

Killer KEIRETSU



Mutual dependence and trust, along with a common culture, are the magic potions that breathe life into a supply chain.

Following a dozen years of relentless reengineering, U.S. companies have been outsourcing nonessential processes. This allows them to focus on their core competencies, and streamlined enterprises now dominate world markets. But little did these companies and their suppliers realize that they weren't necessarily getting the most from their finely tuned competencies. Why? Because the *entire* value-creation system in an industry may be suboptimal.

To better capitalize on the overall system, forward-thinking companies have begun to form industrywide collaborative networks with their supply-chain partners. These networks resemble the traditional Japanese concept of *keiretsu*—a large family of businesses linked by mutual ownership, obligation and support.

I see such supply chains as a network of "value system core competencies." And because the collaborations are most often based on electronic communications networks, I refer to them as "electronic keiretsu."

The networks are usually "virtual," as opposed to "hard wired," and they operate over public networks like the Internet rather than privately owned ones. But a true electronic keiretsu goes beyond the mere reengineering of the logistics and delivery processes in its industry. It combines all the physical and electronic links of supply chains, but it also displays trust, a common culture and a commitment to mutual support and success.

Many companies now view their supply chains and electronic networks as key components of their competitiveness. In fact, the competition in many industries is often based more on the rivalry between respective supply chains than between individual firms. It is the new "killer" competitive battlefield.

BIRDS OF A FEATHER

Today's keiretsu is a descendant of the more tightly controlled, family-owned *zibatsu* that were common in Japan before World War II. The current version is built on broad-based management, financial cooperation and a dedication to the suc-

cess of all members. Some experts liken the keiretsu arrangement to a flock of birds that fly in supportive formation—sometimes close together, other times spread out—but always in a group.

Companies are forming profitable electronic keiretsu with their suppliers, distributors, retailers or customers. These partners use the latest technology to link up horizontally and vertically and create a "community" with similar goals, priorities, methods and technologies that will achieve new levels of success by optimizing the value system's core competencies.

The popularity of electronic keiretsu is reflected in the growth of the supply-chain software market, which is estimated at \$2.4 billion. One of the many companies trying to grab a slice of this market is HK Systems, a supply chain/inventory management software supplier in Milwaukee, Wisconsin. Spokesman Bill Davis says that one of the company's main objectives is to create a "seamless integration between the front and back offices."

"We enable a client's customers to view quotes, convert these to an order, and check on that order's status every step of the way, even electronically canceling a shipment before it goes out the door," he says. "Our clients are then able to 'coddle' the customer and to totally understand and meet their needs. With some organizations, collaborative planning has reached the point where goods are being custom-manufactured on a cue from an electronic order."

INNOVATIVE LINKS

Some companies create a "keiretsu culture" with an extranet that links their various offices and partners across the Web. One example is Service Experts, based in Nashville, Tennessee, a leader in the relatively low-tech area of installing and maintaining heating and cooling systems. It recently launched an extranet that helps keep its nearly 150 locations in 34 states on the same page.

"When we acquire a new local business, there's a lot of work that goes into training of the owners and personnel," says Gary Eckles, director of marketing and operations. "With the network we now have in place, the training doesn't stop

when the implementation team leaves. We have an online resource library, 3-D diagrams with training manuals and step-by-step instructions for solving problems whenever they occur." Service Experts requires all locations to be online, avoiding the technological obstacle that prevents many franchise operations and cooperative organizations from moving forward.

Casi-Rusco, a Boca Raton, Florida, company specializing in access control security systems [www.casi-rusco.com], offers an online bulletin board system for its partners and clients. Rich Anderson, vice president of marketing, argues that "much of our success depends on the success of our partners, many of whom do many things beyond our part of the business. Through our electronic network, we've formed a real partnership with our channel in order to keep them fully informed and involved in our operations."

Through this electronic collaboration, the customer receives better and faster service, often accessing a customized Web page with templates built for them. And the supplier saves on inventory and labor costs—a true win-win partnership. "It's easy to see who is taking advantage of the Web to serve their customers," says HK's Davis. "The companies who really 'get it' are almost always the market leaders in their field."

Procter & Gamble and Wal-Mart have created an electronic keiretsu wherein P&G directly manages its products (largely electronically) on Wal-Mart's shelves [www.wal-mart.com]. Wal-Mart is a pioneer in the use of electronic systems internally and is now a leader in forming electronic keiretsu with suppliers. At Wal-Mart, the network has always been the company, and it has extended that definition to its suppliers as well.

Venture capital firm KPCB in Menlo Park, California, refers to its roster of high-tech clients as a "virtual keiretsu," with its 175 client companies linked through a common Web-based network. Not-for-profit organizations are getting into the act as well, with one even calling itself a keiretsu. The Colorado Electronic Keiretsu, an organization of Internet businesses, allows members to promote their sites and build awareness of the state as a technological innovation center.

More than 2 million small businesses use some form of computer network, a 50 percent increase from 1997.

Source: Access Media International

As an electronic keiretsu links the supply chain, all parties get what they want more efficiently. They also get it faster, cheaper and with tracking abilities that aren't hampered by time zones, language problems or employee vacations.

KEIRETSU CULTURE

These examples show that a true, killer electronic keiretsu goes beyond electronic links. The best collaborations can dramatically bring people's values and cultural concerns to center stage. While the electronic links are essential, "killer keiretsu" work hard to develop a culture of "mutual predictability." This arises when there is trust among all the players. It makes everything work at lightning speed.

Consider BOC Gases, an international supplier based in Murray Hill, New Jersey [www.boc.com/gases]. It gives suppliers full access to its inventory data. Its customers, in turn, give BOC full access to their accounting systems to avoid having to re-enter data on orders. Although this type of supply system is based on electronics, more important is the keiretsu culture of shared trust and values.

When all parties involved in the order process can enter or check a transaction or shipment online, the need to stock excess inventory disappears. The effect has been most dramatic in the computer hardware business, where inventory is nearly as perishable as a crate of bananas. Computer makers are now signing contracts to sell machines they haven't even ordered parts for yet, much less built and stocked. "We're selling on promise, not on inventory," says Ken Moffat, general manager of PC manufacturing and distribution at IBM. "Everybody has to trust everybody."

Computer component seller NECX, Peabody, Massachusetts [www.necx.com], builds trust and strong customer relationships in an unusual fashion—by hiding absolutely nothing. Shoppers who visit NECX's site can not only see its prices, but also those of its competitors. It even provides links to competing Web sites.

STRENGTH IN NUMBERS

The key strength of the Japanese keiretsu has always been mutual dependence. The same culture must be created in today's electronic keiretsu. Everything from intracompany communication to inventory management should become openly shared. As each member gains strength, it has more independence of movement but at the same time has a greater obligation to assist others during times of trouble.

The Japanese keiretsu was created by a culture conditioned by a long history and geography of isolation. These "family" companies developed a strong, intimate bond over time. American companies seldom reach the level of intimacy that the keiretsu implies. A degree of separation is maintained for cultural or legal reasons, but even those seem to be falling away. Some relationships, like the amazingly close, strong and enduring one between Coca-Cola and McDonald's, are sealed only with a handshake.

This type of cooperation between two large and successful enterprises highlights what's most often missing in today's supply-chain concept: trust and the development of a common culture. **MR**



Richard W. Oliver is a professor at the Owen Graduate School of Management at Vanderbilt University, Nashville, Tennessee. He was a former senior marketing executive at several U.S. corporations and now serves on the boards of six companies. He consults with organizations worldwide and is author of "The Shape of Things to Come" (McGraw-Hill, 1999). E-mail: rick.oliver@owen.vanderbilt.edu



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