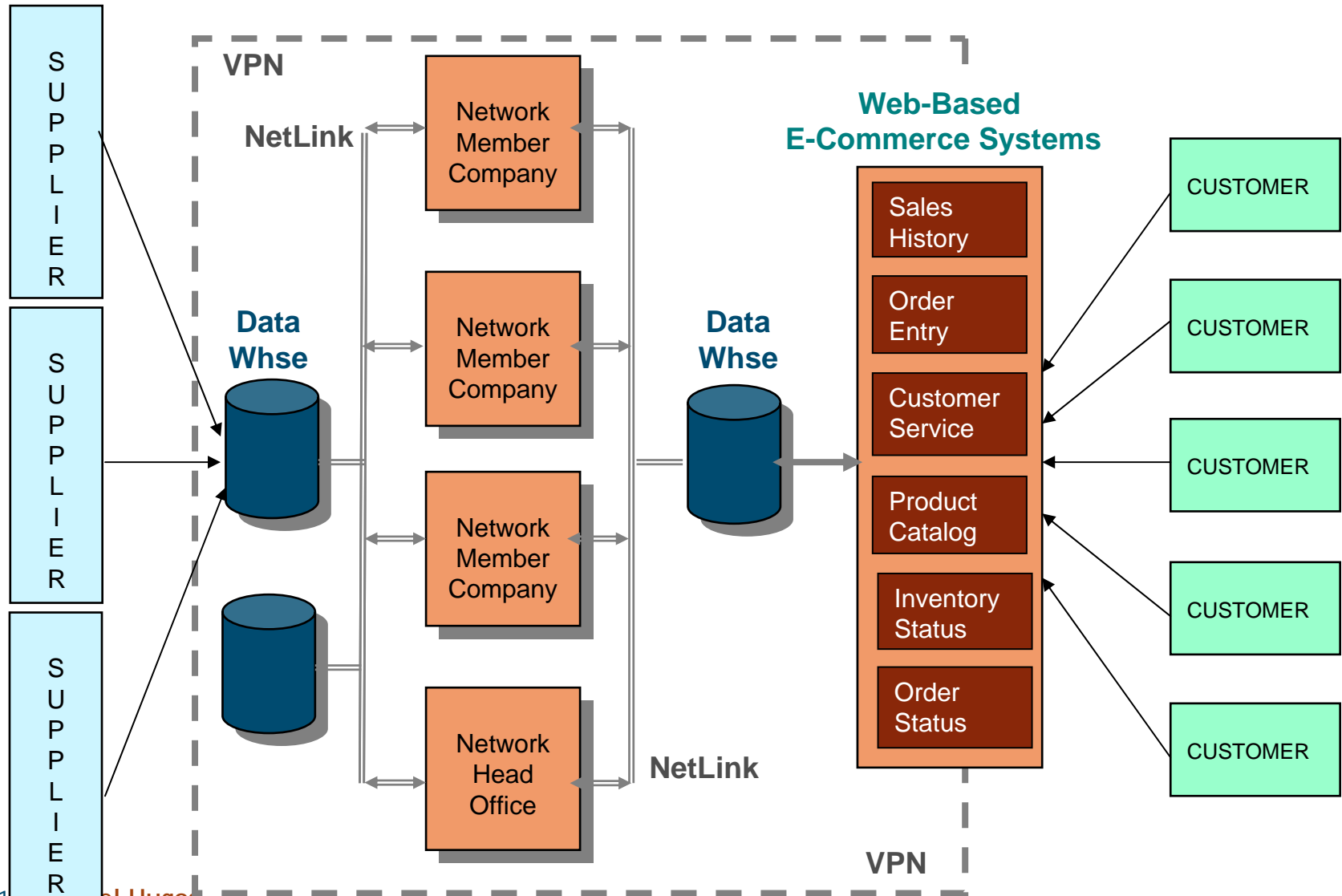
1. Maximize leverage of existing systems
2. Use IT to automate routine tasks
3. Empower people to handle exceptions
4. Build “Robust 80% Solutions”
5. Continually adjust and enhance systems based on experience and unfolding circumstances
6. Think big; start small; deliver quickly!
(30-60-90 day cycles)

Our Business Strategy

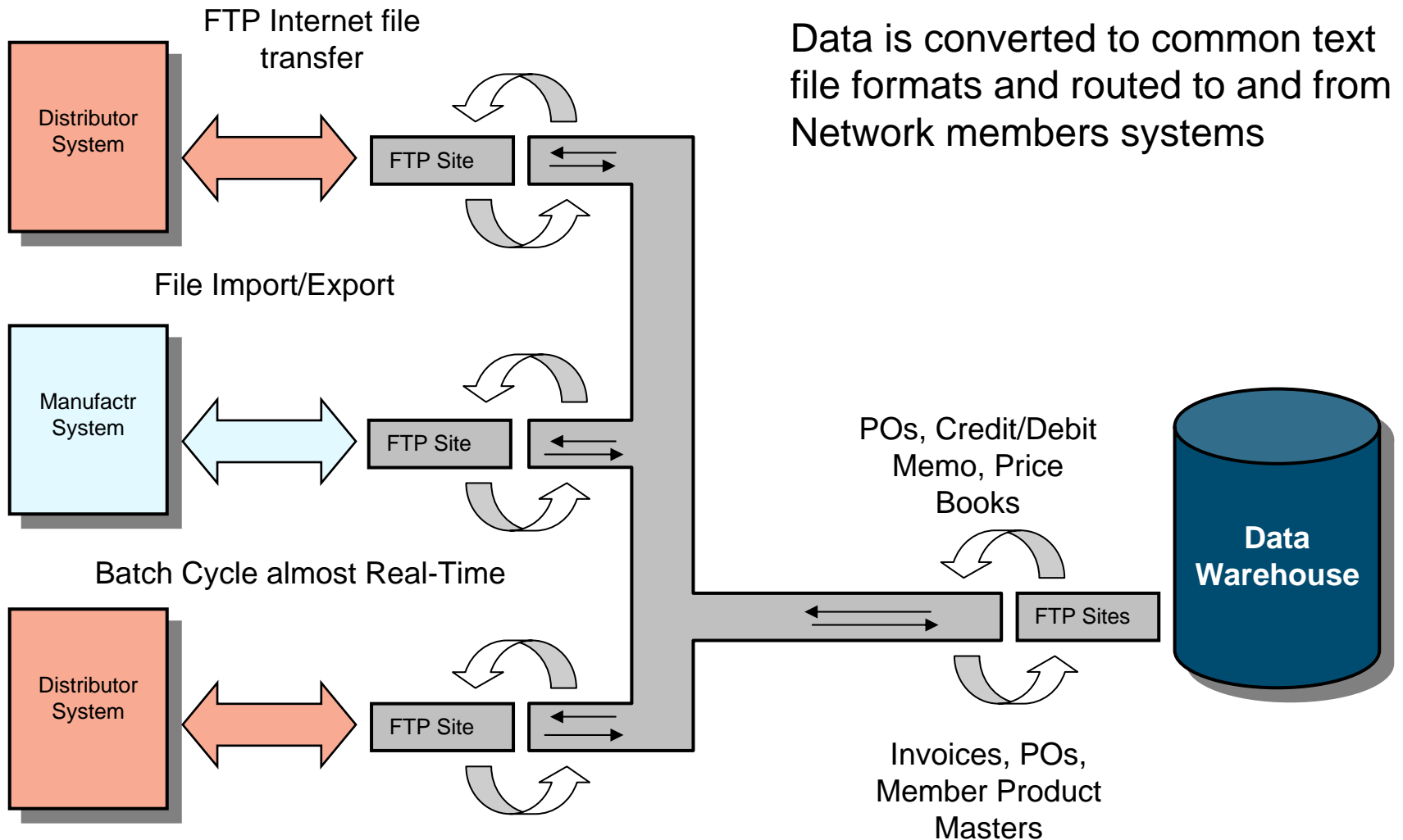
Create the low cost and highly responsive supply chain needed to be the distributor of choice in the markets we serve

- AUTOMATE ROUTINE PROCESSING of common transactions (purchase orders, invoices, etc.) so as to increase productivity and decrease errors
- FOCUS PEOPLE ON EXCEPTION HANDLING and value added activities such as customer service, inventory management, and sales

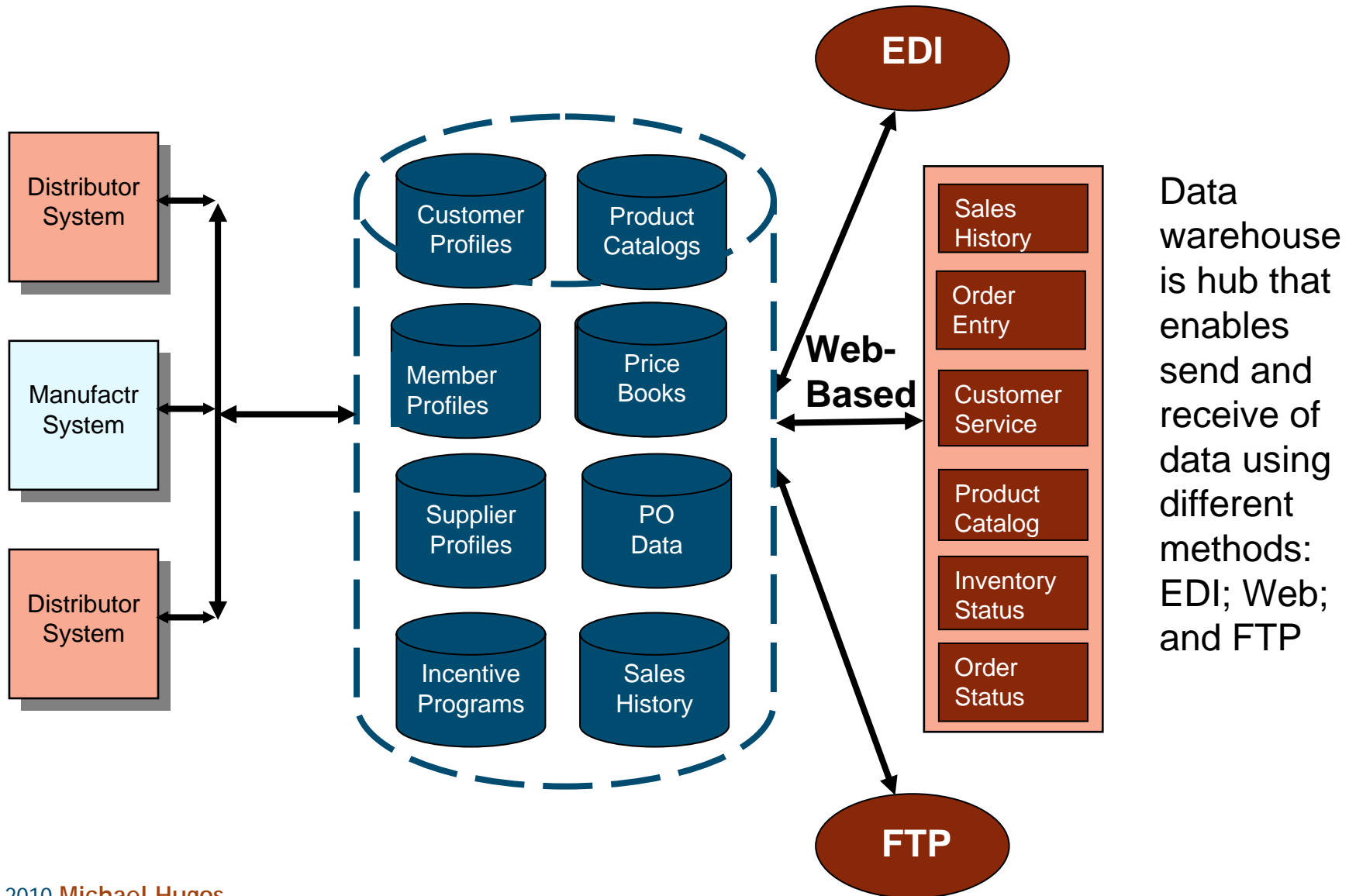
The Conceptual Systems Design



System Architecture: NetLink

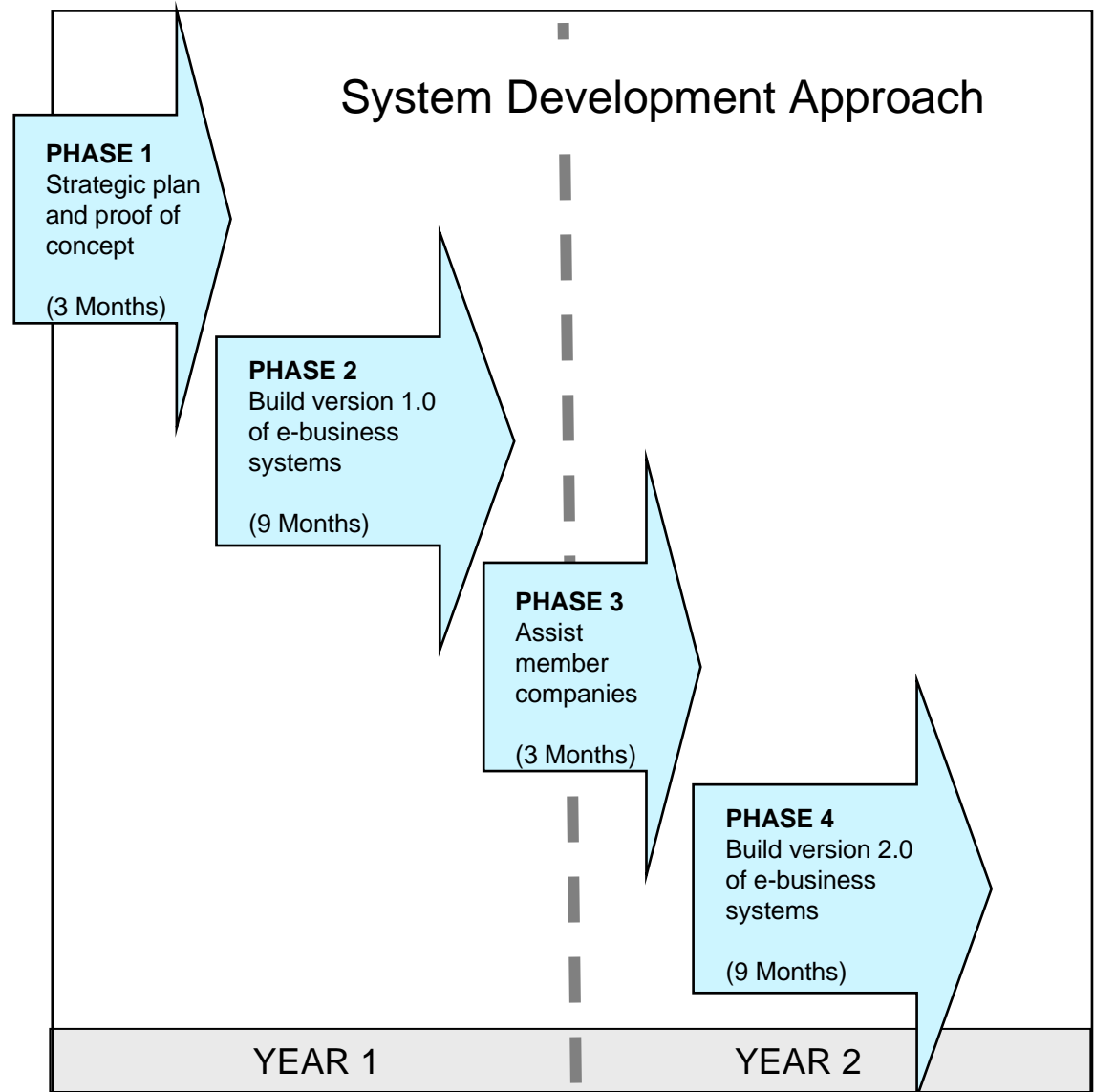


System Architecture: Data Warehouse



Broke Work Into Short Phases

- We divided work into 3 to 9 month phases that each provided **value in their own right**.
- Each phase divided into **30-60-90 day cycles**
- Use time boxing to move the project along and build momentum and trust with business users



PART 4

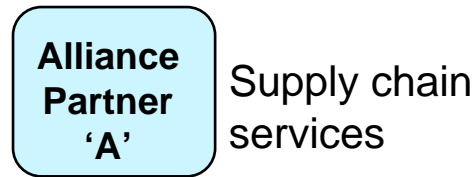
An Agile Case Study

Charlie Supply – An Agile Case Study

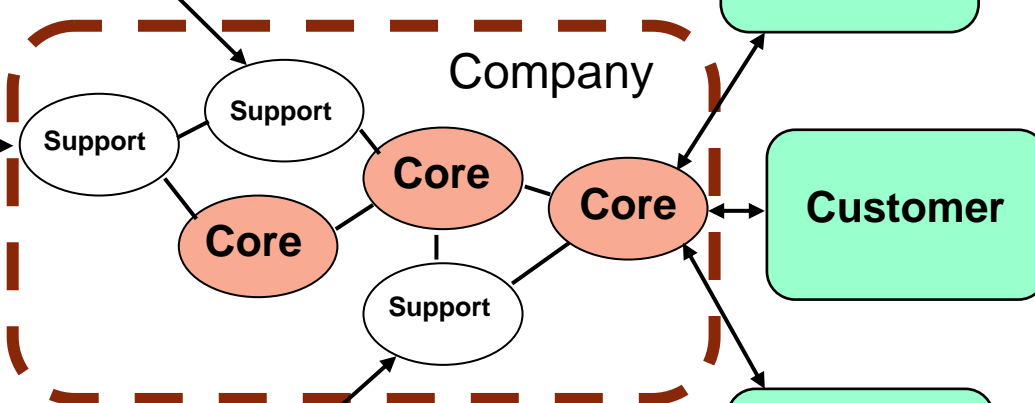
- \$2.8 billion distributor of foodservice items, janitorial supplies and equipment
- Acquired or created 13 separate business units to serve geographic markets and vertical market segments
- Business units serve local customers and collaborate to serve national account customers
- Some bigger business units have multiple branches other business units are only single locations; each one has its own ERP system; some ERP systems close to losing tech support
- All business units interfaced their systems to ICCL system to exchange: POs; Invoices; ASNs; Price Books; Product Masters; Inventory Stock Status
- ICCL also connects with systems of some customers and manufacturers

Company and Supply Chain Partners

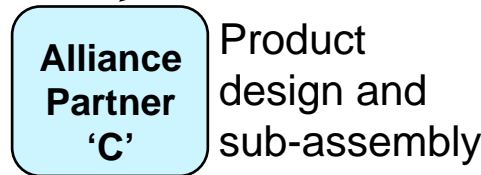
Company outsources support functions to partners



Company focuses on **core functions that produce unique value-add** for its customers



Partners provide **tailored bundle** of products & services



Key Performance Requirements

- **CUSTOMER SERVICE** - ability to meet customer expectations
- **INTERNAL EFFICIENCY** - ability to manage and minimize operating costs
- **DEMAND FLEXIBILITY** - ability to respond to uncertainty in levels of product demand
- **PRODUCT DEVELOPMENT** - ability to develop new products to meet evolving customer desires

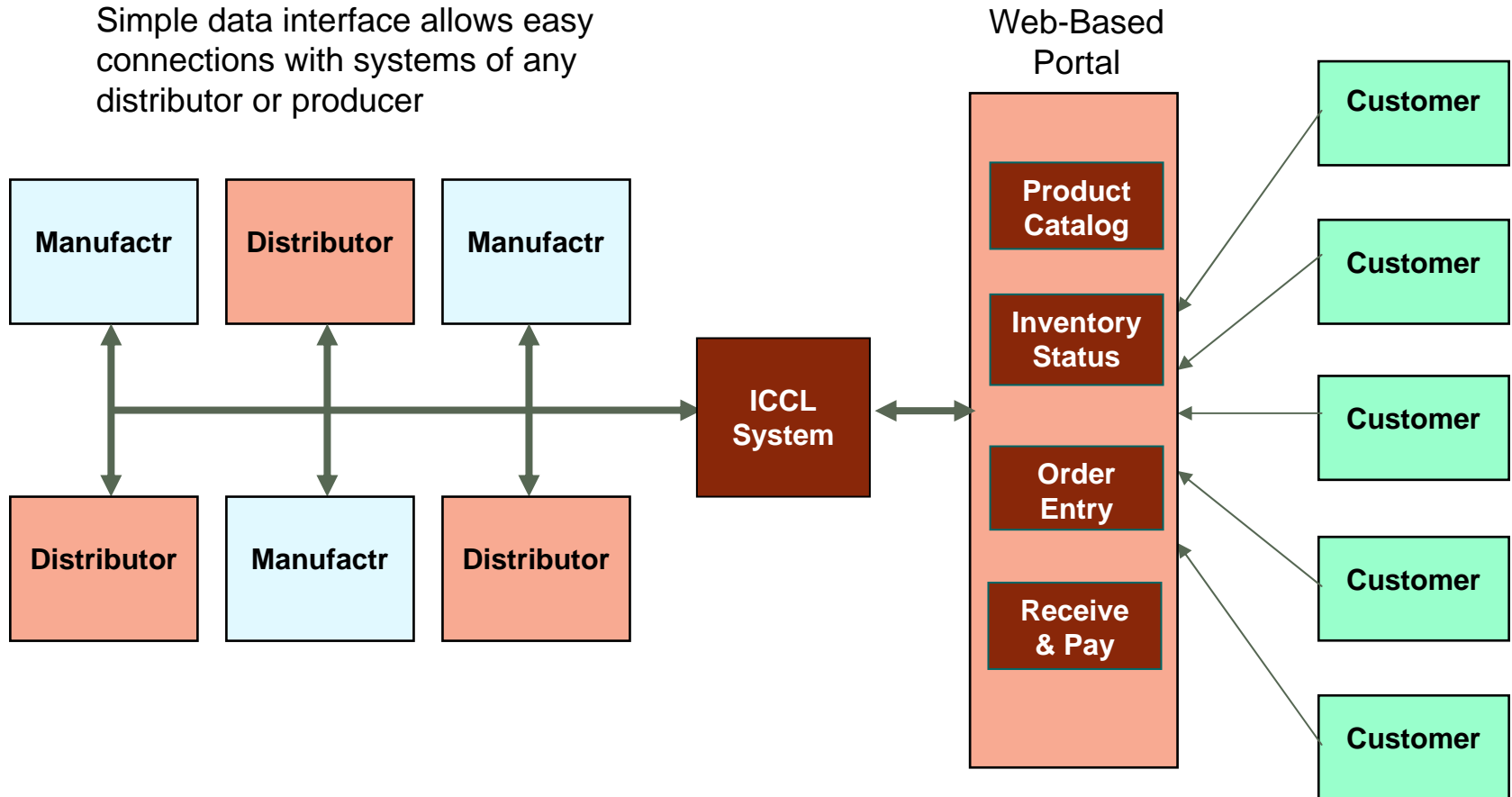
Company wants to focus on selling multi-year national account contracts who share common needs for products and services that Charlie Supply delivers

Charlie Supply - Competitive Analysis

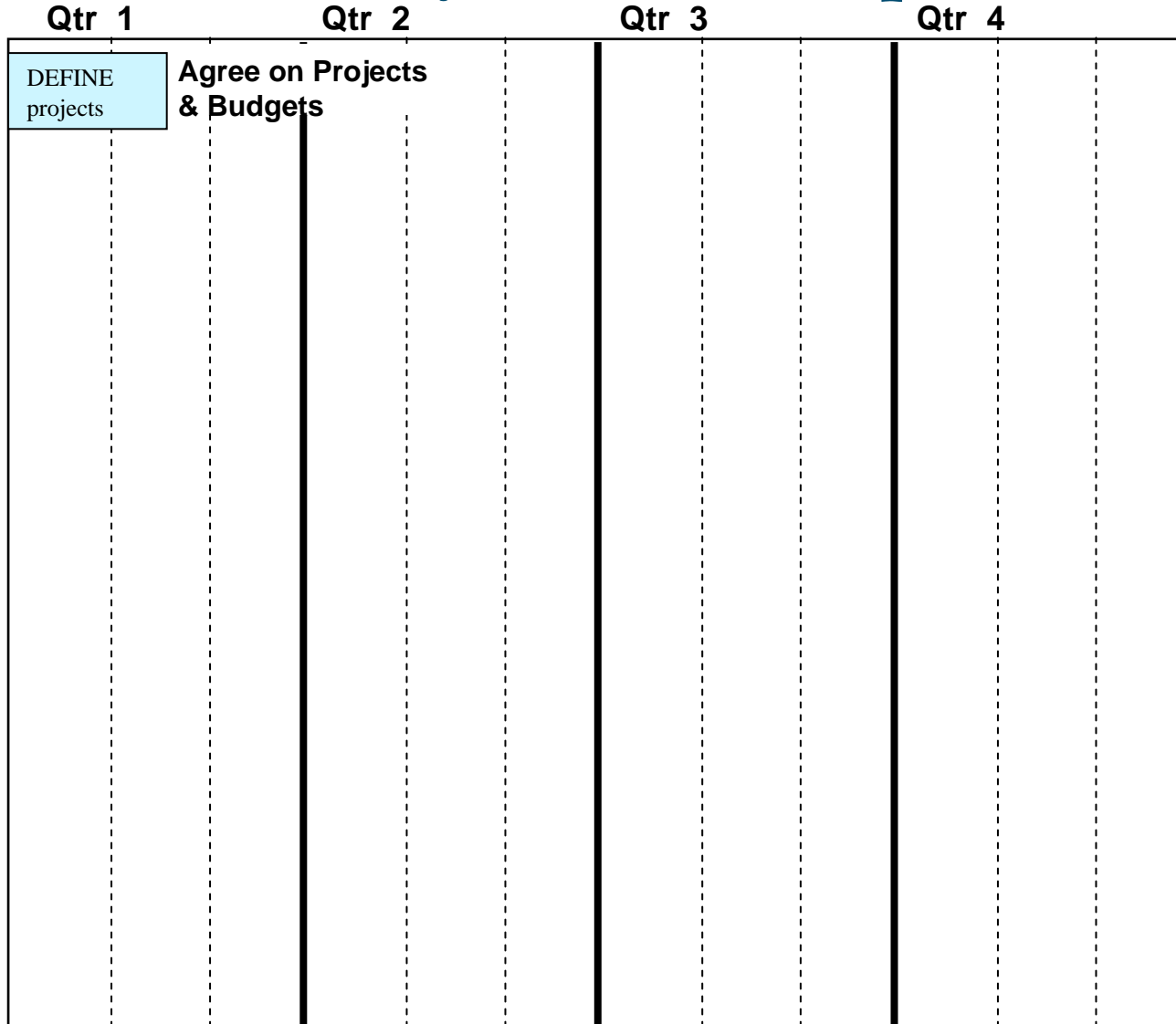
Competitive Analysis:	LAG	EQUAL	LEAD	EXCEL
Customer Service			X	
Internal Efficiency	X			
Demand Flexibility		X		
Product Development		X		

Leverage Existing Infrastructure

Simple data interface allows easy connections with systems of any distributor or producer



Sketch System Development Sequence:



SET AGGRESSIVE
but achievable time boxes to accomplish the work involved in each project.

TAILOR THE WORK
to fit the time available. Remember that each project will produce the first version of a system or process.

FIRST VERSIONS
need to have only the most immediately useful features.

Business Agility Lessons Learned

- Best profits exist in tailored offerings of products and supply chain services to meet needs of individual customers
- Longer term (3 – 5 yr.) contracts are needed to realize significant benefits in alliances
- Use Key Performance Indicators (KPIs) to track delivery on Service Level Agreements (SLAs) – Internet dashboards updated daily so everyone knows the score and knows what to do
- Best practices developed for one customer can be used to attract other customers
- Money is made or saved in a 100 small adjustments every month – *like compound interest*

Business Agility Lessons Learned

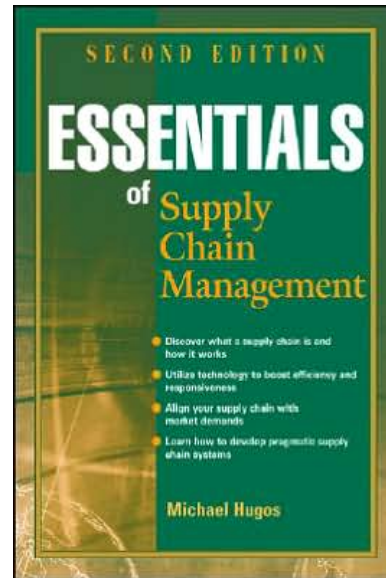
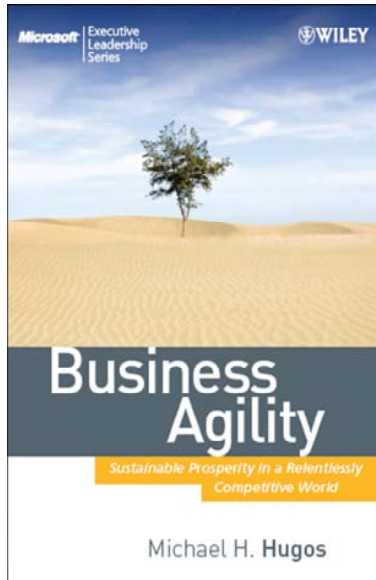
- Electronic connections and *personal connections* are both required to deliver top notch service – people solve problems, not computers
- Efficiency and cost savings alone are not enough to succeed; must also be *responsive* to customer needs and develop needed systems and facilities
- Data about the product (descriptive data and usage data) becomes almost as valuable as the product itself
- Value-added services are information based so information technology (IT) becomes profit generator

IT Agility Lessons Learned

- Maximize use and re-use of existing applications - ERP/CRM/SCM...
- Web portals and “mashups” provide unified user interface by replacing different system screens with common GUI front-end
- Maximize server utilization through virtualization
- Split systems processing between in-house platforms and cloud/SaaS platforms; host new system in-house or in the cloud as security and business needs dictate
- Extend in-house systems, improve performance of applications and reach new users and customers via cloud computing options
- Continuous incremental change to IT infrastructure as business unfolds
(No big bang projects!)

Learn More

Presentation excerpted from two of my books:



Briefing management in strategies for agility; mentoring teams in agile development.

Join the conversation on my blog at CIO.com
“[Doing Business in Real Time](#)”

Reach me at
www.MichaelHugos.com

- ***Business Agility: Sustainable Prosperity in a Relentlessly Competitive World***, John Wiley & Sons publisher, 2009
- ***Essentials of Supply Chain Management, 2nd Edition***, John Wiley & Sons publisher, 2006