

Debugging the Supply Chain
by Keith Buckley and George Appling

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Ten-year-old Cricket Communications found that even the oft overlooked supply chain can be a lucrative target for innovation.

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For executives battered by a tough economy, investment in innovation typically ranks low on the list of priorities. That's especially true in supply chain operations, where fresh thinking too often starts and stops with new ways to cut costs, even in the best of times. But leaders who actively seek out innovation as they reengineer their supply chains can produce significant gains in revenues, profits, and market share. Innovating while competitors scramble to survive a severe economic downturn can produce immediate benefits and boost a company's competitive position for the upturn. Innovation needn't cost big money, but it does require executive commitment.

Consider the case of Cricket Communications Inc., a fast-growing mobile phone and services provider that offers prepaid, unlimited monthly phone service. Founded in 1999, the company was expanding rapidly but its ad hoc supply chain failed to keep pace. By the middle of 2008, Cricket was planning a major expansion that could potentially triple its subscriber base, including a move into several big-box store chains such as Wal-Mart and Dollar General. Our team, made up of consultants from Katzenbach Partners LLC (now part of Booz & Company) and Cricket management, engineered a radical overhaul of operations — which had become a near-term necessity.

Problems weren't hard to find: Cricket's supply chain lacked forecasting and replenishment tools, suffered data integrity issues, and used manual processes instead of modern software to extract information. As a result, top-down forecasts of customer demand were generally off by 30 percent to 40 percent, resulting in poor product allocation and serious stock shortages at retail stores.

Making matters worse, agreements with phone suppliers were loosely enforced. Late arrivals of new phones at the stores had become the norm. Repair costs, including unnecessary transportation costs, were out of control.

To address these problems, we created a cross-functional team of key executives and established forecasting as a core business process. New systems were created that significantly reduced stock-outs while rightsizing inventory. The accuracy of 30-day demand forecasts jumped to nearly 80 percent with immediate impact on the bottom line.

Improved forecasting was a major accomplishment in itself. From the start, however, we had agreed not only that our reengineering project would streamline the supply chain; we would also aggressively drive innovation inside the supply chain and wherever the supply chain touched other business functions at Cricket.

One of the biggest innovations reached all the way

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to the end customer. Analysis revealed huge hidden costs in Cricket's "reverse logistics" process, through which phones are returned for replacement and repair. The main problem was a mismatch in incentives. Salespeople were rewarded for satisfactory customer transactions. If an out-of-warranty phone broke down, the sales rep found it hard to tell the customer that he or she was simply out of luck. So the rep accepted the phone for repair and the customer received a new phone free of charge, with Cricket bearing the entire cost. Absent the innovation imperative, a rules-based solution might have been devised that brought costs under control but left customers even more dissatisfied. Instead, the team came up with a more creative solution, and acted quickly to implement it.

What at first glance looked like a logistics and procedures issue was evaluated with possible sales and profit potential in mind. The result was a buyback program in which customers could trade in their broken phones for new ones at retail stores or trade in phones from competing cell carriers — a first among mobile service providers — and get a company credit of US\$30 to \$50. Significant costs were taken out of the system, but in ways that actually boosted customer satisfaction. Cricket customers were pleased with their new, low-cost phones and subscription numbers grew. In Philadelphia, for example, after the program began, Cricket retail locations added an average of 15 new customers a day compared with only 10 prior to the buyback plan. Some of this increase in market share occurred as new customers came in with old phones from competitors and signed up with Cricket. The program led to the transformation of post-sales operations from cost center to profit center, and energized the post-sales team to

assume more of a leadership role in developing innovative programs for Cricket.

These and other innovations translated into tens of millions of dollars in additional annual operating income. Indeed, innovation at Cricket doesn't apply only to grand ideas. But the approach we used to stimulate supply chain innovations could be replicated by any company transforming an operational system. The key is to consciously and consistently make innovation essential to the project.

We didn't just elicit innovative ideas, we explicitly required them. We laid an "innovation framework" over all major issues, which forced discussion on conceptual matters, like how innovation fit into the company's overall vision, and on more practical subjects, like how supply chain innovations could improve customer experience, help sales employees sell more products and services, and boost financial returns. At major decision points, project leaders checked to see what innovations had been suggested and incorporated. If there had been none, a brainstorming session was immediately initiated to focus on innovation.

The first step on the road to an innovative supply chain was to create the cross-functional forum. Called the White Room (signifying a clean sheet of paper), it brought together leaders from every part of the company — including supply chain, procurement, product development, sales, and marketing — to drive the forecasting and planning process. Outside suppliers were brought in, as well. The cross-functional team not only laid out the supply chain system plan; each member also monitored the system rollout and made suggestions for improvement along the way. All agreed that rather than assign blame for problems, they would

commit to catching problems early and solving them immediately. As issues were resolved and finger-pointing disappeared, a high level of trust was established among the team members.

The team was so effective, in fact, that senior management decided to make the White Room permanent. Members now meet weekly. That requires a substantial time commitment from busy executives, but the savings produced by better forecasting and the continual visibility into operations has made it time worth spending.

The team also committed to moving quickly on new ideas. The tendency with fresh initiatives is to build out every last detail of the business case and process prior to launch. But at Cricket, the perfect does not get in the way of the good. If all the available information points to a quick return on investment, waiting for perfection can delay both the impact of innovative ideas and the opportunity to learn from their execution.

Innovation in supply chain management is too often treated as inessential, something that is nice to have after the basics are in place. By identifying hidden costs and actively seeking innovative ways to address them, Cricket did more than save money — it brought in new revenues. By integrating innovation into a larger strategic approach that reaches across functional areas, all the way to the end customer, Cricket was able to transform cost problems into rich new opportunities. It may be the rare company that grows fast even in a global downturn. Companies that consciously make innovation a key element in supply chain reengineering can gain a competitive edge, even in tough economic times. +

Resources

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