Appendix 16
p. 121, *The Missing Links* by Caroline Mondon (Industrial Press, 2016)
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Governance and Supply Chain Management

FISHING FOR RELEVANT INFORMATION WITH A NEW THOUGHTWARE

A board of directors has as its fundamental purpose to evaluate all strategic aspects of a company, with the aim of making decisions that manages its way. To do this, the board must be composed of members with complementary skills, who can think holistically its strategy, balancing 3 fields:

- market and clients (market share, sales, service, quality)
- working capital (inventory, cash and credit)
- contribution margins.

A positive management of these 3 aspects will ensure the growth and a solid business base of any company.

In order to generate results in these 3 major fields without deteriorating any of them, a real sector company requires that the board of directors as a whole, understand the different functions and processes of the organization: finance, human talent, operations, supply chain, marketing and sales.

Board members usually have strategic thinking skills and expertise in most of these areas, but it is not common for board members to have in-depth knowledge of operations and supply chain management (SCM). Perhaps the majority of the companies´ shareholders assume that areas such as finance and sales are the spearheads to give balanced and sustainable results in the aforementioned fields, and operations and SCM processes does not add much value to the strategy and their key function is to keep costs under control. However, in recent years it has become clear that with the growth of variability and complexity in every business and increasing customers demands, operations and SCM processes play a key role in the company´s strategy in order to build competitive advantages. Iconic companies from different industries such as Inditex, Walmart or Amazon have given us several lessons in this regard.

In recent years, I have been invited to be a board of directors´ independent member in companies because of results achieved in the 3 key fields: protection and increase of sales, market share and service to the market, with much less working capital and protecting contribution margins.
It has been an extraordinary experience to see how other board members now see the elements of operations and supply chain with much more interest, thanks to the ability to see the company as a holistic system that is crossed by a flow of materials, information and money.

The emphasis of the analysis that we have tried to motivate is based on building the ability to separate the relevant information from that which is irrelevant, in a complex business environment where every day we are drowned by an ocean of data. The key element to developing this skill is in one word of this paragraph: FLOW. Unlike the approach focused on costs, the flow has a transversal approach that does not manage the company "part by part" but as a whole, in such a way that balanced decisions can be made in the 3 key fields mentioned. With the flow at the center of the decision-making model, the way of analyzing investment decisions, product mix, innovation initiatives and commercial strategy changes. Costs are important, but should not be the center of decision-making because they often create a large amount of irrelevant information that make up a "smokescreen" for making good decisions: one of these companies was stuck in mountains of inventory that they could not sell because it had been a "good cost decision" to manufacture or buy irrelevant materials that the market did not need. Align operational decisions with the most relevant information flow of all (actual demand), synchronize the flow of materials and enhance the financial results. We realized that the previous cost reductions were only on paper, and not in the bank.

Another company had made a product mix decision based on focusing its production and sales on the lowest cost product, although that meant wasting the scarce resource capacity which could have produced more profits by selling products that could be produced with a better relationship between flow velocity and contribution margins. After some simulations and pilot tests we realized that introducing costs that are not variable in the short term to make operational decisions, produced irrelevant information. EBITDA grew when we eliminated that noise.

In a third case, a company sent the purchased products, from its supplier to its points of sale with the sole purpose of reducing transport costs, producing a large amount of working capital trapped in the inventories of these POS and producing simultaneously lost sales and low service to the market because when doing the above the company had to guess with too much anticipation the demand of each point of sale (a very bad idea in an high variability environment). By placing the flow at the center of the decision-making model, it was concluded that centralizing the inventory in a HUB would reduce the impact of the demand variability, drastically reduce the total inventory in the supply chain and increase the speed of reaction to changes in the market, although it would also increase transportation costs. A pilot test revealed that the benefits were much greater than the relevant costs because of it, and when the company expanded this model, it produced lots of working capital which paid all its long-term liabilities. Nowadays the company buys its products in cash from its suppliers with better contribution margins (with an unexpected additional impact on profits).

This new mindset or thoughtware of "fishing" the relevant information by separating it from what is irrelevant, in my opinion, will divide the winning companies from those that will not survive in the coming years. Therefore understanding how to manage the relevant flow of information, materials and money along the entire supply chain should be a key concern of any member of the board. It is the duty of every board member to know how to make decisions in a complex, volatile and hyperinformed world, and the right time for adapting to that new reality is... NOW.

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