The Uncertainty Circle as a Value Stream Audit Tool: A Case Study to Identify the Re-engineering Requirements of the European Automotive Sector

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Abstract
Real world value streams differ not only in their current standard of performance, but also in the most effective actions required to move that particular value stream towards world class supply. A generic approach for the identification of re-engineering programmes based on the Uncertainty Circle Principle is presented. Twenty European automotive value streams have been analysed via a “Quick Scan” audit procedure. The output is a clear portrayal of the present “health status” of those value streams. 10% of which are performing at the present day level of “best practice”, with a further 20% within sight of this goal. Specific re-engineering requirements are identified for the remaining 70% dependent on present maturity levels.

Key Words
Supply Chain Management: Uncertainty Circle: Framework for Change: Best Practice: Supply Chain Diagnostics

Introduction
In 1574 the Venice arsenalotti was capable of delivering a warship every 24 hours. Nearly four centuries later, the Second World War was also noteworthy for the very effective supply chains set up to produce fighter aircraft. In the light of this impressive history of supply chain management, it is disturbing to hear that “good practice” is still far from the norm [1]. For example in the retail sector, used by many companies as a performance benchmark, it is estimated that only about 7% of supply chains are operating effectively. This is even more worrying when it is realised that both good and bad practice often sit alongside each other in the same retail business. Such an unsatisfactory situation exists despite present-day enablers such as EDI, flexible manufacturing, automated warehousing, and rapid logistics [2].

As shown from some critical dates listed in Figure 1, there is considerable overlap between lean thinking and good material flow, as clearly acknowledged by Womack and Jones [3]. The lean thinking route originated in the quality engineering approach pioneered in the USA by Edwards Deming [4]. Early exploiters included Toyota in Japan, Ohno [5], and the Lucas Group in the UK, Parnaby [6]. Publication of “The Machine That Changed the World (TMTCTW)” by Womack, Jones and Roos [7], provided compelling evidence that the lean approach led to considerable...

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performance improvements as internationally benchmarked in the automotive industry.

In the UK the major advocate of smooth material flow control was Jack Burbidge [8]. He had been involved in the lean production of Spitfires during World War II, and had published the basic principles of his approach as far back as 1962 [9]. In subsequent years he applied the method to a wide range of companies. Typical of the results he achieved are those for an automotive supplier including lead time reductions of 7:1, quality levels up by 2.5:1, and ROI up by 30% [10].

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**Figure 1. Important Dates in the History of Smooth Material Flow Control**

During his career as an industrial manager and consultant, Burbidge became increasingly frustrated by the “waste” he continually observed in post-war industrial practice. This contrasted with the “lean” World War II approach, where capacity and materials had to be harboured carefully, and where reduced total cycle time was of extreme importance. In this paper we present the results of an in-depth analysis of 20 European automotive value streams. The purpose is to establish the extent to which they approach the “Seamless” Supply Chain [1] which is the idealised material flow system. As well as identifying “exemplars” demonstrating best practice, the paper also evaluates a framework for methodological change.

**Scope of Present Paper**

This paper is specifically concerned with the Product Delivery Process (PDP) for identifiable value streams i.e. supply chains within complex networks. The contribution is summarised in input-output diagram format in Figure 2. A “Route Map” pinpointing the twelve basic requirements for good supply chain practice has recently been made available [12]. Here we show how the Route Map may be used to evaluate the status of real world supply chains. A particular on-site diagnostic methodology known as a “Quick Scan” was developed for application to business sites and value streams. Here we demonstrate how the method has been exploited in evaluating current European automotive supply chains. One output from the
The automotive industry supply chain has already been well described elsewhere [7] and need not be repeated here. The dominant player is clearly the Original Equipment Manufacturer (OEM) i.e. the car assembler. Despite much publicity since TMTCTW was published relatively little has actually happened to improve automotive supply chain performance. Thus a decade post TMTCTW and post Stalk and Hout [14] guidelines, it is still found necessary to remind manufacturers to eliminate non-value added time from their process [15].

It is our view that making sweeping generalisations do not help individual “players” improve their performance. Hence the creation of the Supply Chain 2001+ health check which assesses their specific strengths and weaknesses, identifies best practice, and clearly pinpoints what they must do to close the gap to achieve world class standards. This must include matching the design of the value stream to the specific product group [16].

**The Supply Chain 2001+ Project**

This project was conceived by the EPSRC IMI Land Transport Programme in order to provide the UK automotive sector “players” with Decision Support Systems (DSS) appropriate to their needs. The target here is the likely configuration and operation of supply chains as predicted for the early years of the next millennium. The DSS utilises the four level framework shown in Figure 3. Individual re-engineering improvements so far pinpointed and in some cases already implemented have yielded substantial savings including; reduction in transportation and stock holding costs (Level 1); reduction in demand amplification and supplier capacity variance (Level 2); batch size reduction and capacity improvements (Level 3); and labour utilisation improvements (Level 4).
The 20 Automotive Sector Value Streams studied herein cover a wide range of first and second tier suppliers. The value streams are trans-European and include suppliers of mechanical systems, electrical systems, and commodity products. Commercial considerations prevent the identification of individual value streams. However, the coverage of value streams in Supply Chain 2001+ is broadly in line with the sample considered by Coleman, Bhattacharya, Kelly and Brace [17] as possible contenders to become first tier systems integrators.

If Supply Chain 2001+ is to achieve its goal and enable and spread best practice it is necessary to find ways in which present performance may be evaluated and compared with realistic target values. Furthermore the techniques used must be capable of travelling from business to business and from value stream to value stream i.e. make a distinctive contribution to “management theory” [18]. Here we bring together three specialist techniques developed under the auspices of the Supply Chain 2001+ project. The “Quick Scan”, “Uncertainty Circle”, and “Route Map for Change”, will now be described in turn.

“Quick Scan” Supply Chain Diagnostics
The “Quick Scan” (QS) Diagnostic Procedure has been developed by the Cardiff LSDG team in collaboration with their research partners. It enables a health check to be made on a supply chain, and to identify and rank areas where improvements would yield most value [19]. The aim of the QS is to understand and document the supply chain and its associated material, information, cash, and resource flows. It identifies quick hit (but not quick fix liable to subsequent failure) improvement opportunities plus longer-term action plans for “players” in the supply chain. Typical “quick hits” aim to eliminate Non-Value Added activities both within processes and across process interfaces as typified in lean thinking. Longer-term action plans include reduction in the time taken to perform Value Added activities. The industry and research outputs from the “Quick Scans” are summarised in Figure 4.

To satisfy time and company access requirements the QS is completed within a two-week period, including feedback sessions to management. The key to the approach is the formation of a multi-disciplinary team incorporating researchers, site engineers and managers, and experts from the research partners. The latter are responsible for supply chain competency development across groups of companies. The QS utilises the four well-honed techniques of questionnaire analysis, process mapping, semi-structured interviews, and modelling from numerical data. The process-

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mapping phase is of prime importance, as this enables flows to be determined across internal supply chains and interfaces with both customers and suppliers. This procedure includes the identification of both value-added and non-value added processes.

“Quick Scan”

**Industrial applications**

- **Generic research outputs**
  - Evaluating uncertainty measure
  - Current population health monitoring
  - Future scenario prediction

- **Value chain specific outputs**
  - Supply chain health checks
  - Immediate “Quick Hits”
  - Rank according to benefit
  - Outline brief for future BPR programmes

**Figure 4. Industry and research “Quick Scan” outputs**

A number of brainstorming sessions are then held so as to triangulate data from all sources, identify gaps in knowledge requiring further investigation, and also to resolve any inconsistencies. Rigorous analysis of the information allows key problem areas and issues to be highlighted. The output is thus a clear assessment of the current status of the company and its supply chain, together with the maturity of its practices and processes and their ability to meet current and future customer needs. Access to best practice databases at this stage can reveal additional opportunities for change. These can then be quantified using simulation tools and flagged for debate and action by company executives. As used in this paper the QS results will also provide benchmarks of supply chain performance and thereby pinpoint best practice.

**The Supply Chain Uncertainty Circle**

To protect market share and ensure survival supply chains have to meet future customer demand. Forecasting is a predictive process which inevitably carries an element of uncertainty. However accuracy can be improved by re-engineering the supply chain especially via lead-time reduction [20]. Unfortunately much uncertainty is system induced as opposed to being introduced by the marketplace and is further magnified by the ‘Bullwhip Effect’ [21]. This realisation of the importance of system effects has led to complimentary work by Wilding [22] and van der Vorst [23]. Their outputs support our contention that the best way to cope with uncertainty is to work hard to reduce it at source.

The ultimate goal in our approach is the Seamless Supply Chain (SSC), [11]. This aims to obtain a greater market share to the benefit of all the ‘players’ within the chain by encouraging them to think and act as one. However, in striving to achieve this goal it becomes apparent that there are other sources of uncertainty which must be reduced, if not entirely eliminated. What is needed is a systematic method of
identifying and codifying the uncertainty experienced by our business. The Uncertainty Circle provides the necessary focus.

![Diagram of the uncertainty problem]

**Figure 5. Block diagram of the uncertainty problem**

Regardless of our position within the supply chain, the PDP uncertainty problem may be simplified and put into the generic format of Figure 5 [13] and which may be recognised as having its origins in the principles of Systems Engineering. Here a single echelon PDP is shown with our Value-Added Process (which may be composed of many individual tasks) directed by the system controls. We respond to our immediate customer (the “Demand” side). In turn our stocks are replenished with materials, components, and sub-assemblies by various vendors (the “Supply” side). Our considered view is that reducing uncertainty is achieved by understanding and tackling the root causes inherent in each of the four areas in Figure 5 and especially by studying the various flows across each interface. Hence in this paper we shall take a holistic approach to Supply Chain Management (SCM) based on this generic model. By relating the QS output to the generic model via radar plots which represent the various sources of uncertainty (the Uncertainty Circle) we shall demonstrate a simple visual display of the health of our supply chains.

**Interpreting Uncertainty During the “Quick Scan” Investigations**

As interpreted by the QS Team, the four uncertainty definitions are as follows:

- **Process Uncertainty.** This affects our internal ability to meet a production target. It is established by understanding yield ratios and lead-time estimates of operations for each work process. Also, if the particular value stream is competing against others for resources, then the interaction between these value streams must be studied and codified.

- **Supply Uncertainty.** This results from poorly performing suppliers not meeting our requirements thereby handicapping our Value Added processes. This can be evaluated by looking at supplier delivery performance, time series of orders placed or call-offs and deliveries from customers, actual lead-times, supplier quality reports and raw material stock time series.

- **Demand Uncertainty.** This is associated with specific customers in relation to schedule variability and transparency of information flow. It can be visualised as the difference between the end marketplace demand and orders placed on us by
our customer. It is also indicated by how well we are able to meet our customer requirements. This is identified by developing a time series of customer orders, call-offs, deliveries and forecasts.

- **Control Uncertainty.** This is concerned with how internal decision making affects our ability to transform customer orders into production targets and supplier raw material requests. It can be investigated via the time series of customer requirements and supplier requests to deliver, time series of production targets and a thorough understanding of the algorithms and control systems that are used to transfer the customer orders into production targets and supplier raw material requests.

The Primary Data used for assessing uncertainty during QS investigations is listed in Table 1. There was considerable variation between Value Streams studied in terms of the quality of data. Quantity was rarely the problem, as previously noted by Feltner and Weiner [24]. The problem is that despite publicity for the Balanced Scorecard [25], there is still a fundamental difference in data used for accounting purposes rather than that needed for modelling and performance audits. Hence the emphasis in QS on process mapping and activity sampling in order to compensate for rich data shortfall.

<table>
<thead>
<tr>
<th>Uncertainty Source</th>
<th>Typical Primary Data Used During “Quick Scan“ Investigations</th>
</tr>
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<tbody>
<tr>
<td><strong>Supply Side</strong></td>
<td>MOPs placed on suppliers especially schedule adherence, invoices, call-offs, BOM, forecasts, receipts, supplier quality reports, MRP, lead-times, stock reports.</td>
</tr>
<tr>
<td><strong>Demand Side</strong></td>
<td>Delivery Frequency, echelons to end consumer, marketplace variability, stage of product life cycle, customer ordering procedures, forecast accuracy</td>
</tr>
<tr>
<td><strong>Process Side</strong></td>
<td>Scrap reports, cycle times and variability of cycle times, production targets and output, downtime reports, stock consolidations, costed BOM, capacity planning, asset register.</td>
</tr>
<tr>
<td><strong>Controls Side</strong></td>
<td>Time series of customer orders, supplier orders, demand forecasts, kanban logic, batching rules, MRP logic, call-offs, purchase orders, BOM number of variants, delivery frequency, number of completing value streams.</td>
</tr>
</tbody>
</table>

Table 1. Primary data used during uncertainty circle investigation in supply chain 2001+

The codifying of the four uncertainty sources was undertaken by members of the QS Team on the basis of the total information at their disposal. Table 2 shows the simple Questionnaire then completed with respect to each value stream. To ensure comparability the Questionnaires were activated only when all 20 value streams had been analysed. Where necessary the Likert Scores were verified by cross-reference to detailed QS Reports and re-visiting various data banks set up as part of the Supply Chain 2001+ Project. The choice of a four point Likert Scale was aimed at reducing any tendency to regress towards the mean, and instead to focus on strengths and weaknesses of individual value chains.
Table 2. Supply chain 2001+ questionnaire to determine impact of process, supplier, demand, and control uncertainty sources

A Reference Framework for Movement Towards the Seamless Supply Chain

The Seamless Supply Chain [1] is the state of total integration in which all “players” think and act as one. It is shown in block diagram form in Figure 6. The SSC will clearly have low uncertainty scores for Process, Supplier, Demand, and Control Sources. Hence in Table 2 good performance has been targeted with low scores since the “perfect” SSC will have zero uncertainty.

Figure 6. The seamless supply chain

A Reference Framework for moving from a situation of poor supply chain performance towards the ultimate SSC goal has been proposed by Stevens [26]. It has become widely accepted as providing a logical sequence for a structured approach to defining and managing Change Programmes. The aim here is to use the Reference Framework to provide benchmarks against which the 20 Supply Chain Value Streams may be judged.

The Reference Framework has four levels as follows: Baseline: Functional Integration: Internal Integration: and External Integration. Table 3 briefly summarises the associated supply chain characteristics corresponding to each stage. Our
estimated “Uncertainty Circle” scores are also shown at each stage. They are based on our practical experience of using the Framework in an industrial context.

At level four, full supply chain integration is achieved by extending the scope of management outside the company to embrace the suppliers and customers. It embodies a change of focus away from being product oriented to being customer oriented. Thus there is penetration deep into the customer organisation to understand the products, culture, market and organisation. Integration back down the supply chain to include all suppliers is also undertaken. Thus the stated aims of full integration are seen to be entirely consistent with, and leading to, the establishment of the Seamless Supply Chain shown in Figure 6.

Analysis of Uncertainty in the Twenty Value Streams

It has been found extremely convenient to display the Supply Chain Uncertainty Circle results as a set of radar plots with control; supply; demand; and process metrics forming orthogonal axes. The results are shown in figure 7. The “scores” estimated at various stages of the Reference Framework are also shown as benchmarks and occupy the four corners of the Figure. Linking the four benchmarks are the radar plots for the individual value streams positioned in order of descending uncertainty scores. Note that the area enclosed by the radar plots is an indication of the total uncertainty experienced by an individual value stream. Also the shape clearly indicates the area(s) where uncertainty reduction is an essential next step.

<table>
<thead>
<tr>
<th>Stage of Supply Chain Integration</th>
<th>Summary of Associated Supply Chain Characteristics</th>
<th>Corresponding Estimated Uncertainty Circle “Scores”</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. BASELINE</td>
<td>Reactive Short Term Planning: Fire Fighting: Large Pools of Inventory: Vulnerability to Market Changes</td>
<td>P = 4 S = 4</td>
</tr>
<tr>
<td>3. INTERNAL INTEGRATION</td>
<td>All Work Processes Integrated. Customer back to Supplier Planning, EDI widely used. Still reacting to customer.</td>
<td>P = 1 S = 2</td>
</tr>
<tr>
<td>4. EXTERNAL INTEGRATION</td>
<td>Integration of all Suppliers. Focus on Customer. Synchronised Material Flows, SC forms extended enterprise.</td>
<td>P = 1 S = 1</td>
</tr>
</tbody>
</table>

Table 3. Scoring the Stevens reference framework for moving towards the seamless supply chain

The objective is to move to the next level of integration (corner radar plots), therefore re-engineering requirements are identified to reduce specific areas of uncertainties to desired levels. Once achieved the next level of integration becomes the goal with resultant re-engineering requirements tailored to reduce uncertainties to these new desired levels, the process continues until external integration (Best Practice) is reached.
The Reference Framework identifies re-engineering requirements in relation to process uncertainty as the first step in supply chain integration because a company's own processes are the most visible and accessible area to influence. This is followed by reducing supplier induced uncertainty as this is the next area of most influence. Demand uncertainty is reduced in the final stages as a change of focus with the integration of customers is required. Control uncertainty is assumed to be ramp-wise over the whole change programme as better quality information leads to the use of better and more robust algorithms. A preliminary study suggests that fifteen of the twenty value streams reasonably fit the Reference Framework progression model in terms of the sequence of steps taken to reduce uncertainty. A detailed investigation is currently being undertaken to establish whether there are important features and hence lessons to be learned from the status of the five “others”.

The Seamless Supply Chain as a Mechanism for Identifying Re-engineering Requirements

Using the SSC scores of [1:1:1:1] as target values we have calculated the Euclidean Norm for each value stream. This procedure provides a single metric which allows us to rank the twenty value streams as shown in Figure 8. Here the scores obtained from the four stages defined by the Reference Framework are used as benchmarks with the horizontal axes being adjusted for convenience to generate a linear scale. The individual value stream scores have then been superimposed so that there is a logical progression from the traditional to the Seamless Supply Chain.

Our experience suggests that the twenty value streams may be broadly classified into three clusters. About 70% of our sample are still in various states of transition. It could be argued that this statistic explains the popularity of “lean thinking” i.e. many value streams need to be re-engineered to significantly reduce waste. 10% of our sample are clearly “exemplars” with little uncertainty from any source. Perhaps of even greater importance is the presence of 20% of the sample, who, whilst not “seamless” nevertheless exhibit much good practice in reducing uncertainty and hence provide good sites for benchmarking visitations. Thus by avoiding a black-and-white classification of good/bad the Uncertainty Circle approach has provided many more opportunities for identifying and transferring best practice both within and across market sectors.

Value streams 20, 16 and 8 are struggling with lean principles, their re-engineering requirements are therefore focused around removal of non value adding time in their own processes so they can move initially towards functional integration. Examples of which are set-up time reduction and implementation of cellular shop floor layouts. Eleven of the value streams studied have achieved functional integration and are at present aiming at internal integration. Their resultant re-engineering requirements are therefore predominantly supplier focused, for example supplier lead time reduction, vendor managed inventory, consignment stocking and partnership souring. The remainder of the sample have reached internal integration and are now in a position to move towards external integration. In such cases the re-engineering requirements are aimed at reducing demand uncertainties, for example utilisation of EPOS data, increased customer schedules and stock holding visibility and application of postponement strategies.
Conclusions
The literature is rife with advice on how to re-engineer supply chains back to the standard arguably first achieved many decades ago. There is also the feeling generated that everything Western performs poorly, and everything Japanese performs well. The truth is somewhere between these two extremes. What is undoubtedly true is that value streams need to be engineered, with as much attention paid to how we do things as is traditionally paid to what we do [27]. Poorly performing value streams inevitably suffer from poor business systems engineering (the systematic engineering of the business) and this conclusion applies irrespective of country or market sector.
By developing a methodology for diagnosing the health of value streams based on the Uncertainty Circle, we have been able to rank a sample of automotive supply chains in a meaningful way. The scores for each value chain may be compared against a Reference Framework. This enables a judgement to be made not only on how much improvement is required, but also there is guidance on the direction for greatest benefit. This framework identifies specific re-engineering requirements dependent upon present status and the desired next stage of supply chain integration i.e. there is little point in concentrating on yet further improvements to our internal processes when the highest leverage can be exerted at the value stream interfaces.

The results available to date are very encouraging. Although only 10% of our sample may be regarded as “exemplars” operating in a Seamless Supply Chain manner, 20% of our value streams display much good practice. There is thus a rich source of well-engineered value streams available for benchmarking visitations. The remaining 70% of the sample are in various stages of transition. Some, clearly, are still in a situation where the application of “lean thinking” principles would yield immediate benefits, others have passed this stage and need to give much more attention to interface design, elimination, and management.

References