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Servicing Customers using the Dynamic Alignment Framework

Designing effective strategies - and the capability to deliver them

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Foreword by MLA

One of MLA's key roles in servicing industry is to identify methodologies and frameworks that have been successfully applied to other industries and to test their relevance and value to the red meat industry. In 2007, MLA participated in the SMART supply chain conference and was introduced to Dr John Gattorna, of Gattorna Alignment. MLA believed that Dr Gattorna's 'Dynamic Alignment' model may have applications in not only improving the supply chain capability of our industry, but also in enhancing customer focused innovation.

Dynamic Alignment is a holistic approach to developing strategy, designing operations and building internal capability in an organisation. The core concept of Dynamic Alignment is that organisational performance is optimised when the strategy and internal capability of the organisation is 'aligned' with the marketplace in which it operates. It maintains that the only viable starting point for deciding the direction, and developing the capability of the business, is customers. By interpreting the different types of customer behaviour and by understanding the dynamic nature of customer behaviour, the business is able to derive the most appropriate (cost effective) responses (strategies) and come to understand which are the most effective business culture and leadership capability to deliver these strategies. Essentially this is an 'outside-in' approach, which argues that 'fit' with the market and the operating environment is the key to sustainable performance.

In early 2008 a workshop was held with 10 CEOs or direct reports from a cross section of companies representing the processing sector as well as some integrated supply chains. Dr Gattorna presented the concepts of Dynamic Alignment and there was much discussion around its potential application to a meat industry context. The red meat industry does not currently segment based on buyer behaviour. The most common segmentation that currently occurs is based on geographical location and strategies are often regionally based. While this is not necessarily incorrect, Dynamic Alignment suggests there is additional value in aligning strategies to behavioural segments. The meat industry also has the added challenge of being in the disassembly business and needing to balance the sale of the entire carcase often to different market segments, from both a geographical and a behavioural point of view.

As a result of this workshop, it was agreed that there were indeed potential benefits for industry in Dynamic Alignment and that MLA should facilitate a number of pilots. A research program was devised to review the application of the model and develop industry tools and capability.
Dynamic Alignment workshops were conducted with nine processors, marketing and value-add businesses in 2008-9, during which an initial segmentation of each their markets was undertaken. Three of these companies moved forward with integrating the concepts within their strategies. Another two companies planned to revisit the potential value in the near future
As a result of the pilots conducted, the Dynamic Alignment approach has been found to add value at several levels:

- For all players including producers, feed lots, processors and value added suppliers to understand their markets and to develop more effective and market-aligned strategies
- For each party to understand more fully their supply base, and to recognize that one-size-fits all procurement can be limiting (and having a range of procurement strategies can be more productive)
- To create more effective alignment between different parties in the supply chain through better understanding of each other's business drivers
- As a framework through which to develop strategic alliances between two or more supply chain partners

- To successfully extend company innovation strategy from being internally focused to customer focused. By applying Dynamic Alignment companies will be able to modify and extend their innovation strategies to ensure that it is appropriately tailored to segments of customers. This will enable companies to build their internal capability and to better target their innovation response.

This report details the Dynamic Alignment framework and describes the process by which companies, including the pilots within the red meat industry, have applied the framework. There are a number of useful templates and tools included in the appendices to assist companies in implementing Dynamic Alignment within their business.

Contents

1 Section 1 - snapshot

Dynamic Alignment in the Red Meat Processing Industry - Overview

Dynamic Alignment a holistic strategy framework with the market as the central focus

Typical Issues

- Strategy lacks a central focus
- The business spends more time thinking about internal issues than the market
- There is a 'one-size-fits-all' approach to customers – or there's a different approach for every customer
- The destination country or institutional segment (e.g. retail) defines our approach-no matter that the customers within are vastly different
- Strategy gets written down-but much of it never sees the light of day. Or, its not written down – but **I** know where we're going!

Successful strategy is aligned with the market → the **way** customers buy → not just what they buy

Strategy is **delivered** when the culture in the organisation is aligned

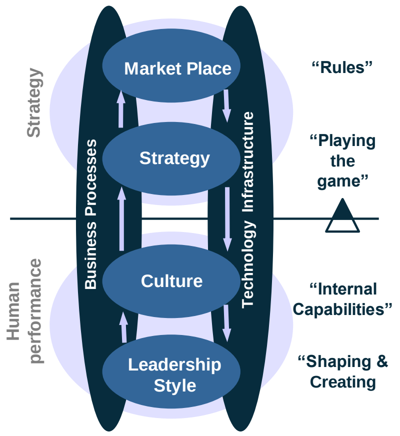
The market is rarely homogeneous

More that one **subculture** may be needed to successfully "deliver" to different parts of the market

Segmentation, based on behavioural drivers providers a focus on the key differences in the market

3-4 segments allow clear, focused strategies to be developed

Dynamic Alignment Framework



Common Buyer Behaviour Segments seen in Processing

Customer Segments		
Collaborative • Loyal • Relationship driven • Quality/Brand • focus • Predictable demand	**Efficient** • Price driven • Predictable demand • Reliability focus • Transactional relationship	**Dynamic** • Demanding style • Volatile demand • Low loyalty • "Deal" approach to price
Strategy needs to		
• Build long team relationships • Share information • Use joint initiatives	• Focus on lowest costs/ efficiency • Leverage predictability • Deliver **reliable** service	• Focus on flexibility ie. requires capacity • Be opportunistic • Deliver **responsive** service
Don't waste resources on (for example)		
• Short term deal making	• Building relationships	• Establishing relationships
Sub-Culture to deliver strategy		
• Collaborative • Group driven	• Structured/ordered • Control driven	• Action oriented • Results driven

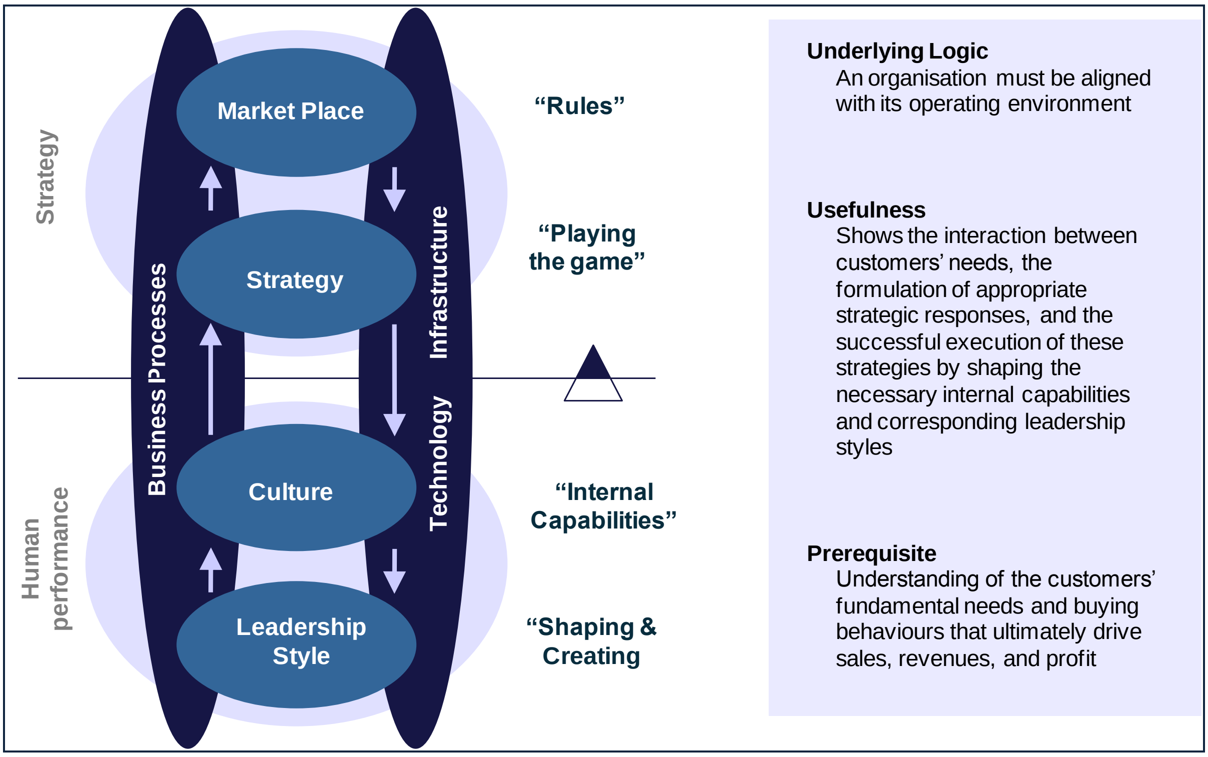
Dynamic Alignment cuts through the complexity to provide clear paths to improve performance

- Clarity and focus in strategy development
- Improved ability to deliver plans
- Improve margins:
  - Top line impact via more tailored service
  - Reduce overall cost-to-serve by more focused allocation of resources

2 Section 2 - The Dynamic Alignment Framework

Dynamic Alignment is a holistic approach to developing strategy, designing operations and building internal capability in an organisation. The core concept of Dynamic Alignment is that organisational performance is optimised when the strategy and internal capability of the organisation is 'aligned' with the marketplace in which it operates. Essentially this is an 'outside-in' approach, which argues that 'fit' with the market and the operating environment is the key to sustainable performance.

Figure 2.1 - The Dynamic Alignment Framework



Dynamic Alignment[i] is based on the assumption that there is no universally 'good' strategy or 'right' culture or leadership – what is needed is situational. Different marketplaces require different strategies and capabilities.

The framework was developed in the 1990's when consulting assignments focusing on strategy and service in different types of markets were combined with academic and consulting work focusing on the link between successful strategy execution and cultural alignment. The work during this period identified that the key drivers in both the customer base, and within an organisation, were behavioural – they related to people, and their values and the way they make decisions – about what to do, and what to buy, and how to run their business.

Many applications of Dynamic Alignment since have seen the framework applied to broad strategic planning, supply chain design, organisation design, customer and stakeholder relationship management and most recently to supplier and sourcing strategy. Well known companies that have used Alignment include: Dell[ii], for the recent re-design of their global supply chains; Fonterra, as the basis of their sales and distribution network design; and a major player in the Brazilian beef industry to improve their supply strategies.

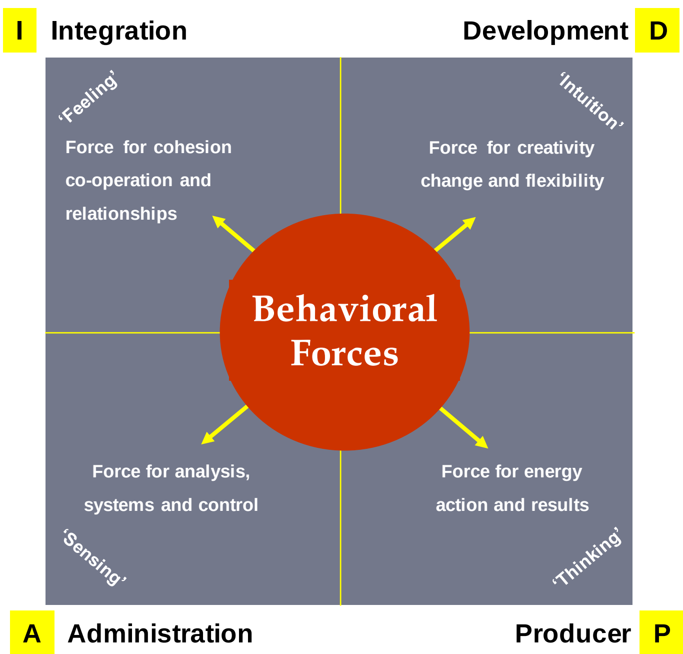
During 2008-10 MLA has used Dynamic Alignment (DA) internally to assist in stakeholder management and to support the launch of new initiatives. It has also supported pilot projects with a number of processors and marketing groups, and the lessons from these projects are incorporated in the following guidelines.

2.1 A common metric

An important breakthrough in the development of the DA framework was the recognition that the common 'people' element meant that there was a method that could be used to discuss the market, culture and leadership in the same terms[iii]. This insight came from the leadership and organisational culture studies that had been underway in the consulting and academic world during those years. The application of a common metric to the 'concept' of alignment, turned it into a straightforward, practical tool that organisations could readily use rather than a just a conceptual approach.

The behavioural metric known as PADI[iv], is based on two sets of opposing behavioural forces. While each individual, and groups of individuals, have elements of all four forces they typically have a 'pull' or bias in one direction.

Figure 2.2 - Characteristics of the four dominant behavioural forces or *logics*

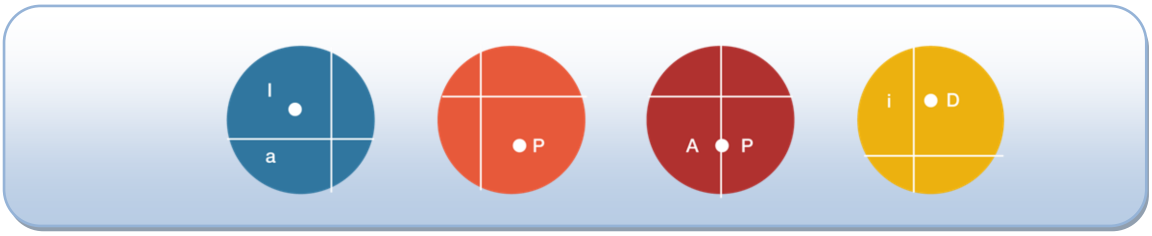


Thus, a **business** very focused on maintaining controls, security, tight systems, accuracy, and avoiding risk - the old fashioned model of a bank – would be **'A'** behavioural logics as depicted in PADI. A highly creative **manager**, who is always pursuing new ideas and the latest R&D, with little interest in maintaining the status quo, might be described as a **'D'** manager. And customers who are loyal, want a long-term relationship, like the re-assurance of brand and are not overly price-sensitive could be described as **'I'** customers.

Across these examples the *universality* of the metric for describing how both individuals, and groups of individuals, behave can be seen.

To reflect the subtlety that is seen at both the individual and group level, the dominant and secondary logics can also be captured. A customer is potentially thus an **'Ia'**, where 'I' represents the dominant logic and 'a' the secondary logic. The way of depicting the logics is shown below - and reflects the premise that while all aspects are usually present some are more significant and thus influential.

Figure 2.3 - Method of depicting behavioural *logics*



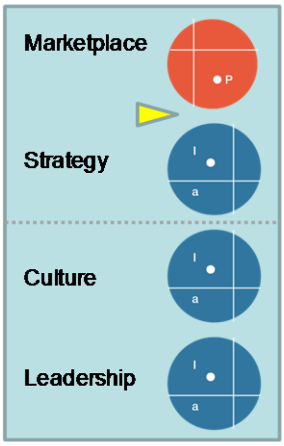
Anyone who has completed a Myers Briggs Type Indicator (MBTI) will recognise the underlying structure. The theoretical base used is the same, originating from the work of Carl Jung for personality types, later applied to organisational types by Ichak Adizes, and to marketplaces by the Gattorna Strategy team in the 1990's. Just as for the MBTI, the classification results in 16 possible 'types', so there is considerable richness to work with when identifying and defining the characteristics in a particular situation.

2.2 Using PADI at all four levels

The value of the common metric is in the insight it provides into alignment (and *misalignments*) across the four levels. As the cases below illustrate, using PADI at each level allows the characteristics of market, strategy, culture and leadership to be described and compared.

Figure 2.4 – Highlighting misalignment using the PADI metric

Case 1

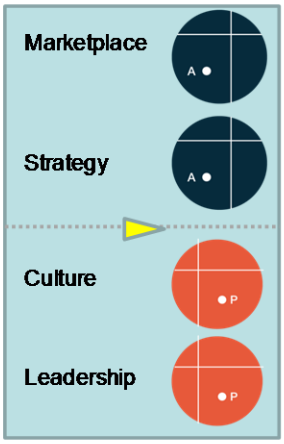


Demanding, fast moving customers operating opportunistically in their own market. Need variable supply and quick response.

Strategy and Culture while internally consistent, are geared to developing relationships, 'meetings' and operate on a long-term horizon rather than the short term horizon of the customers in this group.

The history of leadership in the business has valued relationships, quality, team-building rather than the quick decision making and flexibility that these customers require.

Case 2



Customers operate in a stable and consistent fashion in competitive markets and are primarily price and reliability focused.

The business has recognised the need to be price competitive and has 'reliability' written into its supply chain strategy…

BUT

The internal culture and capability is opportunistic without the structure and mindset to deliver consistently low price and reliability.

As a family company the opportunistic mindset has been driven by two generations of fast-moving 'Company Barons' – who have grown the business, but have not implanted the systems and processes needed for this style of customer.

2.3 *Multiple* 'marketplaces'

Of course, in reality the customers buying from processors – or any business, are rarely a homogeneous group that buy and operate the same way, and where a single strategic approach by a processor is sufficient. Even when they are taking the same products some are pushing you for the lowest price, others are more interested in quality assurances, some are predictable, and others are opportunistic and thus unpredictable.

Once the focus is on **the way that customers buy** and on **their operational needs** it becomes apparent that a single strategy is unlikely to be adequate. The other extreme, however - specific strategies for each customer -is usually not efficient or manageable. Experience suggests that by identifying the buying behaviour of customers, and looking at the resultant patterns (using the PADI method), a number of segments of customers can be identified. Our experience suggests that 3-4 segments usually reflect approximately 85% of the market and that this is the level of differentiated strategy that most organisations can manage.

The way to understand the major behavioural segments in the market and to design strategies and internal capability that aligns with each segment is covered in the following sections.

2.4 *Potential Benefits*

The benefits to the business of applying Dynamic Alignment principles are related to the level of current alignment, and the extent and manner in which it is adopted by the business. In general, however, the framework can provide:

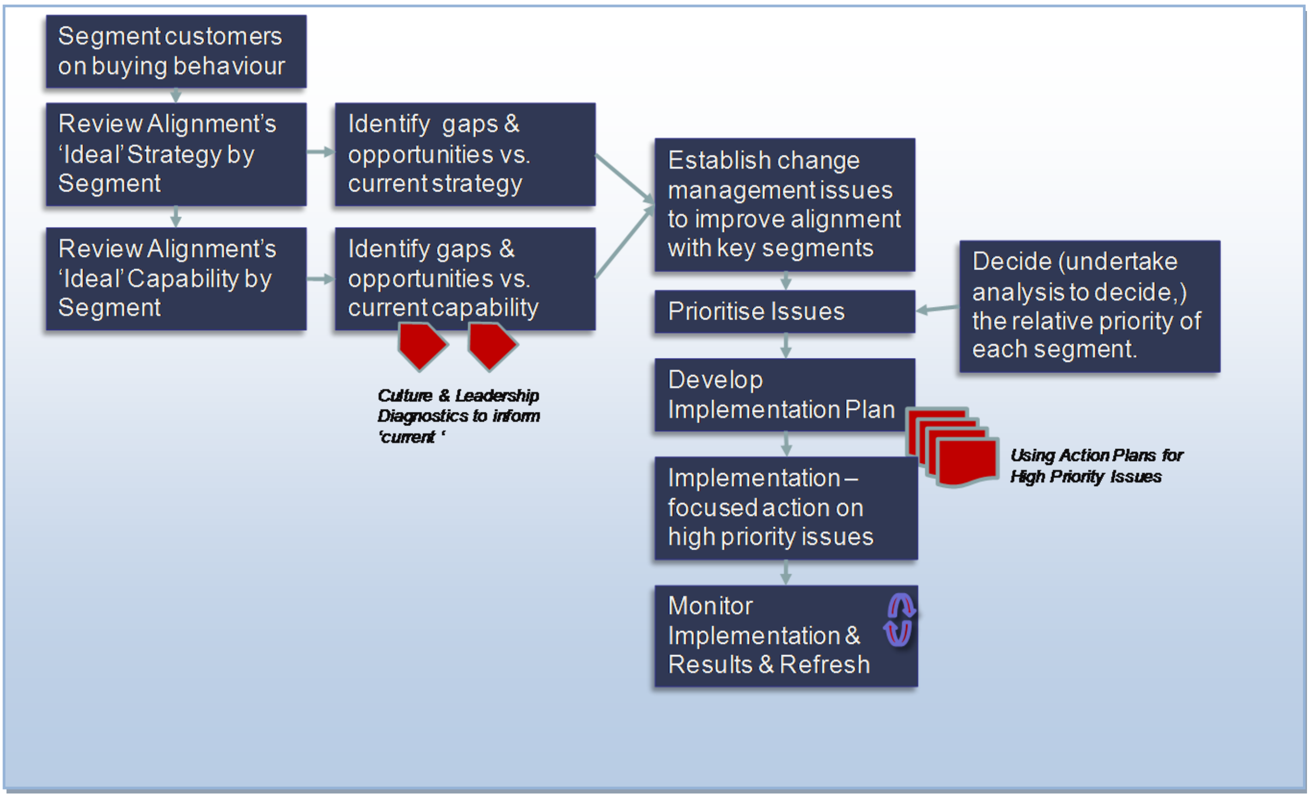
- Clarity and focus in strategy development
- A means to improve customer satisfaction, and ultimately revenue, through improved alignment with customers' key drivers
- A basis to allocate resources for the best return to the business, and therefore reduce the cost-to-serve
- A way to reduce the time and resources allocated to exception management
- A framework to target innovation - by addressing real customer needs.

In some cases the business may already have targeted strategies and cultural alignment, but in many cases these are only appropriate for one customer segment, and are missing the mark (and corresponding growth opportunities, and/or driving unreasonable cost levels) in other parts of the market.

3 Section 3 – Using Dynamic Alignment to support strategy development

Dynamic Alignment can be applied in a number of ways, and to varying levels of penetration into the organisation's DNA. In its simplest form, the approach provides a 'language' to distinguish between different customers and what they need and then to discuss how to respond to them. This alone is a significant step forward as the absence of a simple lexicon to describe and compare characteristics of customers, the market, strategy and internal capability has been an ongoing barrier to clearly stating and agreeing a direction.
To use Dynamic Alignment in a pro-active business planning approach, however, a more structured method is required, and the diagram below describes the key steps.

Figure 3.1 – Suggested Business Planning Steps

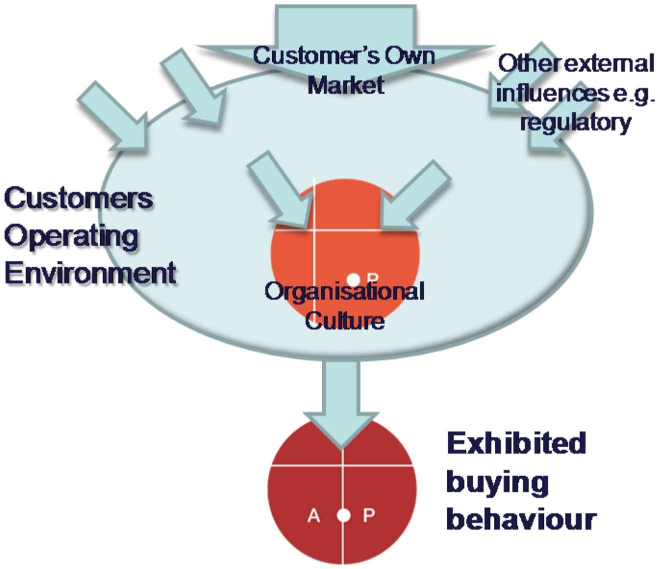


The components of each step are discussed in the following sections.

4 Section 4 – Market segmentation

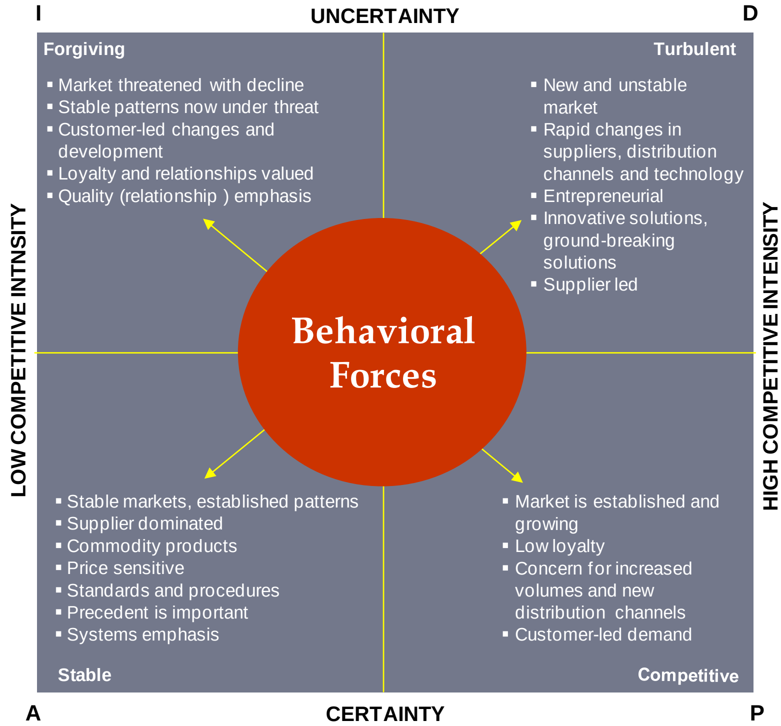
The starting point for any market alignment project is to understand the marketplace generally and to define, in particular, the buying behaviour of customers. Major product categories will often have different ‘marketplaces’ – and thus will need to be analysed separately. If, for example, the business is both a producer and a processor then they are facing very different market situations and should be reviewed separately. Traditional processing, and a value-adding manufacturing operation, could also be operating in different market ‘spaces’ and may need to be treated as different product categories.
Although there are both external forces and internal values that impact how customers buy, these tend to come together and be exhibited to the supplier as a net result - a set of needs, expectations and demand patterns. See Figure 4.1. The PADI logics discussed earlier provide a way to define and summarise the main characteristics of these behaviours. What becomes apparent, after many customers are reviewed in this way, is that there are only a few main profiles in any market, and by grouping customers with similar logics, the key behavioural segments in the market can be defined.

Figure 4.1 – The forces shaping customer buying behaviour



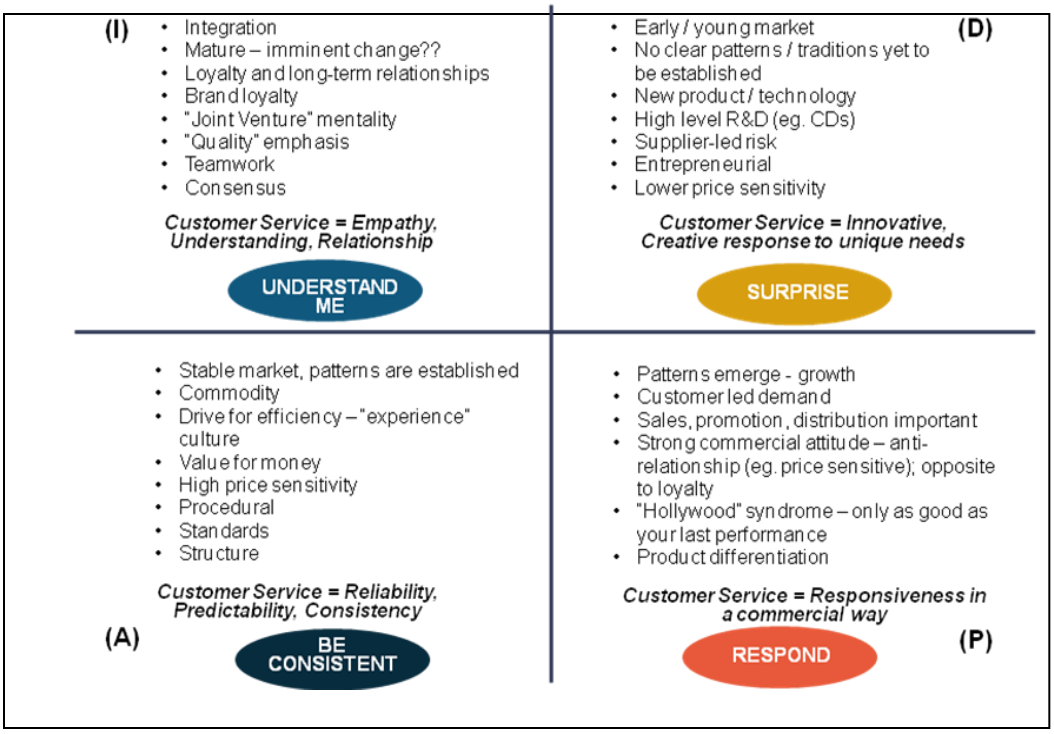
The PADI logics when used to describe markets have particular dimensions, largely driven by the two key forces of competitive intensity and risk. The resulting descriptors for the four primary quadrants are shown in Figure 4.2.

Figure 4.2 – Marketplace Logics



When we view the market as a supplier we see another layer of characteristics, from which we can then derive the way that the different types of customers prefer to be serviced – see Figure 4.3. Across many different industries these core basic service messages have been found to be incredibly resonant, and the meat and livestock industries have similarly found that they summarise core service values that different customers identify.

Figure 4.3 – Primary Customer Service Logics
(customer service means different things to different customers...)



4.1 Segmenting the market – approach

There are essentially two sources of information which can be used, separately or together, to segment the market i.e.

- Internal Segmentation Workshops, and
- Customer Research.

In most processing businesses there is an enormous amount of information already known about the market internally, and the first port of call is to bring the managers and key customer-facing staff together to channel this through the Alignment lens. The dynamics of an intensive workshop, with interactive discussions about each key customer, is the most efficient format to integrate the knowledge already in the business. *The three red meat companies that have conducted pilots and subsequently integrated Dynamic Alignment into their business planning were able to use workshops with internal staff to define their segments.*

In some cases internal knowledge is inadequate, the market is too large to know customers to the level needed, or there is a need to verify the internal knowledge or fill gaps in that knowledge and direct research with customers is necessary. In this case semi-structured interviews with customers are recommended, and it is often valuable to collect information on both customer expectations and perceptions (about your current service) – which will also assist when developing new strategies for each segment.

The format for a segmentation workshop is included as **Appendix 1**.

A typical outcome of the segmentation process is shown below. Remember you are trying to identify the major segments, which represent most of the business, not necessarily all segments.

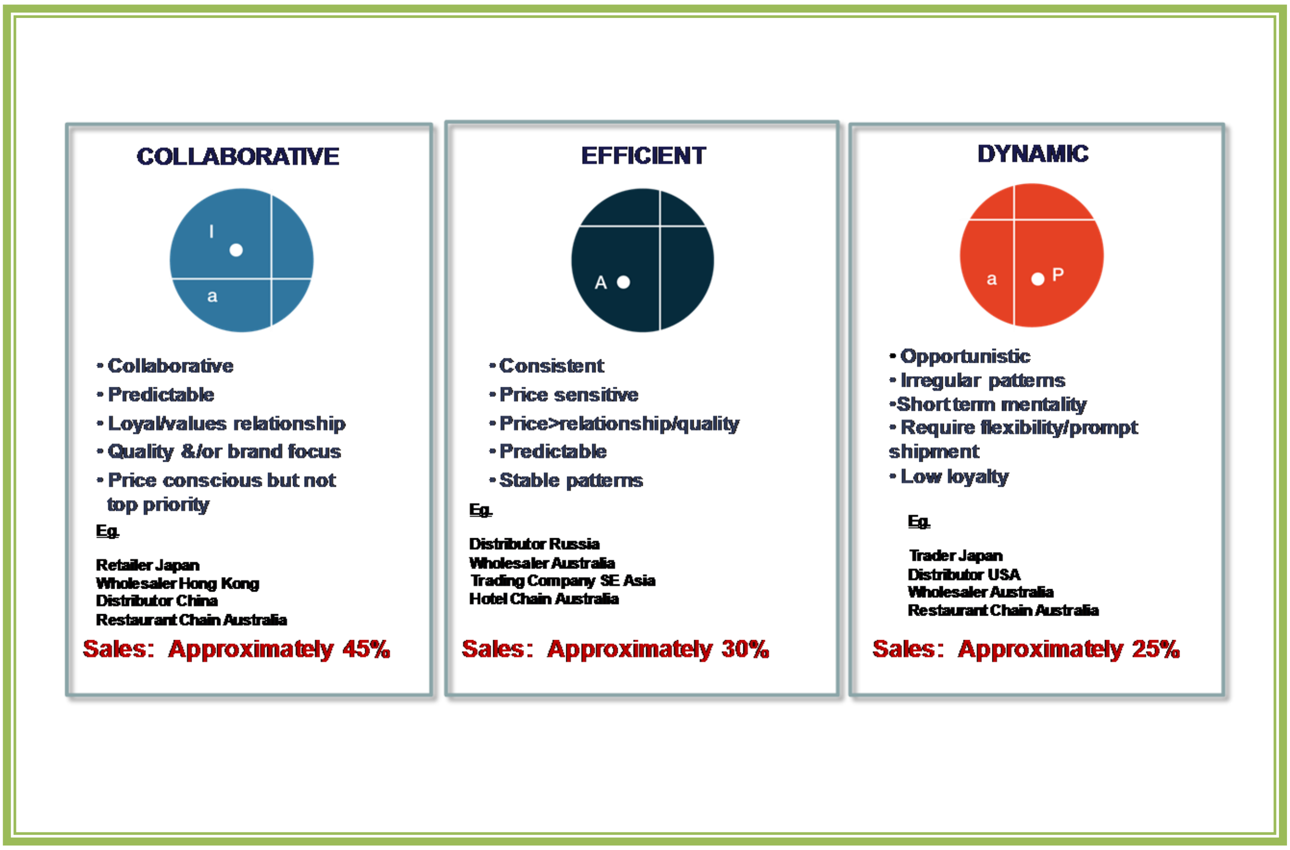


Figure 4.4 – Example of Market Segments for a Beef Exporter

It is important to 'size' the segments, by estimating the sales $ and % of sales. This gives an understanding of the relativity of the different strategic requirements. It may, for example, be that one customer's sales or profit is so significant that they need to be isolated as a separate segment.

It should be remembered, however, that the reason for the term ***Dynamic*** in Dynamic Alignment is to remind us that customers can change their buying behaviour, either for short periods when under pressure e.g. from an 'event' or promotion, or while they develop a new range, or more permanently - usually caused by a shift in their own market or by a change in leadership. The value of identifying the different segments, therefore, is to understand the **range of strategic responses** the business needs, not to pigeonhole a customer as only ever needing one type of service or offer.

5 Section 5 - Developing Aligned Strategies

When the key segments are identified the business needs to turn its focus to understanding the implications. The characteristics of each segment indicate the key sensitivities of those customers, and for the business to optimise its performance with that segment the messages about what it needs to focus on are 'writ large' in the segments.

All business strategy needs a statement of objective – at the company level this is a vision statement. Much has been written about the value of vision – one of the most important aspects of a good vision statement is that it creates a boundary – defining what we are, what we want to be, and either literally or by inference, what we are not.

To capture the needs of a segment, and how the organisation wants to do business with this type of customer, a **Value Proposition** is written which creates – for the part of the business focused on this segment, a direction – and a boundary. The example below indicates the way a value proposition might be worded. Note that it is written from the point of view of the customer – as we are trying to see ourselves through their eyes.

Figure 5.1 Case Study - example of Value Propositions for three segments

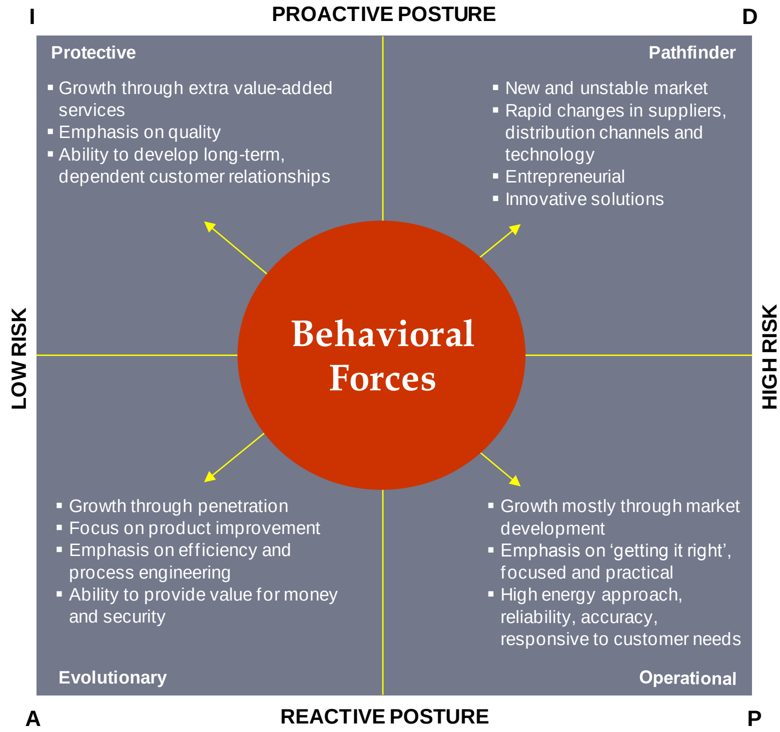
It becomes apparent, once we start to think about value propositions, that there may be parts of the market where the management team 'feels' less comfortable. This is usually because the internal capability, and/or the culture of the business does not ‘fit’ the expectations that we are describing for that part of the market. We will discuss capability and culture later, but this highlights that at some stage (it could be at this point, or when the thinking on implications has progressed further) the organisation needs to make a decision about **where to operate**: whether to compete across all segments; or to select one or two to focus on. This is influenced by two factors: **internal capability** – which segments ‘fit’ with our current internal capability and what sub-cultures and capabilities are we willing to build; and **market attractiveness** - which of these segments is most attractive in terms of performance, profitability, growth etc. Ultimately any final decisions must be assessed in terms of the overall **vision** for the business and the needs and expectations of the owners.

Market attractiveness is usually thought about in the processing industry in terms of institutional (e.g. wholesaler/ retailer) and country headings, but there are also very strong messages that come through from the way customers buy, and thus from the segmentation. You will note in the earlier ‘Market Logics’ PADI diagram (Figure 4.2) that ‘I’ and ‘A’ buying behaviours are usually associated with more mature and stable market situations, while ‘D’ and ‘P’ are more often associated with growth and change. Using segmentation, but informing it with institutional and geographic information on the market, will provide the best of both worlds and result in a more robust assessment of future opportunities.

5.1 Aligned strategies by segment

As noted earlier, once the market is segmented in terms of the opposing forces that are at play, and a Value Proposition is used to capture what each segment needs from the business, the strategy that suits each segment starts to define itself. The PADI diagram below captures some of the strategic responses implied.

Figure 5.2 Strategy Logic Framework



The specifics of how to respond to each segment are necessarily particular to each business, but some of the key strategic considerations are likely to be those shown below.

Figure 5.3 Strategic dimensions

1. Product mix
2. Innovation emphasis
3. Marketing emphasis
4. Channels of distribution
5. Pricing regime
6. Promotional activity
7. Service emphasis
8. Procurement/sourcing approach
9. Production
10. Capacity considerations
11. Fulfilment emphasis
12. Relationship intensity
13. Systems/IT support
14. Resource allocation priorities
15. Strategic risk profile

Appendix 2 has a set of **strategy checklists** that relate these dimensions to four of the most common segments. These should only be used as a stimulus – the key strategy messages come from understanding the core expectations and working out how the business can most effectively achieve its own goals while delivering a superior offering to each segment where it chooses to compete.

6 Section 6 – Developing Sub-Cultures that can support ongoing alignment

Culture is the third level of the Dynamic Alignment framework. It is relevant because it is very often the difference between a nicely presented business plan ... and action.

It is generally acknowledged that 40-60% of strategies that are written down do not get delivered. This is partly because changes to the operating environment (such as a dramatic rise in the exchange rate, or a new Free Trade Agreement) 'change the game' along the way, but the other main reason is that subtle resistance from people within the organisation causes slippage or undermines the new direction. The converse, of course, is also true – that strong cultures, that are a 'fit' with the strategy, make it much easier to deliver and more likely to be successful.

Organisational culture has been described as the *'psychological life of an organisation*[v]*'. It is the* unwritten values and assumptions that most people in the organisation understand and work within – their shared meaning of the situation. More anecdotally it has been described as *the way we do things around here*. Organisational culture has been famously depicted by Edgar Schein as the invisible, but incredibly powerful, part of the iceberg that sits below the surface. He also explained very succinctly how cultures develop in organisations in his definition of it as:

...a pattern of shared basic assumptions that the group learned as it solved its external and internal problems, that has worked well enough to be considered valid and , therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.[vi]

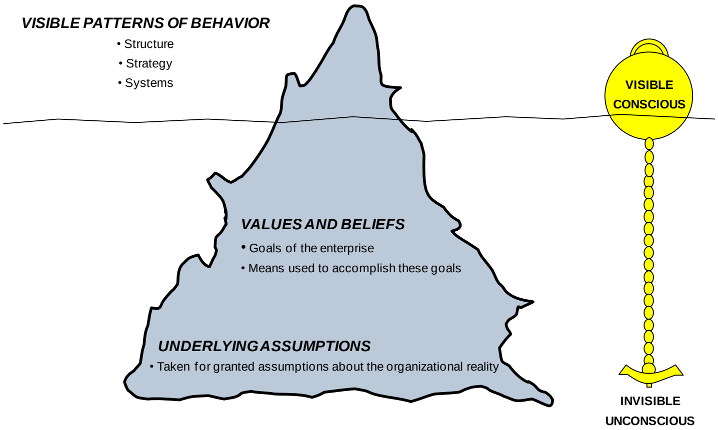
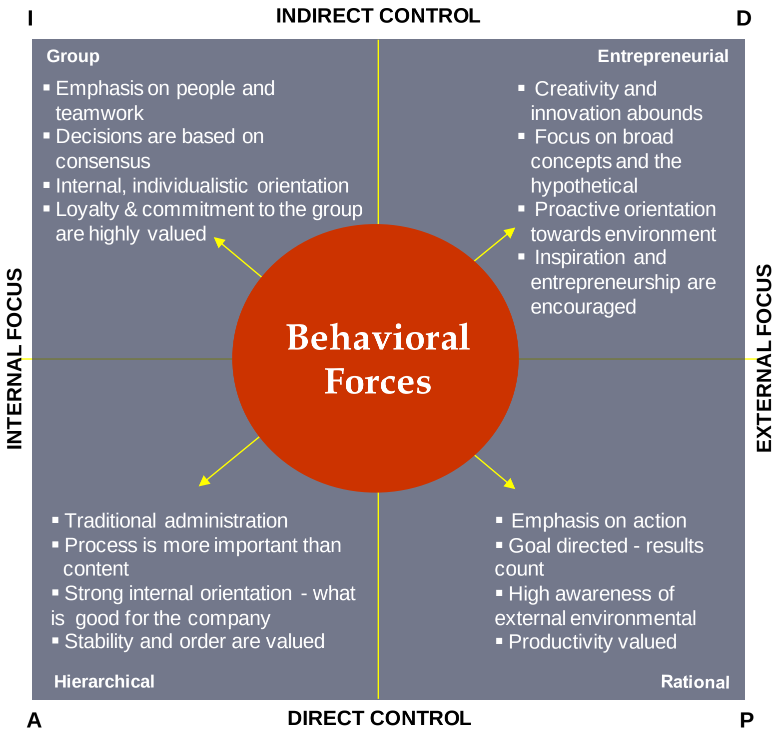


Figure 6.1 The 'performance' iceberg

The Dynamic Alignment framework uses the four quadrant PADI model to also understand and describe different types of culture[vii]. The two axis are based around key differences seen in organisations – the focus (internal vs external) and the way control is exercised (indirect vs direct control).

Figure 6.2 Culture Logic Framework



Simply by reading the descriptors many management teams are able to readily identify the overall culture of their organisation, and just as for the marketplace and strategy, it may be a combination made up of two adjacent descriptors (e.g. Ai, or AP), but will never be a combination of two opposing (e.g. A+D).

In many businesses there might be an overall culture, but also a set of sub-cultures that have developed in a division or geographic location. Where the culture is not immediately apparent a

Culture Map[1] can be used to identify the culture. This has the advantage of providing a more refined understanding of the culture, any sub-cultures and the direction that the culture, left to its own devices, would move (as it captures both ‘current’ and ‘preferred’).

The important point on culture in relation to Alignment, of course, is that if the business has a fairly homogeneous or niche group of customers it works with, then it can define an ‘ideal’ strategy for the business, and there is one ‘ideal’ culture. If it is operating with three major segments of customers, then it will need three focused strategic ‘offers’, and three different types of capability (or sub-cultures) to deliver them. This is not as difficult as it might appear – one strong individual, focusing on a specific segment, may be all it needs to create that sub-culture (as discussed in the next section).

7 Section 7 Leadership styles

The fourth level of the Alignment model is leadership, and in many ways this is the make-or-break component of achieving effective alignment with the marketplace. If there is a leadership group, or a strong leader, with a clear focus and understanding of the marketplace the tendency is for the culture and strategy to have a gravitational pull in the right direction. When the organisation is serving several segments, the leadership team has a more complex task, but the process outlined here - of deciding to achieve alignment and then developing aligned strategies and building the appropriate sub-cultures to deliver is, in essence, *leadership*. To sustain the focus, however, it will often be easier to have specific segment leadership (or management in a stable situation – see Figure 7.1 below) with a style that suits the expectations of the customers – in this way the bias is in-built.

Figure 7.1 Leadership and Management

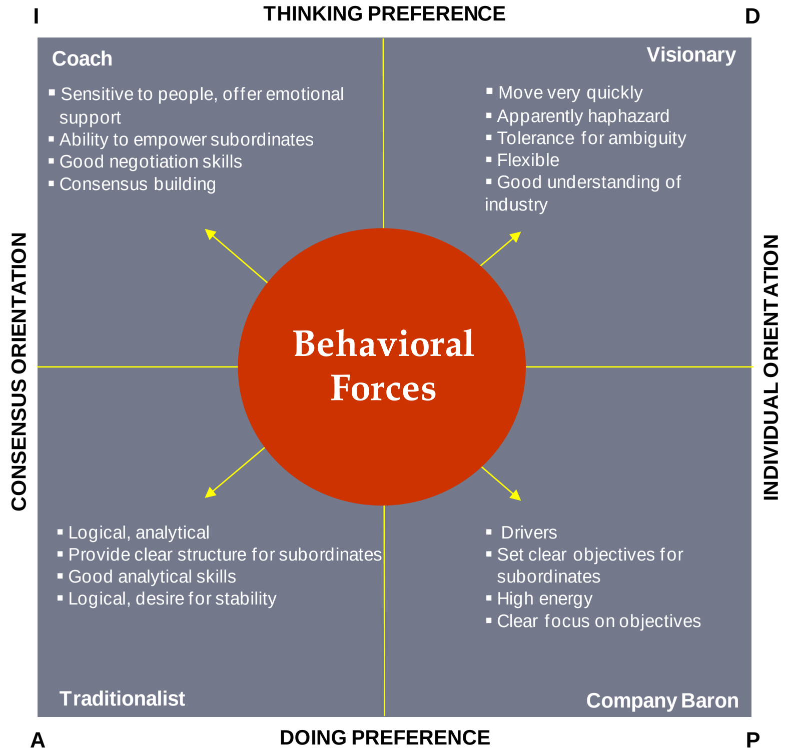
LEADERS ***PRODUCE USEFUL CHANGE***	**MANAGERS** ***CONTROL COMPLEXITY***
▪ **Make** the **change** occur ▪ **Set** the **direction** for constructive change ▪ Relate to **what** the events and decisions mean to the people involved ▪ Focus on **aligning people** - communicate the direction - achieve common understanding of the vision - commitment to achieving the vision ▪ Influence people to achieve **goals** and **objectives** ▪ **Motivate, inspire and energize** - keep people moving in the right direction, despite obstacles to change	▪ Bring **order** and **consistency** – work within the current system ▪ Manage by **planning** and **budgeting** ▪ Relate to **how** things get done ▪ Develop capacity to achieve through **organizing** and **staffing** ▪ Responsible for **performance** and **productivity** ▪ Ensure plans are accomplished by **controlling and problem-solving** - rely on **systems** and **structures**

In the same way as PADI can be used to describe the other three levels, it is also able to describe leadership styles. In fact there has been extensive research surrounding the different

[1] Gattorna Alignment can provide Culture Mapping support if required.

styles, and although the terminology may vary you will note some of the descriptors have appeared in various models over the years. You will also note the link to the Myers Briggs Type Indicator (MBTI), a common tool for classifying personality types often used in management.

Figure 7.2 Leadership Logic Framework



It is apparent that for a market where customers are keen to collaborate, loyal and take the time to develop joint approaches with their supplier (I/Ia) the '**Coach**' style of leader on the other side of the table is likely to be more effective than the faster- moving, more aggressive style of the '**Company Baron'**. On the other hand in a dynamic, intense, highly competitive market (P) this (the Company Baron) is likely to be exactly the right style to capture opportunities and keep up the pace.

To enable the PADI framework to link with the MBTI that many managers have already experienced, an overlay has been developed. See Appendix 3.

Where an MBTI has not been completed by each of the management team it is strongly recommended that it is undertaken –for two reasons. Firstly, because it can be so easily translated into PADI, and thus provides a ready comparison between the preferred styles of the management team (or the key decision maker – where there is only one) and the needs of each part of the market. Secondly, for the insight it gives to how each of the management team prefer to operate, and this self and 'other' awareness is valuable from the point of view of building an effective team.

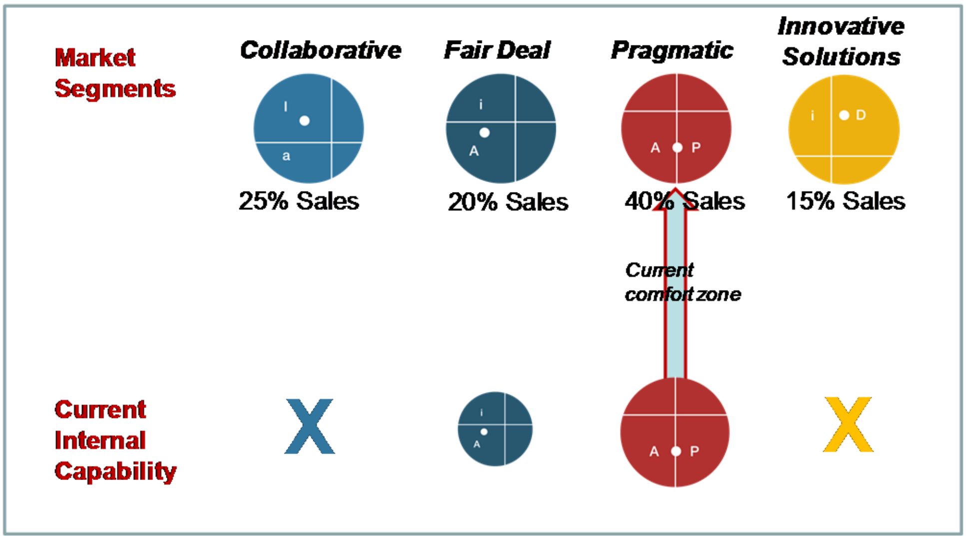
Several organisations in Australia and overseas provide MBTI tests – see Appendix 3 for advice in this regard.

8 Section 8 Selecting where to focus and how: segment portfolio management

Once the four levels of the Alignment model are understood, the business is still faced with the question of what to do with this insight. The first answer, of course, is to decide where to focus.

The marketing textbooks describe assessing the market attractiveness vs. the organisation's own competitive capabilityviii to decide how much, and what type of, focus to give a customer or a part of the market. This becomes easier with Alignment. Each segment behaves relatively consistently; and the PADI metric means that internal capability can be readily compared. The other dimensions of market attractiveness such as margin potential and growth potential can be assessed by looking at the customers that have been included in each segment.

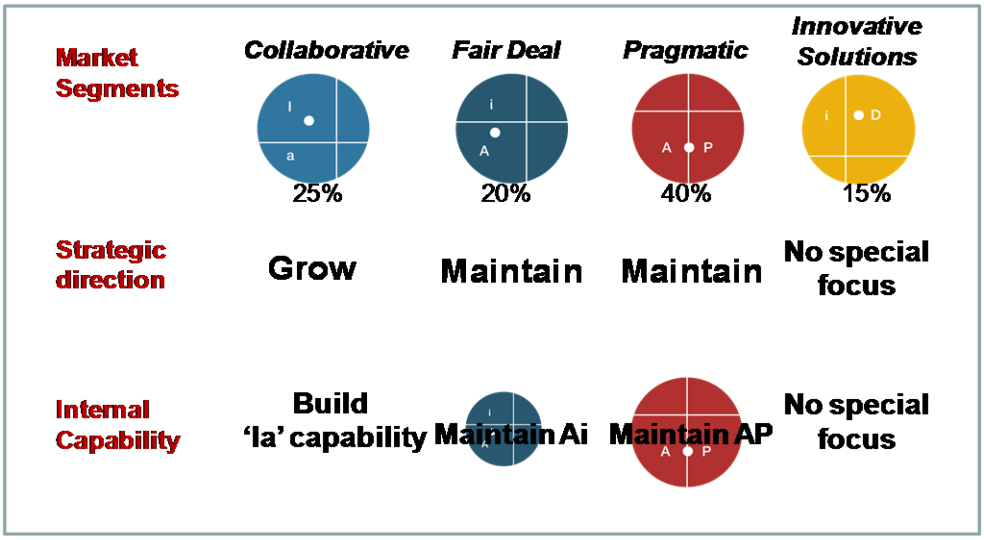
Figure 8.1 Strategic focus questions



This is where the many complex elements of strategy can come into play, but our experience has been that by breaking the market down in this way the parts of the market in which the business has a distinctive competence (which is, or can be, a competitive advantage) become obvious, and the nature of that advantage is also easier to define. On the other hand, the areas where there is little internal alignment with customer's needs are usually where the business is vulnerable.

The other aspect to the decision about where to focus is, of course, the cost of servicing each segment. Collaborative ('I' type) segments typically require more account management and management resources generally, but their predictability and willingness to share information means the operating cost are likely to be lower. Segments with a lot of 'A' should always be the lowest cost to serve – not least because they are unlikely to accept anything else, but practically because they are more predictable and regular. Segments with a large 'P' bias are typically more costly to serve because of the demanding style of relationship, and more volatile demand patterns. 'D' biased segments are invariably the most costly because of the very high need for flexible resources and the many one-off arrangements. Those segments where the business has built a distinctive competence over many years are also likely to be less expensive relatively, because the business is well down the experience curve.

Figure 8.2 Strategic focus decisions



For some businesses it is possible, and beneficial, to break the costs down to enable the unit cost (e.g. per tonne/per kg) for the different segments to be estimated. In the meat and livestock industry, however, this is more difficult because the same carcass could be servicing several segments. In fact, in the processing industry the dynamics of the different segments can be complex to manage (particularly the reliability requirement of the 'A' segments), but they can also complement each other well to maximise the return on each carcass (e.g. by developing long-term supply plans with 'I' customers, and using the 'P' segments opportunistically to clear excess).

9 Section 9 Turning strategy into action: planning tools

The earlier sections have discussed how to use the signals from the market to determine a strategic direction, but of course strategy is only good intention without tangible changes that make it happen.

We have found the most straightforward method to move from an agreed strategic direction to action is by using Issue Planning. As with any direction the starting point is a clear vision – which creates clarity around the end point, and a boundary for what is on and off the agenda. In this case there are two levels of 'Vision' – the corporate/company vision which is likely to already exist, and below that we would advocate using the Value Propositions for the target segments. This ensures that alignment with the needs of each part of the market remains a core focal point. The review of strategies and capabilities discussed earlier will have thrown out the gaps – or 'Issues' with delivering what the segment needs. There will also be 'Issues' which are positive that emerge during these reviews – particularly related to strengths and competences that give a competitive advantage and must be protected, and also opportunities that are emerging relating to one or other segment that should be pursued.

Essentially an Issue is - anything which will impact on achieving an objective (in this case the value proposition). Issues can be positive or negative, internal or external.
In practical terms you are not looking for an endless list – it is likely that for any segment less than ten will capture the critical points.

To then move to those factors that really make a difference, and where time, energy and resources should be devoted, the issues need to be prioritised. This can be done either at the segment level, or if there are few and/or implementation will be centrally managed, together. In most cases the key parameters for deciding priority are Impact and Urgency.

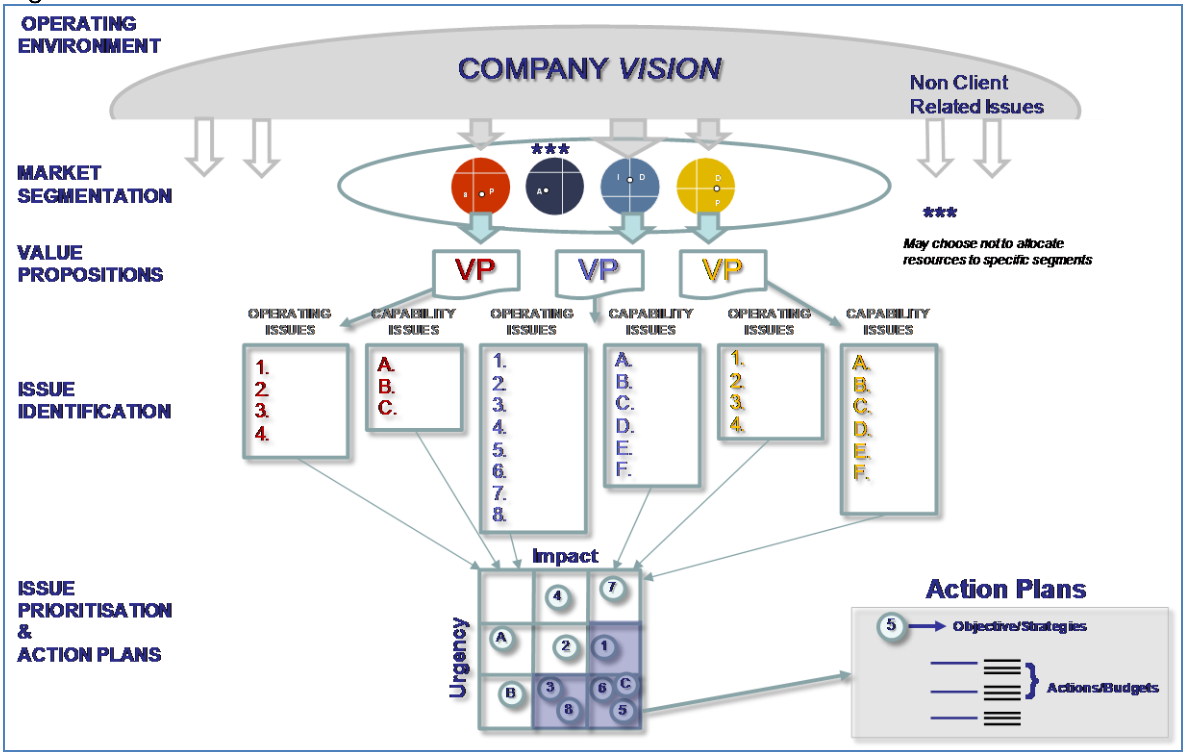
Figure 9.1 illustrates this step by step approach. The final planning stage is to take the High Priority issues – those in the bottom 3 squares, and to assign responsibility and develop Action Plans to address each issue.

The Priority Matrix and a proposed Action Plan Worksheet are included in Appendix 4.

The output of this activity – the sum of the Action Plans - is what is often called the Implementation Plan. Once the plans are developed the actions need to be monitored and a regular review (e.g. every month) needs to be set up until the major changes are complete.

An alternative path would be to integrate the changes needed to support alignment into a normal business planning cycle, where this is in place, and to include the action plans alongside those that address other business changes for the planning period.

Figure 9.1 From Vision to Action



10 Section 10 Industry applications to date

The Dynamic Alignment approach is considered to be useful and applicable to the meat and livestock industry at several levels:

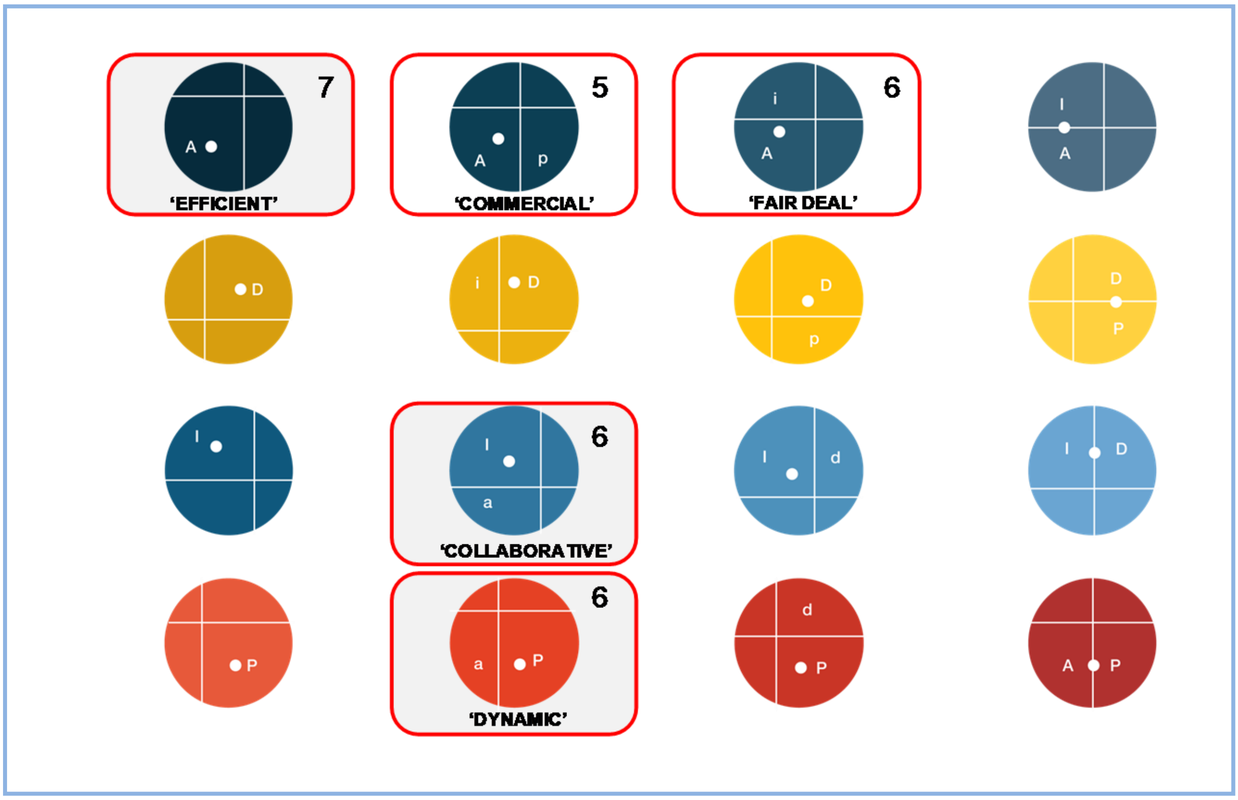
- For all players including producers, feed lots, processors and value added suppliers to understand their markets and to develop more effective and market-aligned strategies
- For each party to understand more fully their supply base, and to recognize that one-size-fits all procurement can be limiting (and having a range of procurement strategies can be more productive)
- To create more effective alignment between different parties in the supply chain through better understanding of each other's business drivers
- As a framework through which to develop strategic alliances between two or more supply chain partners
- To successfully extent company innovation strategy from being internally focused to being customer focused
- As a tool for those supporting the industry, such as industry associations and breed societies, to appreciate and better support the different needs of members. MLA has applied Alignment internally on several projects in this regard.

10.1 Processor and Value Added applications – results

Dynamic Alignment workshops were conducted with nine processors, marketing and value-add businesses in 2008-9, during which an initial segmentation of each their markets was undertaken. Some common market segments emerged, although of course there were different proportions of sales within segments, and there were some segments that were only significant with one or two companies. In general, however, five segments were commonly seen – although any one business usually only had either 3 or 4 segments.

Figure 10.1 Common processor segments

There are sixteen possible PADI 'types'. Of nine processors (including two value-added processors, and one marketing business) the highlighted segments appeared regularly – the frequency is indicated. Three others were seen either once or twice. The shaded boxes indicate those that have also been commonly seen in other industries.



The typical characteristics of the five common segments seen were:

Collaborative (Ia)

- Loyal/values relationships
- Longer term perspective
- Predictable buying patterns
- Information sharing
- Often quality/brand focus
- Less price conscious

Fair Deal (Ai)

- Predictable buying patterns
- Expects consistency
- Price sensitive
- Some loyalty

Efficient (A)

- Very price sensitive
- Predictable buying patterns
- Expects consistency
- Emphasis on admin and controls
- Low loyalty

Commercial (Ap)

- Price sensitive – but ‘deal’ approach to price
- Less predictable buying patterns
- Expects consistency **and** flexibility
- Low loyalty

Dynamic (Pa)

- Opportunistic
- Low predictability of buying patterns
- Price sensitive – but ‘deal’ approach to price
- Expects flexibility
- Time sensitive
- Low loyalty

Industry Case Study 1

The mid-sized beef exporter, introduced as a case study earlier, used Dynamic Alignment to analyse their market, aiming to develop more market focused strategies, and to identify the internal changes needed to ensure those strategies were implemented.

They identified four segments, and decided to actively pursue growth in three of them: the Collaborative; Efficient; and Dynamic segments (the fourth segment a small 'Ai' segment, which was integrated with Ia and A to reduce complexity).

When the strategies currently being pursued were reviewed and compared with 'ideal' alignment strategies a number of gaps were identified for each segment. These were captured in the Issues Management format outlined earlier and prioritised. An example Issue Plan (for the Collaborative segment) is shown over page. The *required* vs *current* culture was also considered after completion of a Culture Map, and key gaps and areas of distinctive competence were identified and included in the Issue Plans for each segment.

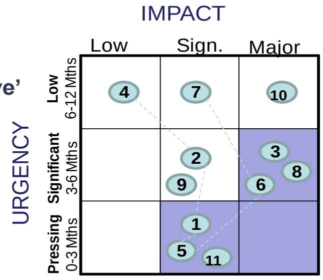
Two broad strategy concerns that emerged were:

- The customers that had been the key focus in the past were mainly in the Collaborative segment, and the operation including sourcing and days on feed were driven by their needs. The other two segments were mainly used to sell the cuts that these customers did not buy. While this was appropriate for the Dynamic segment, it resulted in low reliability levels and declining revenue and margin for the Efficient segment. The business needed to decide whether to shift all of the balance into opportunistic sales via Dynamic customers, or to factor the needs of the Efficient customers into their planning. This was more critical given the aggressive growth targets, and the recognition that few of the new customers were fitting the Collaborative customer profile and some customers may be shifting from this behaviour.
- It was also apparent that while particularly dependent on the Collaborative segment the relationships were very long term, and had not been actively developed in recent years. There was also no systems support to manage the relationships, to capture its history and to ensure consistency of engagement with these customers. The business was vulnerable to losing customers in this segment, and recent pressures in the market in Japan suggested that some key customers in this segment were at risk.

When the capability and culture of the business was reviewed the key issue that emerged was the need to protect the areas of current strength, while building new capability. The culture of the organisation, not surprisingly, was ‘**Ia’**. It was thus well aligned with the Collaborative segment and this was obviously, and appropriately, the ‘comfort zone’. The administration/control focus needed for the Efficient segment was not as evident and the more aggressive, fast-paced culture needed to fully capture the opportunities in the Dynamic segment was not apparent. To grow these two segments the business would need to focus on developing capability in these two directions. The culture levers discussed earlier such as KPIs are important, and likely adequate for creating the ‘A’ sub-culture, but in this size of business the easiest course to create the most disparate sub-culture (the ‘Pa’ style) is likely via recruiting a key person with a track record of working with this segment.

Collaborative Segment

1. **Lack of formal relationship management system**
2. Geographical dispersal of customers
3. **Aligning production with their requirements**
4. Interference from intermediaries
5. **Resource requirement to support ‘Collaborative’ customers**
6. **High dependency on a few customers**
7. Potential for ‘Collaborative’ segment to shrink
8. **Scope for increased “share of wallet” with current customers**
9. How to identify new ‘Collaborative’ customers
10. Dependence on service kill facility
11. **Maintain & protect the sub-culture for this segment**



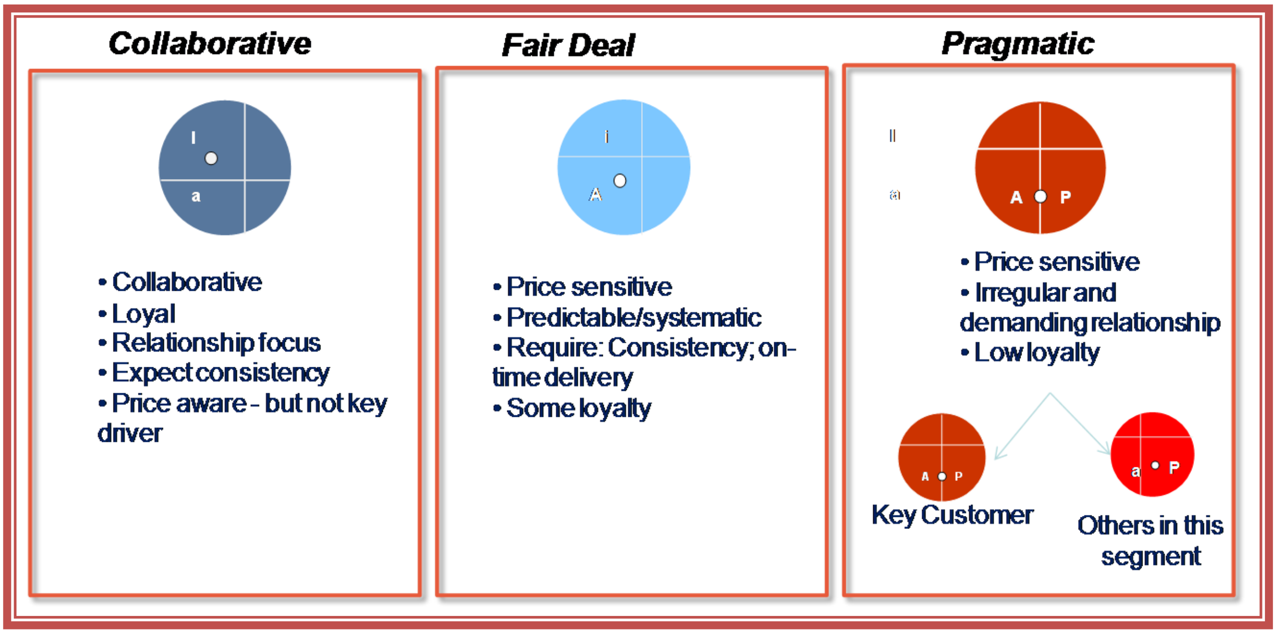
High priority issues(bold) are those that require action plans

Issues

22

Action Plans were developed for the high priority issues across the 3 target segments, and a project planning and review process put in place to implement the new strategies.

Industry Case Study 2



Dynamic Alignment was applied with a relatively new and fast-growing Value-Added Processor to assist them to develop strategies to break through to profitable growth. Their customers were segmented, and it became apparent in this exercise that their destiny was heavily in the hands of the most demanding customers to service – the AP 'type'. These customers typically have irregular patterns of demand and are price sensitive. The only way to meet their varying requirements is via high levels of 'spare' capacity, which drives the cost-to-serve up. They are also low on loyalty, so capital investment to support this capacity is high risk.

Although the start-up phase needed a 'take-all-comers' approach, it was evident that the business should now focus on developing the other segments more fully to either offset or replace the most difficult to service customers in the Dynamic segment.

As in the previous case Value Propositions were developed for each segment, and in Workshop format current strategies were compared to *aligned* strategies for each and the gaps identified. These 'issues' were then prioritised to identify those that required immediate action.
As the business was at an early stage in its development there was no deeply imbedded culture evident, so the focus could be on developing capability or 'sub-cultures' aligned to the three market segments.

The strategies identified in the Dynamic Alignment workshops were integrated into the business planning format that was already in place, and implemented in conjunction with other initiatives such as branding and site development that had already been flagged.
The feedback from this business 6 months after the project was that it had changed their mindset and turned their attention to a pro-active management of their market, with clarity around the types of customers they were targeting and the strategies that were appropriate. There initial focus on institutional segments (e.g. retail, catering) had been recognised as inadequate and the addition of the behavioural segmentation had given them a stronger predictive power and more ability to plan resources and capacity.

11 Section 11 Applying Dynamic Alignment

Dynamic Alignment is both a conceptual lens for 'making sense' of the situation that a business operates within and a set of tools for developing strategies within that situation. It can be applied at a number of levels from:

- **Influencing the Agenda** - using it to provide the management team with a new view of the market and a common language with which to interpret the less tangible aspects of the market, and to discuss strategy, supply chain and internal capability, to
- **Driving the Agenda** – using it to define the target segments in the market and to develop objectives, strategies and internal capabilities that specifically align to these segments.

For the first option these materials or an introductory workshop (maybe two where the management team is large and/or dispersed) is likely to be sufficient[2].
For the second, more comprehensive strategic program, external assistance would usually be recommended[3]. Additional information on which to make decisions including market research, culture maps and leadership assessments are typically required for a holistic application of Alignment , especially in medium-large businesses. Gattorna Alignment can be contacted directly in this regard, or to discuss any of the issues raised in these materials.

[2] Dr John Gattorna has also written several books on Dynamic Alignment which may also be useful for the team to review – see Appendices for information on where to access.
[3] Although it may be of interest that Dell has used Dynamic Alignment as the basis for redesigning its supply chain strategy with no external assistance – but a close study of John Gattorna's writing on the subject and several phone conversations to him over a 2 year period.

12 Appendices

12.1 Appendix 1

Segmentation Workshop(s) – Suggested Format

Objective: To identify the major customer buying behaviour segments, to define the distinguishing characteristics (key differences in expectations and buying patterns) of each segment.
Attendees: Senior management, plus key customer facing staff with a strong knowledge of customers.

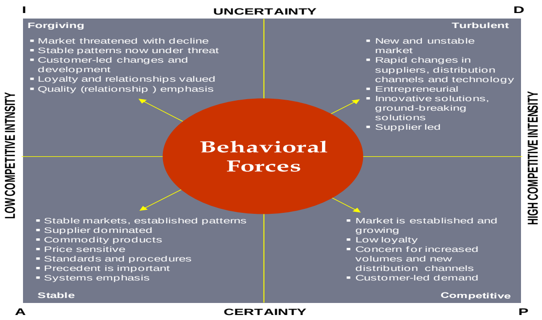
Pre-work:
1. All attendees to read this paper, and also where possible
2. Review Chapter 1 & 2 of Dr John Gattorna's book 'Living Supply Chains'(2006) or 'Dynamic Supply Chains' (2010)
3. Individual preparation of briefing notes about each of the largest customers (e.g.Top15) by the one or two people closest to each customer, and of a small number (e.g.5)of smaller *typical* or *strategically important* customers.

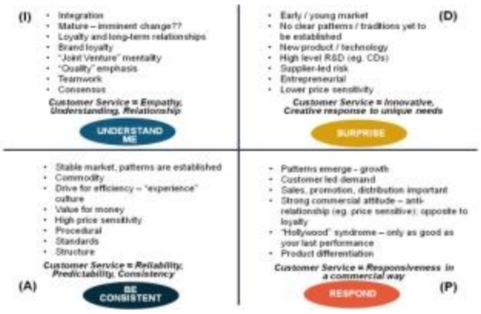
Customer Name:	
Provide four or five descriptors (words or phrases) that the customer might use when describing their needs/requirements from you or any other supplier of similar products	• .. • .. • .. • .. • .. • ..
How would you describe the pattern of demand from this customer? Is there more than one pattern e.g. do they run promotions?	
How would you describe the type of relationship they expect from you as a supplier?	

Format:
1. **Review together the Dynamic Alignment approach**
2. **Review each of the sample customers (as above – no more than about 20) and:**
    - Discuss the customer and agree the **5-6 key characteristics** of the way they buy, and their needs
    - Review these characteristics against the **PADI Market Logic** Framework (Figure 4.2) and the Customer Service Logics (Figure 4.3) and decide the Buying Logics

of the customer, remembering that it may include: only a Primary Logic (e.g. A) both an adjacent. Primary and Secondary Logic (e.g. Pa), or occasionally two primary logics (e.g. PA) but will not include two non-adjacent logics (e.g. AD).

- In some cases the customer may have two logics – promotional/non-promotional, or when buying certain categories of products, or because you are hitting two different buyers e.g. the commodity, and the value-added cuts buyer.

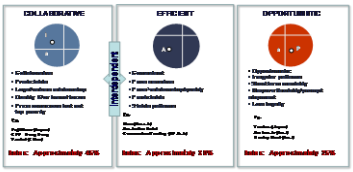




3. When the sample customers each have PADI logics assigned:

- Look at the pattern – customers would usually be clustering into 3-4 groups of the same (or similar e.g. IA and Ia) logics. These are the **buying behaviour segments**.
- *Remember you are aiming for 3-4 segments that 'fit' around 85% of the market – you are unlikely to ever achieve a 100% fit.*

4. By aggregating the characteristics derive the 5-6 key descriptors for this segment of customer, as illustrated in Figure 4.4



5. Follow Up:

- Assign responsibility for allocation of the **remaining customers** to these segments.
- When all/most customers are assigned then the **approximate sales value** per segment can be worked out.
- *Although customers have been allocated to a segment is should be remembered that customers can change behaviours, either temporarily due to a change in their current situation e.g. after shifts in leadership or their own market that lead to more long term changes.*

12.2 Appendix 2 - Strategy Checklists for Common Segments

Collaborative Segment

	STRATEGIC DIMENSION	INDICATED STRATEGY	ACTUAL STRATEGY	GAP?
1	Product mix	Emphasis on mature, branded, and augmented products		
2	Innovation emphasis	Big emphasis on product quality; joint product development. Innovate to improve relationships		
3	Marketing emphasis	Build brand loyalty		
4	Channels of distribution	Either direct or via trusted outlets		
5	Pricing regime	Price according to strength of brand; moderate price sensitivity		
6	Promotional activity	Low promotional activity - simply not required		
7	Service emphasis	Empathy with loyal customers; consistency of service; trust		
8	Procurement/sourcing approach	Select suppliers on basis of relationships and capabilities		
9	Production	Low volume – high value add. Collaborate to reduce costs		
10	Capacity considerations	Maximum utilization achievable consistent with serving clients		
11	Fulfilment approach	Reliable/scheduled delivery; shared forecasts		
12	Relationship intensity	Mutual dependence between customer and supplier		
13	Systems/ IT support	Emphasis on customer management; CRM essential		
14	Resource allocation priorities	Focus on supporting the relationship to retain customers		
15	Strategic risk profile	Low		

Efficient Segment

	STRATEGIC DIMENSION	INDICATED STRATEGY	ACTUAL STRATEGY	GAP?
1	Product mix	Stable product line; minimal variants		
2	Innovation emphasis	Focus on ways to reduce cost of inputs and processes		
3	Marketing emphasis	Lowest price; but reliable		
4	Channels of distribution	Wide distribution through multiple channels for maximum accessibility		
5	Pricing regime	Lowest price. EDLP where possible		
6	Promotional activity	Low, because margin too thin		
7	Service emphasis	Efficiency and process re-engineering		
8	Procurement/sourcing approach	Use automatic systems if possible		
9	Production	High volume – low cost; commodity		
10	Capacity considerations	High utilization of existing assets		
11	Fulfilment approach	High reliability; predictable service and ready availability		
12	Relationship intensity	Low		
13	Systems/ IT support	Emphasis on transactional systems		
14	Resource allocation priorities	Focus on cost reduction at all times		
15	Strategic risk profile	Low		

Dynamic Segment

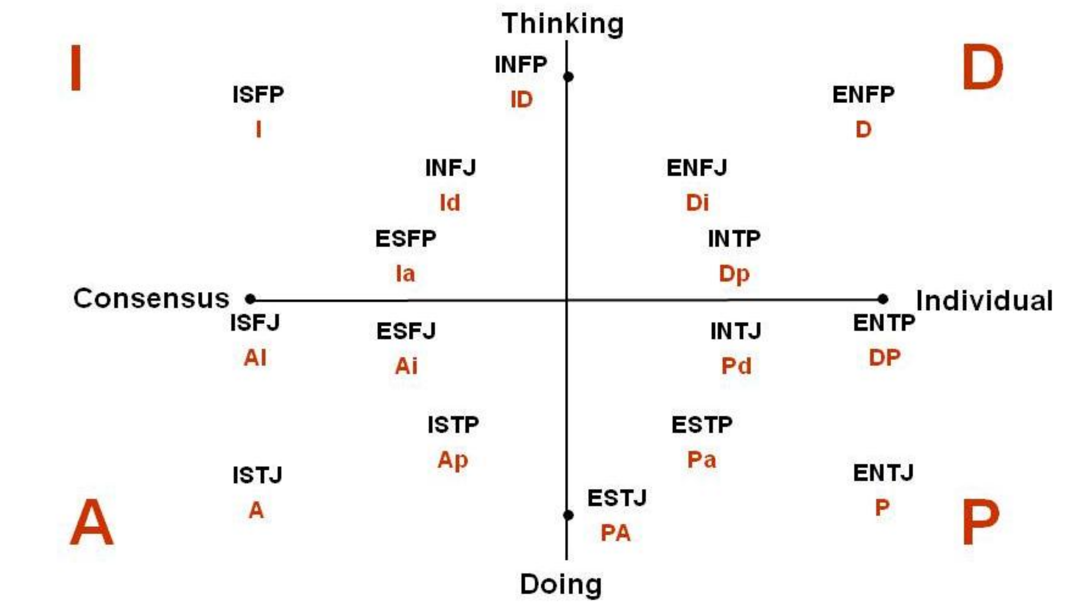
	STRATEGIC DIMENSION	INDICATED STRATEGY	ACTUAL STRATEGY	GAP?
1	Product mix	Larger range; brand important; product performance critical		
2	Innovation emphasis	Seek product differentiation		
3	Marketing emphasis	Quick response to rapidly changing customer requirements		
4	Channels of distribution	Fewer, more direct channels to access consumers		
5	Pricing regime	Competitive; moderate price sensitivity		
6	Promotional activity	High; fashion-style approaches		
7	Service emphasis	Performance to specifications		
8	Procurement/sourcing approach	Market knowledge capacity to supply in volatile environment		
9	Production	Shorter runs; flexible scheduling; make-to-order. Use postponement techniques		
10	Capacity considerations	Lower utilization because of ‘buffers’ all along the supply chain		
11	Fulfilment approach	Short lead times; use postponement techniques		
12	Relationship intensity	Low and spasmodic		
13	Systems/ IT support	Use modelling and analysis to support decision-making		
14	Resource allocation priorities	Build spare capacity to cater for volatile demand		
15	Strategic risk profile	Higher risk		

Innovative Solutions Segment

	STRATEGIC DIMENSION	INDICATED STRATEGY	ACTUAL STRATEGY	GAP?
1	Product mix	Introduce new products/services on a regular basis		
2	Innovation emphasis	Extensive research and development; aim to be first to market. First with new solutions		
3	Marketing emphasis	Creative problem-solving capabilities		
4	Channels of distribution	Limited, and very targeted		
5	Pricing regime	Price appropriately for a creative solution; no price sensitivity		
6	Promotional activity	Target early adopters		
7	Service emphasis	Novel solutions		
8	Procurement/sourcing approach	Select suppliers with innovative capabilities		
9	Production	Prototypes; customization		
10	Capacity considerations	Low. Hedge and deploy resources as required. Form alliances to access capacity		
11	Fulfilment approach	Speed is vital at all times		
12	Relationship intensity	Intense but short term while problem exists		
13	Systems/ IT support	Everything - whatever is required to solve the problem		
14	Resource allocation priorities	Hedge and deploy resources, sometimes ineffectively		
15	Strategic risk profile	High		

12.3 Appendix 3 Leadership Styles

MBTI Overlay



Source Adapted from Figure 29.6 in Gattorna (1998), p. 480

FIGURE 5.1 ◆ MBTI® overlay on P-A-D-I framework

MBTI tests, reports and follow up consultations are available from specialist consultants, or from several web-sites at minimal cost. It is important that the reports are the official version – look for the logo shown below:

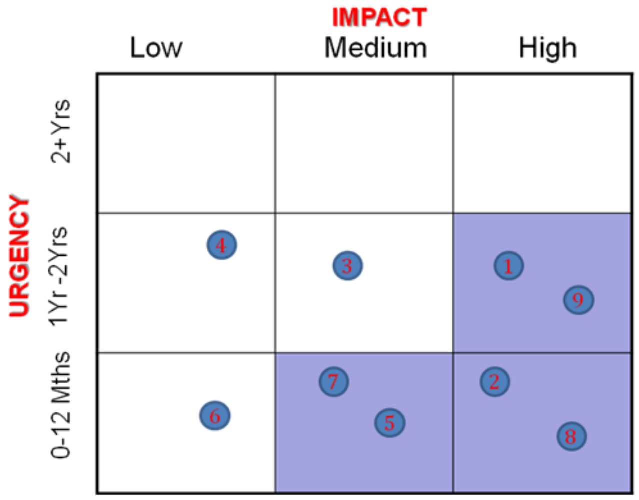
Contact Gattorna Alignment if assistance is needed with accessing MBTI testing.

12.4 Appendix 4 Issue Planning Templates

Number Issues, discuss Impact/Urgency and assign to Priority

Grid. The three levels of 'Urgency' are decided in relation to the planning timeframe the business works within.

Only those Issues that end up being assigned to the bottom 3 cells require immediate focus – the others will either move towards these areas over time - or will disappear off the grid.



Action Plans are developed for the High Priority Issues (in blue cells). Suggested Action Plan Format follows.

ACTION PLAN

<table>
<tr><td colspan="2">ISSUE: Can be Negative or Positive
Must relate to a Vision, which could be a Value Proposition</td><td colspan="3">ASSUMPTION:</td></tr>
<tr><td colspan="5">OBJECTIVE(S) Must be tangible - must be able to say when complete – timeframes (‘by June2010’) – measures (‘by 10%’)</td></tr>
<tr><td>STRATEGIES (WHAT)</td><td>ACTION STEPS (HOW)</td><td>Action responsibility</td><td>Start</td><td>Complete (WHEN)</td></tr>
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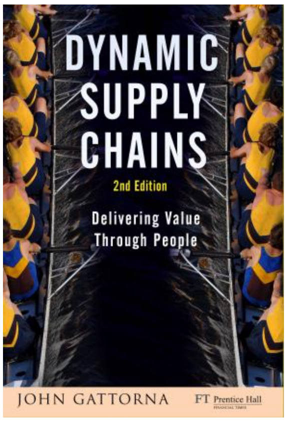
A regular review process (e.g. 1/month) is used to monitor progress.

For more information contact:

For information about ordering the latest book on Dynamic Alignment see the Gattorna Alignment website or contact Dymocks Business Books, Sydney



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UK: 31 July 2010
FT Prentice Hall,
London

USA: 30 September 2010
Wharton Publishing,
Philadelphia

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email: john@johngattorna.com

End Notes

[i] The original Alignment framework developed out of theoretical work and consulting assignments in the early 1990's by Dr John Gattorna, Dr Norman Chorn and their associates and it was evolved into Dynamic Alignment during applications in the early 2000's.

[ii] Unpublished presentation by Annette Clayton, Vice President Global Supply Chain, Dell Global B.V at Supply Chain Summit, 25th February, 2010 MGSM, Macquarie University, Sydney.

[iii] The theoretical base for this was the archetype individual personality types originally identified by Carl Jung (and subsequently developed into the Myers Briggs type Indicator), and the later work which recognised that groups of individuals (e.g. within organisations) developed definable patterns of behaviour driven by two sets of underlying opposing forces. In our consulting work this approach was found to be robust when also applied to the way customers behave, and thus a common method could be applied to 3 levels of the Alignment Model: markets; culture and leadership. The fourth level, strategy, was essentially derived, but it was also found that the descriptors readily translated in describing different types of strategic response suitable to different 'archetypal' market situations.

[iv] Adizes, who first used it in reference to different management styles used PAEI for Producing, Administering, 'Entrepreneuring' and Integrating).

References

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[vii] Culture was a key 'stake in the ground' in the early development of Alignment, and the four quadrants derive from the same theoretical base as the Competing Values Framework developed by Cameron and Quinn, which is used by some companies to classify their Culture.

[viii] See Shell Directional Policy Matrix, and the GE Matrix