Customer Driven Value Chains

The wave of customer driven change breaking over retail is pushing through the value chain affecting primary and secondary producers. Digitally savvy customers, omni-channel operations, increased customisation and increased choice are fundamentally reshaping value chains.   Companies are likely to disappear when unable to function profitably in the new environment. Others will adapt along side new entrants and new business models. There is a path to safety, survival and success and today it requires some new skills and tools.

The challenge is immense but can be overcome. The speed of change in retail was slow initially. Although there was hype and excitement in the early days of online retail margins were small and market share modest. That is no longer the case as online profits and share have improved significantly and appear to be gaining pace.   There has been a permanent shift in customer behaviour. Expectations have changed and customers are migrating to the value chains that can best serve their needs.

Participants in product value chains must adapt to this momentum of change. This change will affect tier one producers as well as logistics, packaging and primary industries. Taking a proactive approach and acting with urgency will improve prospects for success.

The solution is complex but well within the reach of most organisations. In some sense it is as old as the hills. Companies have pursued the benefits of better value chain integration from the earliest days of commerce. Henry Ford created the massive Rouge River Plant to support his growing automobile empire. The facility produced its own electricity, steel, rubber and leather as well as the final vehicle. This is often cited as the first example of modern manufacturing vertical integration.

Over time management thinking viewed vertical integration as sub-optimal and very few companies today operate that way. Highly efficient 3rd party supplier industries emerged and there was no longer the need to directly control all aspect of production. Competitive tendering helped the final producers to drive innovation and cost reduction.

Lean manufacturing in Japan highlighted a new way of working the value chain. Suppliers were independent companies closely intertwined with their auto company customer. In many cases their only customer was one of the large auto companies. These arrangements exist across many aspects of business in Japan. Korean chaebols have deployed a similar approach to help accelerate their global competitiveness.

The best value chain model today will differ company to company. Common across businesses is the evolution toward a highly dynamic interconnected system that is more "network" and less "chain". Recent research from Stanford points to the importance of increased interdependency and collaboration among value chain partners. True success can only be achieved if all partners succeed.

Organisations that embrace this approach will reap outstanding rewards. They will understand where value is created, leverage new sources of innovation and build trust and collaboration across the value chain. A focus on optimising the end-to-end value chain will drive down transaction costs and can lead to new business and growth opportunities.

This is an opportunity for new and established firms. Better value chain integration has proven to produce results. Zegna, a global fashion brand established in 1910, prides itself on optimising its entire value chain in what it refers to as "sheep to shop" excellence. A holistic value chain approach can produce better decisions and value creation for all.