Cleaning Up Whirlpool's Supply Chain

By Ruben E. Slone, November 22, 2004

Whirlpool's supply chain was a mess when the company approved a major overhaul. This *Harvard Business Review* excerpt is about setting the stage for change.

Things would be very different today—for me, my colleagues, and my company—if the votes of Whirlpool's North American leadership team had swung in a different direction on May 3, 2001. It was a move I hadn't expected; Mike Todman, our executive vice president at the time, decided to go around the table and ask each member of his staff for a thumbs-up or thumbs-down on the investment that Paul Dittmann and I had just formally proposed. Did I look worried? I can't imagine I didn't, even though we'd spent hours in individual meetings with each of them, getting their ideas and buy-in. We thought we had everyone's support. But the facts remained: Our proposal had a bigger price tag than any supply chain investment in the company's history. We were asking for tens of millions during a period of general belt-tightening. Some of it was slated for new hires, even as cutbacks were taking place elsewhere in the company. And Paul and I, the people doing the asking, were coming from the supply chain organization.

Let me be clear: The supply chain organization was the part of the business that Whirlpool's salespeople were in the habit of calling the "sales disablers" in 2000. We were perpetually behind the eight ball, tying up too much capital in finished goods inventory—yet failing to provide the product availability our customers needed. Our availability hovered around 87 percent. Our colleagues grimly joked that in surveys on the delivery performance of the four biggest appliance manufacturers in the U.S., we came in fifth.

And here, with all the credibility that track record conferred on us, we were proposing an ambitious new suite of IT solutions—something, too, for which the company had little appetite. It had been just twenty months since Whirlpool North America had flipped the switch on a massive new ERP system, with less than desired effect. Normally, Whirlpool ships close to 70,000 appliances a day to North American customers. The day after we went live with SAP, we were able to ship about 2,000. A barrage of bad press followed. Even though the situation was soon righted (SAP remains a valued partner), the experience of being treated as a sort of poster child for ERP folly had left scars.

So imagine our relief when we heard the first voice say "yes." It was the executive who headed up sales to Sears. Paul and I looked anxiously to the next face, and the next. The heads of our KitchenAid, Whirlpool, and value brands followed suit—a watershed, given that the funding would have to come from their budgets. I could see that J.C. Anderson, my boss and senior vice president of operations, was happy, too. He had tried to voice his support at the beginning of the meeting, but Mike Todman had asked him to wait. Now that it was his turn to vote, he did it with a flourish: "I am fully committed," he said, "to moving our supply chain from a liability to a recognized competitive advantage." Only after Todman had heard from everyone in the room—brands, sales, finance, human resources, and operations—did he cast his vote.

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With that last yes, the tension broke, and everyone was smiling and nodding. Paul and I had a sense of triumph—but also trepidation. Because now, we knew, there could be no excuses. We were on the hook to deliver some serious value.

Devising the strategy

My responsibility at Whirlpool today is for the performance of the global supply chain. But in 2001, I was focused only on North America, and I was utterly new to the supply chain organization. (I had come into the company a few years earlier to lead its e-business efforts.) By contrast, Paul Dittmann, the vice president of supply chain strategy, was a Whirlpool veteran with a tenure spanning a quarter century.

Our lots were cast together in October 2000 by Jeff Fettig. Jeff is now Whirlpool's chairman and CEO, but at the time he was president and COO—and he was good and tired of hearing about spotty service and high logistics costs. Sales had risen to record levels in 2000 as our launch of some innovative products coincided with an uptick in housing starts. With the rest of the company chugging on all cylinders, there was only one thing holding us back: our supply chain. Jeff called me into his office and gave me a two-word order: "Fix it."

If that constitutes a mandate, we had one. But it was up to us to figure out what fixing the supply chain would entail. At the top level, of course, it's a simple formulation: getting the right product to the right place at the right time—all the time. That gets complicated very quickly, however, when you consider the scale of the challenge. Whirlpool makes a diverse line of washers, dryers, refrigerators, dishwashers, and ovens, with manufacturing facilities in thirteen countries. We sell those appliances in 100 countries, through retailers big and small and to the construction companies and developers that build new homes. In the United States alone, our logistics network consists of eight factory distribution centers, ten regional distribution centers, sixty local distribution centers, and nearly 20,000 retail and contract customers.

We needed to formulate a battle plan that would include new information technology, processes, roles, and talents. But before we could begin to imagine those, we needed to define our strategy. Looking to the future, what would it mean to be world-class in supply chain performance?

The decision we made at this very early point in the process was, I think, a pivotal one. We decided that we could answer that question only by focusing on customer requirements first. Our approach to developing our supply chain strategy would be to start with the last link—the consumer—and proceed backward.

It's an obvious thought, isn't it? Except that it wasn't. The overwhelming tendency in a manufacturing organization is to think about the supply chain as something that originates with the supply base and moves forward. It's understandable: This is the part of the chain over which the company has control. But the unfortunate effect is that supply chain initiatives typically run out of steam before they get to their end point—and real point. Whether or not they make customers' lives easier becomes an afterthought.

Understanding Customers' Needs. If you start with the customer, the customer can't be an afterthought. The way I expressed this to my colleagues was to say, "Strategic relevance is all from the consumer back." And conveniently, we had new research to consult on the subject of consumer needs. Whirlpool and Sears had recently engaged Boston Consulting Group to study consumers' desires with regard to appliance delivery. The top-line finding was that people value what I call "delivery with integrity." That is, your ability to get it there fast is important, but not as important as your ability to get it there when you said you would. "Give a date, hit a date" is what they're asking for. This sounded familiar to me, coming from the automotive industry. In my previous position at General Motors, I'd been involved in several studies that emphasized the psychology of delivery date commitments.

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Identifying Trade Partners' Priorities. Moving upstream, we needed to understand the desires of our direct customers better. We conducted our own interviews to define requirements by segment. As well as looking at smaller retailers versus larger ones, we focused individually on Sears, Lowes, and Best Buy, our three biggest customers. And within the contract-builder market, we studied many subdivisions, from contract distributors and apartment developers to single-family-home builders. We asked about their overall availability requirements, their preferences in communicating with us, and what they would like to see along the lines of e-business. We asked about inventory management and how they might want Whirlpool to assist in it. In all, we discovered twenty-seven different dimensions along which our performance was being judged, each varying in importance according to the customer.

Benchmarking the Competition. Naturally, our customers' expectations and perceptions were shaped in large part by what others in our industry were doing. So we benchmarked our competitors—primarily GE, which was our biggest rival. We obtained cross-industry information and competitive intelligence from AMR, Gartner, and Forrester Research to make sure we had a broad and objective assessment of supply chain capabilities. Then we mapped out what would be considered world-class (versus sufficient or transitional) performance for each of the twenty-seven capabilities and how much it would cost us to reach that top level. It turned out that to prevail on every front would require a total investment of more than $85 million, which we knew wasn't feasible. It was time to get serious about priorities.

Now that we had established the cost of world-beating performance, we asked ourselves: For each capability, what improvement could we accomplish at a low investment level, and at a medium level? We quickly staked out the areas where a relatively small investment would yield supremacy, usually due to an existing strength. A few areas we simply decided to cede. Our plan was to meet or beat the competition in most areas, at minimum cost.

Building for the Future. Strategy, of course, does not simply address the needs of the moment. It anticipates the challenges of the future. A final component of our supply chain strategy was identifying the probable range of future operating scenarios based on industry, economic, and technological trends. The point was to assure ourselves that our proposal was robust enough to withstand these various scenarios. To date, the planning has worked. Having set a course, we've been able to deal with situations we hadn't conceived of and to continue evolving in the same basic direction.