

From Mess to Mastery: HOW DANKA REBUILT ITS

At Danka Office Imaging Company, the U.S. supply chain operation ran haphazardly, with little consistent connection to what drove value for the company. Finger-pointing and brute-force distribution practices prevailed; equipment inventory turned slowly and write-downs were huge. Over a three-year period, Danka's supply chain leaders tore down and successfully rebuilt their U.S. organization through a ten-step process. This is their story.

Mick Constantinou

There was only one word for it: Danka's U.S. supply chain was a mess. Other functions at the office-equipment company had little confidence in an operation whose inconsistent support required constant workarounds if customer demands were to be met. The disorganization and continuous circumvention bred territorial protection and animosity between individuals and departments.

The U.S. supply chain operation was more focused on brute-force distribution practices than on customer expectations. Little attention was paid to streamlining order cycles; the organization relied on paper-intensive processes from order entry through proof of delivery. The pattern of work was the only consistent performance measure, and it told a sorry tale: The first two weeks of every month were spent cleaning up the previous month's paper trail, and the last two weeks became a frenzied rush to deliver a month's worth of demand.

The operational and financial results told an even sorer story. Equipment inventory turned less than five times a year. Order-to-delivery cycle times were

inconsistent and noncompetitive. Expenses as a percentage of revenues were unacceptably high. Annual inventory write-downs were in the millions of dollars. And customer satisfaction was mediocre at best.

The supply chain operations were caught in a vicious cycle. There was little time to step back and evaluate operational efficiency improvements, let alone to see whether our activities really added value to customers, employees, and other stakeholders. But that was what had to happen—and we knew it. In effect, we had to call a halt to the old “fire fighting” ways of doing things. We needed to reengineer the whole U.S. supply chain organization not only in terms of infrastructure enhancements and process improvements but also in terms of culture and behavior.

This is the story of how the Danka U.S. supply chain took a strategic step back to evaluate operational inefficiencies, eliminate long-standing obstacles to progress, mobilize a fragmented organization around a single purpose, and reconnect with key elements of the value chain. Just three years later, equipment inventory turns 140

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percent faster, product ships 42 percent faster, customer satisfaction is up by 30 percent, and expenses are one-fifth lower. Best of all, we've built processes that ensure we will continue to keep the supply chain's focus on value.

Fast Growth and Fast Fall

Danka Business Systems PLC is one of the largest independent suppliers of office imaging solutions. With facilities in North America, Europe, Latin America, the Asia Pacific, and Australia, we resell and integrate products from manufacturers such as Ricoh, Canon, and Toshiba. Founded in 1977 in Tampa, Fla., as a single-office supplier of copiers, the company grew very rapidly as a provider of office imaging management solutions. We went public in 1986 on the London Stock Exchange and were listed on the NASDAQ in 1992. Through the 1980s and into the 1990s, our annual growth rate averaged 15 percent.

Danka rapidly gained market share and expanded product offerings in the mid-1990s by aggressively acquiring small and mid-sized independent dealers. We also made some huge strategic acquisitions, including Infotec Europe B.V., one of Europe's largest independent suppliers/distributors of office equipment, in 1995 and Eastman Kodak's office-imaging and facilities-management businesses the following year. Today we have more than \$1 billion in annual revenues and more than 7,500 employees.

The acquisition strategy that catapulted Danka to the top of the industry was also to blame for bringing us close to collapse. The Kodak purchase in particu-

SUPPLY CHAIN

lar—billed by one observer as “the guppy that swallowed the whale”—effectively doubled our revenues in one step. But Danka had backed the wrong technology. The office-equipment sector was moving rapidly from analog to digital, and much of Danka’s investment was in analog.

Problems mounted rapidly. Beginning in 1997, the stock price began to slide. The fight was on to generate cash as quickly as possible and to keep the company financially secure while investing for the transition to digital. By 1999, expense-to-revenue percentages were close to collapse, total equipment-inventory levels were more than \$350 million, and Danka was stuck with a disconnected distribution network of acquired dealerships and third-party logistics providers. That network included more than 130 in-house and third-party warehouses across the United States. The company’s expense-laden infrastructure was built on legacy IT systems that did not readily communicate with each other. We relied on manual order-flow processes. All in all, operating profit was well below our industry standard of 8 to 10 percent. And Danka’s debt structure—more than \$1 billion in short- and long-term loans and other liabilities—paralyzed aggressive growth-oriented strategies.

Tear Down and Rebuild

It did not take long to conclude that Danka’s U.S. supply chain operation was key to restoring growth. During the opening festivities of a 2001 sales conference, a video was shown. The conference objectives were to communicate the company’s direction and instill confidence that the leadership was making the changes necessary to let the sales teams succeed. While the video’s broad themes spoke of change and inspiration, the backdrop was the supply chain’s dysfunction. Throughout the video and in the executives’ messages, it was clear that fixing the supply chain was a top priority.

The problem was, Danka had not really had a supply chain organization in the United States until 1999. Distribution was haphazard; salespeople delivered product directly from vendors. In the fourth quarter of 2001, the company hired Steve Tungate, a former IBM executive, to rebuild the U.S. supply chain activities—a task that had defeated three predecessors since 1998. Steve’s deep background in measurement and process management quickly led him to change our supply chain organization’s existing resources to focus on what was most important. Steve soon implemented a centralized buying structure. And he became the executive sponsor of Project Pangaea—a management control initiative launched by then-CEO (now chairman) Lang Lowry to get us back on track.

Project Pangaea soon focused largely on overhauling the

U.S. supply chain. Steve asked me to head up business planning and strategy and to lead the Pangaea reengineering team. “Pangaea” is the name geologists have given to Earth’s single land mass before it separated into continents. Our team’s charter was to develop the control processes that would help bring the American supply chain’s “continents” back into one mass with one purpose. It involved convening a conference call twice monthly with the supply chain and cross-functional “touch points” (other groups with which supply chain interacted regularly) to review each other’s actions and the status of those actions. Each action had an owner—whether it was a senior manager or a field warehouse operative—and a target date. Owners reported on the progress of their assigned actions. This gave us a quick and decisive control process to track the completion of “low-hanging fruit” projects so Danka’s executive leadership could focus on big-picture initiatives such as the modernization that would come from the successful implementation of a companywide enterprise resource planning (ERP) system.

We knew early on that our rudimentary U.S. supply chain operation had to be torn down and rebuilt. My fellow directors and I concluded that we had to reconnect the supply chain to the value it was supposed to provide to all stakeholders—from Danka’s end customers to our top original-equipment

suppliers and third-party logistics and warehousing partners. Additionally, it was our duty to regain the trust of employees and managers who had become disenchanted with the supply chain operation. Our priorities were nothing out of the ordinary. But the scope of the required change, and the commitment and resources needed to make it happen, would be anything but business-as-usual. To reduce logistics and inventory-carrying costs, our supply chain had to:

- Make absolutely certain, at every turn, that the strategy brought value to the customer.
- Mobilize many disconnected and inefficient supply chain fiefdoms into one coordinated and strategically aligned organization that could deliver value.
- Develop a more cost-effective logistics model that more directly supports vendor-to-customer distribution.
- Improve equipment and consumables inventory turns and order cycles to levels that meet customer demands and reduce capital tied up in inventory.
- Shut down or consolidate more than 100 warehouse locations.

In December 2001, with Steve Tungate’s approval, we

Danka granted amnesty for any earlier oversights, so the managers involved were free to face the realities of fixing the supply chain without emotional or political biases.



mapped out 10 steps for an end-to-end overhaul of the U.S. supply chain. The core initiatives and results of the project would stretch out over 36 months, and many elements of the project continue today. Here's a step-by-step look at how we reengineered the supply chain.

Step 1: Stop the Bleeding: Focus on the “What,” not the “Why”

Conventional thinking has it that the “vision” step comes first. But we knew that all the vision in the world would not get us headed in the right direction unless we had made some immediate and demonstrably valuable fixes. In other words, we had to fix some stuff before we even thought about having a future—let alone charting one. We did not have the luxury of time or healthy cash flow to invest extensively in infrastructure remodeling before reconnecting the supply chain elements. It had to happen right away.

We needed to eliminate silos between organizations and make the right connections to realize specific short-term initiatives. Our team acted immediately to implement basic process disciplines, measurements, and short-term actions designed to stop the bleeding and stabilize supply chain operations. We began to isolate immediate problems in the order cycle by measuring each step in the order-to-delivery process: order to vendor, vendor to Danka, setup to delivery, delivery to invoice, and invoice to cash. For example, it was clear that the supply chain could have a direct impact on the sales cycle if we improved the vendor-to-Danka step with better distribution strategies. And we realized we could make an impact on delivery to invoice if we could manage and communicate the proof-of-delivery documentation more effectively.

We strove to get past old problems by addressing the “what” rather than the “why.” Energies once expended on assigning blame were redirected to assuming accountability for improvement initiatives. In particular, we looked at the touch points that offered the best opportunities for overall process improvement, such as the connections with order entry on the front end and sales delivery on the back end. Managers and employees were encouraged to think outside of specific “process accountability” boxes and to expand their realms of influence to the touch points that affected their success.

Importantly, we granted amnesty for any earlier oversights, so managers were free to face the realities of fixing the supply chain without emotional or political biases. In his book *Good to Great*, management consultant Jim Collins calls this “confronting the brutal facts.” As he explains: “When you start with an honest and diligent effort to determine the truth of your situation, the right decisions often become self-evident. It is impossible to make good decisions without infusing the entire process with an honest confrontation of the brutal facts.”

As we conducted this self-analysis, we started to see how to make our supply chain processes more disciplined, and we identified what our “to be” business models needed to be. These business models became part of the company’s ERP infrastructure. Proactively, the Danka supply chain team had implement-

Translating Supply Chain Objectives into Goals

OBJECTIVES	SPECIFIC GOALS
Create Process Discipline	ERP transition Quality assurance audits Gap analysis and training plans
Reduce Perpetual Inventory	Measurement/focus on at-risk inventory Worldwide inventory balancing Product return and disposition velocity (reverse logistics).
Reengineer the Supply Chain	Electronic linkages with customers and vendors Network optimization Demand planning
Develop Employees	Rationalized job titles Incentives and recognition Distance-learning strategy
Improve Customer Satisfaction and Responsiveness	Monthly measurement reviews Formal corrective-action strategy Reinforcement of best practices and expectations
Measure Results	Tightened accountability for results Measurements deep into the organization Compensation linked to performance

ed process disciplines prior to the ERP implementation, including vendor-direct fulfillment, returns management, physical inventory management and control, order-to-install cycle-time analysis, and proof of delivery. Most of these disciplines mirror the process controls now automated within ERP.

At the same time, we needed to establish some quick wins. For example, we slashed inventory-carrying costs and immediately dropped cash to the bottom line by rapidly reducing used and obsolete inventory. Not every step forward was a huge step, but the trend line continued to head upward. These improvements helped groups such as sales and marketing gain confidence that the supply chain overhaul was the right thing to do—and that it would succeed.

Step 2: Establish Vision for the Future

Our team also had to craft a compelling long-term vision that would become the foundation for supply chain operations

and strategic initiatives. This was not a step to rush through. We knew the vision had to be shared if we were to have at least the implicit support of other functions. Using the guiding principles of Danka's overall revitalization strategy, the supply chain leadership team created this vision: "To continuously improve the supply chain operations and environment with a customer-centric focus to create a sustainable competitive advantage."

We won agreement for the vision statement and quickly supported it with a set of objectives to be executed through goals and action plans. (The objectives still apply today, and each department uses them in its quarterly and annual reviews.) The objectives include:

- Create process discipline.
- Reengineer the supply chain.
- Develop employees.
- Reduce perpetual inventory levels.
- Improve customer satisfaction and responsiveness.
- Measure results.

Each objective is broken out into specific goals. (See sidebar on "Translating Supply Chain Objectives into Goals.") These goals change as economic conditions warrant and growth strategies dictate. By linking objectives, goals, and action plans, we were able to lay down a strong foundation for ensuring operational effectiveness and a focus on the customer. Exhibit 1 shows how the core objective of customer satisfaction and responsiveness cascades from the top of the organization to the employee(s) directly involved in the customer touch point.

Step 3: Mobilize Around Single Vision

Once the vision had been agreed upon at senior levels, it was cascaded down through the supply chain organization along with its goals and objectives. Soon all employees—from senior managers to delivery and installation personnel across the United States—clearly understood their evolving roles and how those roles supported the vision. The overarching vision was captured in an emblem (see Exhibit 2), which was put on

banners and hung in all supply chain locations. To reinforce the message, the illustration was also used on letterhead, as a tag line, and on all other visual communications.

The crucial element was the linkage from the top of the organization to the bottom. Each objective was perpetuated through each function, each department, and each person. Although the goals and action plans differed from function to function and person to person, they all supported the same

vision and core objectives. CEO Lang Lowry had been very clear that if an activity didn't help with our objectives for providing shareholder value, people were to stop doing it. We really didn't have a problem with the change-management aspects of the initiative. Instead we found that people wanted to change. Previously,

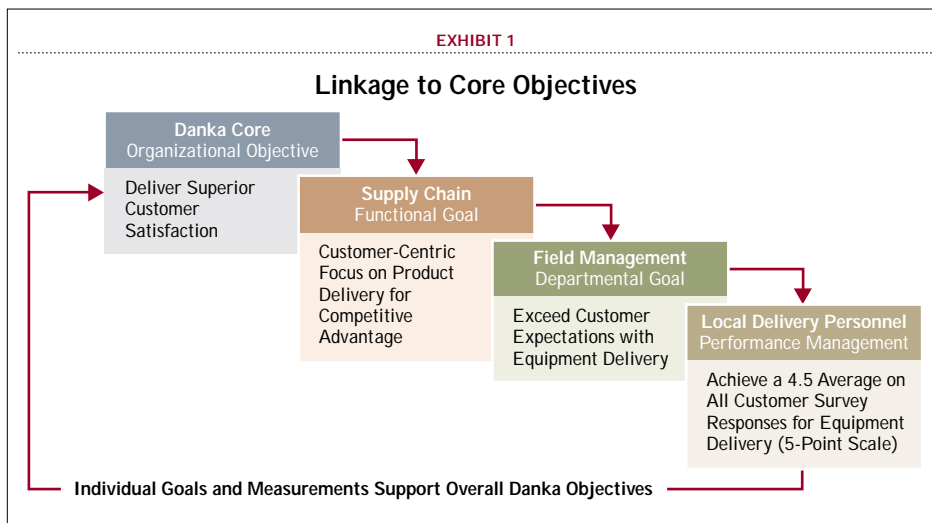
they had wanted to stay safe and not risk changing until they saw that they were supported by the right kind of leadership.

Step 4: Implement Measurements and Controls

The first rule of process control is measurement. To communicate milestones, successes, and opportunities, our supply chain team standardized key performance indicators (KPIs) and processes for collecting and communicating results. Previously, our reviews of results had been purely financial in content. Now, although reviews and measures still have a financial element, they are more focused on performance trends that directly affected internal and external customers. The financial element of the reviews is not so much about what happened; instead it gives the status of actions and their results, such as reducing expense waste and generating cash through inventory reductions. Initially, these were standard measurements such as sales, general and administration (SG&A); freight expense;

and inventory levels. The intent was to get the organization accustomed to monthly measurements and accountability. We also wanted to ensure that the field and corporate supply chain operations were aligned under common objectives to meet the demands of sales and the customer.

Gradually, measurements were expanded and/or added, and trending models were established. This was an easy sell for Steve Tungate, our executive vice president of supply chain operations, because everyone in the supply chain organization, from manager to delivery driver, wanted (1) to know how they could affect Danka's



success, and (2) to see the impact of their day-to-day responsibilities on that success. Too often, our organization had been content with “snapshot” views of the supply chain’s performance. Whether it was inventory levels, cycle times, or expenses, we were reacting to results and not responding to trends.

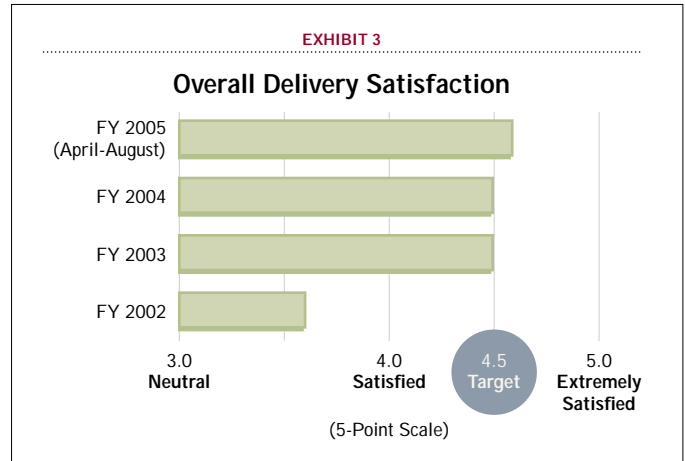
With consistent input from Danka’s human resources team, we drove accountability and KPI measurements down to the employee level. The company had always run monthly reviews, with expense targeting as one of the KPIs. Now we added operational rankings by field division and functional area, which created a competitive environment in which top-tier performers could thrive. The rankings also enabled us to spot underachievers quickly and quantify their skills and knowledge deficits. Danka began recruiting for specific skills and screening high-caliber candidates who were comfortable with such a competitive environment. We went beyond traditional core competencies (inventory management and distribution) to add skills such as database management and Internet development.

Step 5: Survey Your Customers

Our whole customer-focus push was fueled by the idea that every supply chain employee should be an advocate for the customer. The Danka supply chain team evaluated customer-perception data every month, on every installation—measurements that became part of every employee’s performance review. Customer-satisfaction surveys had been used before, but they had been more of a spot check. This was really the first time that Danka had used consistent monthly measures of customer perception. We saw this as extremely important because the supply chain was the final customer touch point in the order-to-delivery cycle.

Any problem was quickly and decisively analyzed for its root cause and then resolved. The data was tracked, with controls to make sure problems were not repeated. Quite quickly, customer-satisfaction ratings began to improve significantly. (Exhibit 3 charts the progress made in recent years.)

To ensure that Danka consistently met customer expectations in every interaction, we standardized the preinstallation customer-contact process. Whether delivered through internal resources or through a distribution partner, we wanted to make sure that the customer experience was positive everywhere. We also used the monthly customer-feedback data to change aspects of the supply chain organization. For example, feedback



led us to make preinstallation customer calls a part of our standard operating procedure. It encouraged us to elevate the skill sets of delivery drivers to those of delivery and installation technicians, providing much more consistent order delivery and a new salary grade (and career path). Issue-resolution cycles were tracked for every single problem. Most issues were resolved within six days, on average. Suggestions that required cross-functional or operational changes took longer but were implemented—for example, the idea of leaving the customer with an extra bottle of toner in new installations.

Step 6: Align Internal Structure to Goals and Objectives

With the strategic vision and rich customer feedback on hand, Danka’s supply chain leaders were able to realign their day-to-day operations and strategic initiatives. Here are the key elements of the realignment initiative:

- *Business planning*—establish the framework for change and measurements.
- *Logistics systems and processes*—ensure that the ERP system meets business requirements.
- *Inventory management*—reduce “perpetual” inventory levels and increase availability.
- *Field operations*—optimize network and delivery expectations.
- *Transportation*—optimize internal and external fleets (reduce freight spend).
- *Purchasing*—align forecasting and procurement (model on build-to-order techniques).

We continually asked, “Will the customer view this as a value-add?” and “Will the customer pay for this value-add?” Danka evaluated what should be considered “value-add” and what should be considered “standard” to differentiate our order process and delivery experience from the rest of the industry. For example, we learned that customers were more concerned with getting their equipment within the timeframe we had committed to. It mat-

Our quick wins gave groups such as sales and marketing the confidence that the supply chain overhaul was the right thing to do—and that it would succeed.



tered greatly that the system was complete and operational; they were less concerned with selecting a vendor that could get it there the fastest. Learning that customers prized consistency in how their expectations were met and set, we shifted the focus from constantly managing inventory levels to ensuring a consistent cycle of product and communications from the vendor to the end user.

Step 7: Define Career Path and Expectations

Prior to its reengineering, Danka’s supply chain had nearly 200 different job titles with more than 70 in active use. Much of this diversity came from Danka’s acquisitions; the rest was because management continued to add titles as needs arose with little thought to the impact on the overall organizational structure.

The supply chain career path was unclear, and there were no logical or equitable links between job title and position responsibilities. These gaps created inefficiencies and redundancies. The structure did not support advancement and deterred employees from attempting career growth. There was no clear understanding of required roles and responsibilities. Further, it was not obvious what experience and educational background were needed for advancement.

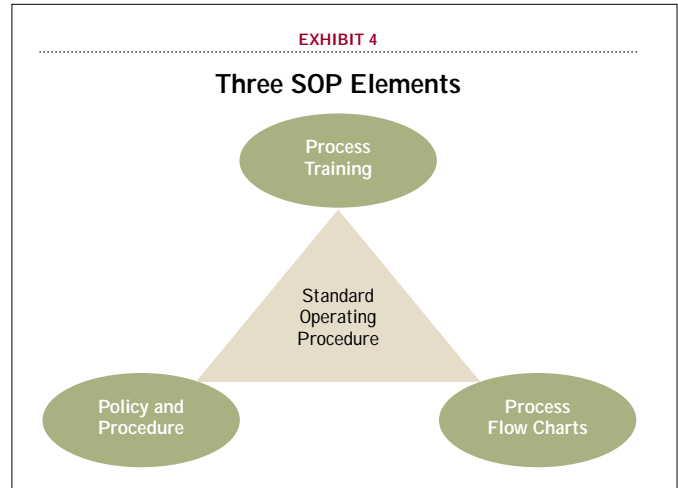
Our team capped the list of active job titles to about 30, with clearly delineated experience and educational requirements for each position. This was an extremely sensitive step; it was taken after the vision had been clearly communicated, and management had earned team members’ confidence. And it was taken in concert with recognition programs—not as a way to cut salaries. The changes began to clear the fog that obscured employee development paths, enabling management to effectively coach, mentor, and recognize contributors to our success.

Step 8: Employee Development

By documenting skill assessments, experience, education, and training, we enabled managers and employees to collaborate to identify opportunities for career-path development. This documentation gives managers a reference when considering employees for advancement, for example, and it helps identify pockets of training needed. It also means that employees better understood requirements for advancement—and they know management supports their career aspirations.

One way that employees can now access training is through an intranet Web site called the Supply Chain Operations Environment (SCOPE), which we launched in early 2003. In addition to being the communication vehicle between the supply chain organization and others, the site serves as an interactive central repository for all standard operating procedures (SOPs). It also monitors SOP development, tracks employee reviews and compliance, and informs employees when processes have been added or revised so everyone stays current.

Each SOP links three important elements: a written policy and procedures document, a process flow chart, and a train-



ing curriculum. (See Exhibit 4.) Each element is hyperlinked to the other two through the Web site. An employee can select one process step, review the written SOP for that step, and then receive an online training curriculum on the activity. We are also moving ahead with distance learning—specifically Internet-based training, tracking, and employee-development initiatives. The expectation is that each supply chain employee schedules at least 40 hours annually in training and personal development, including external certifications programs when appropriate. Managers will be able to log on to observe the training progress of each of their direct reports.

Step 9: Get the Right Tools

We found it important to re-evaluate steps 1-8 to determine what tools needed to be added or enhanced to drive continual improvement. The “right tools” ensure process clarity, job fulfillment, resource efficiency, and customer satisfaction. They should be defined by the users of the tools. Managers who insist that they know what their direct reports need to do their jobs better can end up making a very expensive mistake. Insight from those actually “working the process” has to be taken into account.

For example, the concept for one highly successful tool—our SCOPE Web site—came largely from feedback from the sales team. SCOPE’s purpose is to improve collaboration among our U.S. supply chain functions as well as between them and other organizations. For example, if I’m responsible for providing information on freight expense, I post the relevant information on SCOPE, and I don’t have to send a bunch of e-mails every day. Because SCOPE involves so many participants, it is really more of a toolbox than a tool. We know it’s working well because 70 percent of the hits are from other organizations—mostly from sales reps. They can instantly check on inventory. When we run a special, they can immediately find out if Danka can make the right margin on the deal. The site is a real win for everyone.

Step 10: Continually Challenge the Status Quo

The final step brings us full circle. The reengineering of our


supply chain is not a one-off exercise: It can never stop. Many of our supply chain process changes were implemented before the company rolled out its big ERP implementation. Now that ERP is in place, it helps us ensure that the tools and processes that enable Danka's supply chain are simple, that they support the company's push to increase shareholder value, and that they provide better controls and greater financial responsibility.

A Look Back

The transformation of Danka's supply chain has been a resounding success. From the baselines of 2001, we have increased equipment inventory turns to more than 12 a year—a 140-percent improvement—and improved internal cycle time by 42 percent. Customer satisfaction scores are up by 30 percent, and expenses have been cut by more than 20 percent. Meanwhile, inventory write-downs and variances have dropped to negligible levels. But I'm most proud of a qualitative measure: our "invisibility." Not long ago, the Management's Letter in each annual report would describe challenges with the supply chain. For three years now, there's been no mention of the supply chain. Silence is golden.

Danka had to adapt its supply chain to process changes. We had to do it quickly. In *Execution: The Discipline of Getting Things Done*, authors Larry Bossidy and Ram Charan write: "The basic premise is simple: cultural change gets real

when your aim is execution. You don't need a lot of complex theory or employee surveys to use this framework. You need to change people's behavior so they produce results. First, you tell people clearly what results you're looking for. Then you discuss how to get those results as a key element of the coaching process. Then you reward people for producing the results. If they come up short, you provide additional coaching, withdraw rewards, give them other jobs, or let them go. When you do these things, you create a culture of getting things done."

Looking back at our situation three years ago, we struggle to remember how we got anything done right. Our experience tells us that many other companies' supply chain operations are still where Danka's once was. We hope that the story of our journey can provide their managers with the inspiration and ideas to mobilize change as Danka did. 

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