

e-Supply Chain Management: Managing The Extended Enterprise - PART II -

by R. Michael Donovan

Supply chains are about quickly exchanging relevant demand and supply information and, most importantly, to help supply the demand when the customer wants the product. Modern day Supply Chain Management is the e-commerce of manufacturing. Barriers that once separated manufacturers from suppliers and customers alike are being removed by collaborative e-Supply Chain Management. However, collaborative e-Supply Chain Management requires a significant change in supply chain processes as well as changes in strategic and tactical thinking. This change in thinking, which is often a change in mindset, does not necessarily come easily. The fact is, in many cases, collaborative e-Supply Chain Management will, initially, be accepted by only a few well-initiated customers and suppliers, unless “forced” to comply. Eventually, the rest will have to “buy-in” as you rack-up success with the early adopters. Certainly, e-Supply Chain Management is a big challenge, but the payoff can be enormous for all parties involved.

How Are Your Capabilities?

Fractured, unpredictable supply chains have become less and less tolerable primarily because customers will not absorb the associated costs and long leadtimes. Today, in some industries, supply chain non-performance is simply not tolerated and this mindset is gaining momentum in virtually all industries. Remember, the world is quickly becoming connected into one vast supply chain which puts your customers just a mouse click away from your competitors.

A good way to get a quick handle on your situation is to assess your current circumstances versus more desirable options by identifying supply chain improvement opportunities. The following

ten questions will help ‘benchmark’ your company’s supply chain capabilities. Ask each member of your management team to answer ‘yes’ or ‘no’ to the ten questions and make any notations for later discussion that they think are pertinent. Then, get your management team together and discuss the results. Of course, ten questions cannot cover every possible contingency, but the questions, answers and discussion should be helpful to stimulate useful thought and decisions for establishing objectives and developing action plans.

	<u>YES</u>	<u>NO</u>
1. Every product has a well-defined service, manufacturing and inventory deployment strategy?	<input type="checkbox"/>	<input type="checkbox"/>
2. We have a comprehensive and effective sales and operations planning process that is management’s throttle on sales, production, inventory and leadtime?	<input type="checkbox"/>	<input type="checkbox"/>
3. We have agreements with key vendors for short cycle deliveries and mutually agreed upon goals for continuous improvement?	<input type="checkbox"/>	<input type="checkbox"/>
4. Will improved Supply Chain Management performance give us the leverage to transform ourselves into marketplace leaders?	<input type="checkbox"/>	<input type="checkbox"/>
5. Have we redesigned new Supply Chain Management principles, processes and systems to help us achieve our objectives for cycle time reduction, lower inventories, improved service, reduced costs and increased marketshare?	<input type="checkbox"/>	<input type="checkbox"/>
6. We have clearly defined Supply Chain Management information and material flow processes with quantified objectives for improvement and we are aggressively pursuing superior performance?	<input type="checkbox"/>	<input type="checkbox"/>

	<u>YES</u>	<u>NO</u>
7. We have developed the right links with our customers and suppliers and implemented the best Supply Chain Management processes for our company?	<input type="checkbox"/>	<input type="checkbox"/>
8. We can exchange relevant demand and supply information on-line in real time?	<input type="checkbox"/>	<input type="checkbox"/>
9. Our performance measurement and reward systems are heavily weighted toward a high velocity supply chain with minimal inventories and maximum service	<input type="checkbox"/>	<input type="checkbox"/>
10. We can quickly simulate the impact of material availability on manufacturing schedule performance and customer service using internal and external information?	<input type="checkbox"/>	<input type="checkbox"/>

If your management team can answer ‘yes’ to all ten questions, that puts your company into a very small group of elite companies who are taking advantage of an effective e-Supply Chain Management strategy and tactics.

More than likely though, you will find your company struggling with the what, how, when and why of e-Supply Chain Management. The conclusion is more likely to be that e-Supply Chain Management is not simple, but actually quite complex, especially when one considers it’s a major shift in business and operational strategy.

Why Pursue the e-Supply Chain?

Two very compelling reasons justify pursuing e-Supply Chain Management. First, a significant and rapidly moving trend is that suppliers are integrating, rather than interfacing, with their customers. There’s no small difference between interfacing and integrating. Both parties must move away from just coexistence often times with independent but conflicting goals. In an integrated supply chain, customers and suppliers become mutually dependent by collaborating through the sharing of relevant information and focusing on perfecting both the demand and supply process. The objective

is for everyone in the supply chain to increase marketshare through quick response to customer's needs. This can only happen when information, materials and products flow smoothly and freely, in sync with demand. It's a formidable task but the effort can pay big dividends.

The second reason is operational in nature and a prerequisite to establishing an integrated, mutually dependent relationship between your company and selected customers. Customer and supplier operations must be streamlined for flow. This is best done by developing ways to quickly share relevant information to support synchronized material flow in manufacturing for quick response to customer needs. No matter what your industry, your success in achieving these objectives may very well determine your company's future. Many companies now recognize that flow through the entire supply chain is the critical success factor for success. The fact is, customers are going to work with suppliers who consistently and quickly meet the supply needs of ever-changing customer demand.

The objectives for improved Supply Chain Management are twofold, affecting both the cost and revenue sides of the business equation. The objectives are:

1. Achieve better cost efficiency through high velocity information and material flow with lower inventories and eliminating unnecessary overhead activity costs; and,
2. Pursuit of a competitive edge to, at least, maintain and preferably increase marketshare by being more flexible, quicker, dependable and lower cost supplier.

More and more customers are demanding perfection in quality, quick on-time delivery and better pricing. And, if you don't conform to these requirements your company may very likely lose business as your competitors may be well-prepared to fill any vacuum that exists. Mandates by customers for much better supply performance has put a strain on most Supply Chain Management systems. Of course, the ultimate result is a substantial competitive risk in not keeping pace with what your customers want and need.

Regardless of your industry, truly high performance Supply Chain Management contributes significantly to improved operating results. Therefore, effective supply chains are no small matter but, in fact, should be a major strategic imperative for most companies.

Collaboration is Key

Regardless of your product technology and delivered price, customers are always concerned with achieving a high level of certainty in supply. If your past delivery performance has been erratic you, at a minimum, risk losing business to more reliable competitors. The simple fact is, customers want to work with suppliers who will consistently and reliably meet their needs. As a result, companies of all sizes are beginning to recognize Supply Chain Management as critical to their success and have realized the need to come to grips with effectively managing the entire supply chain.

For suppliers and customers who have not ventured into collaborative Supply Chain Management, you are not likely to receive mega-enthusiasm from the uninitiated when you propose mutual information exchange and collaboration on demand and supply. The most common reaction from unprepared, uninitiated customers and suppliers is a reaction that you want to see their “numbers” and they can see yours ranges from skeptical to an emphatic “absolutely no”. A concern for some independent distributors is that powerful supply chain systems can contribute to disintermediation in a channel by putting the manufacturer closer to the end user and thus eliminating a tier in the supply chain. On the other hand, these distributors will need help in understanding how Supply Chain Management can benefit them in helping to create more value in the pipeline from the manufacturer through distribution and dealer networks to the final consumer.

Certainly, the challenge here is to help your customers and suppliers to really understand and accept a collaborative e-Supply Chain Management process for business value it can create. This understanding and acceptance can only come about by educating your customers and suppliers about the what, why and how of e-Supply Chain Management and, even then, only a few early adopters usually jump on-board as most of the others will take a wait and see position. The important point at this juncture is to make sure your early adopters follow a methodology that will assure e-Supply Chain Management’s success, with limited pain, which will encourage many of the

non-adopters to eventually proceed ahead. Effectively implementing an e-Supply Chain Management approach across your business will require a planned approach to participants that answers their questions (“What’s in it for me?”) and consistency in your stick-to-it-tiveness in getting the job done. A job that is not going to be done overnight.

Collaborative demand planning is all about frequent customer and supplier communication about what is planned for customer demand and the vendor’s supply plans. The objective is to develop better forecasts of customer needs faster with consistent updating which should result in a more coordinated supply and shorter cycle response time. The dynamics of demand and supply significantly impacts profit, service and inventories thus deserving a lot of emphasis from all levels of management.

As more and more customers and suppliers take the initiative to share relevant demand and supply information, manufacturing will have to become more flexible and able to synchronize production flow with customer needs. Customers and suppliers will have to directly link demand and supply systems electronically exchanging data as the basis for relevant information flow in the supply chain. What has fundamentally changed for suppliers, in a very significant way, is that e-supply chain collaboration allows customers to very quickly exchange information about current demand plans with suppliers. Then, suppliers need to rapidly respond with supply plans. Shared knowledge about demand and supply is where the process of collaboration and truly working toward common business objectives begins. It means having the capability for high quality, high velocity information flow so that customers and suppliers know what they need to know when they need to know it. Certain Supply Chain Management system capabilities will be critical especially for collaboration, demand and supply planning, order tracking and rapid information preparation and exchange.

Many smaller suppliers are concerned that larger companies are forcing Supply Chain Management systems on all their suppliers with the risk of being cut-off for non-compliance. The fact is, the force is already there and, be assured, it will be accelerating. The operating efficiencies brought about by e-Supply Chain cannot be ignored. As a result, companies will eliminate suppliers who

mistakenly choose not to keep pace by avoiding adopting e-Supply Chain Management. A whole new round of vendor capability analysis will emerge with heavy emphasis on Supply Chain Management integration.

The Software Conundrum

Many manufacturers are beyond disappointed with the actual results achieved vs. the anticipated results from ERP systems. Many of these ERP systems were (and still are) mislabeled as Supply Chain Management systems. ERP is often more focused on specific, and sometimes narrow, aspects of internal operations with little or no effective capability to truly integrate customers and suppliers into an effective, never mind collaborative, demand and supply process. For Supply Chain Management, traditional ERP, as we know it, is destined to be history. Companies are not only looking at new ways of doing business, but are doing it at an accelerated pace. The reasons for it are clear. The ROI and strategic business value are so appealing that e-Supply Chain Management cannot be ignored. However, it's not always necessary to scrap your ERP system for a totally new system for Supply Chain Management. The good news is, depending on your particular needs, many ERP systems can be enhanced to produce the desired results.

There is bad news though about supply chain software. First, the supply chain software industry is highly fragmented with software vendors having industry specialties, narrow applications functionality and a wide variety of positions and directions as to how systems should work. However, many vendors are making systems more neutral by using industry standards such as Collaborative Planning, Forecasting and Replenishment (CPFR) and others are providing internet integration and connectivity services. New software suppliers are popping up like weeds with so-called solutions for Supply Chain Management. Many software providers are scrambling to provide various forms and levels of supply chain functionality for their ERP installed base. Many of the vendors are introducing systems that are, in some areas, very flexible and moldable. While this is certainly a step forward, watch out that you are not left with a gapping hole in your system, such as not having high speed simulation where you can effectively model and evaluate “what is”, “what if” and “what can be” scenarios, if it's relevant to your business.

Certainly, companies need to recognize that there is no magic in just installing new supply chain software. The benefits come from more effective supply chain processes, which sounds like the obvious, but the hard reality is that more than 90% of companies don't get it right the first time around. Unfortunately, in some cases, executives expect the supply chain software, by itself, to be a quick fix, silver bullet solution. The real need is for companies to analyze and develop their supply chain processes first, then implement the enabling supply chain software tools that will best support those processes, while also having the flexibility in information technology to configure and reconfigure systems to accommodate rapidly changing Supply Chain Management conditions.

On the bad side, the shake-out of B₂B technology providers is inevitable with probably more than 50% of the new, as well as established, software companies missing the mark as to what manufacturers need now and will really need in the future. As a result, buyers will be stuck with poor supply chain system software, at least momentarily, as their suppliers either make major strategic shifts or go out of business altogether. While not the best picture, you still need to aggressively and knowledgeably pursue Supply Chain Management or risk being left behind. There really is no rational alternative.

Getting Started

First of all, if your objective, as it should be, is to truly differentiate your company in the marketplace from your competitors with superior supply chain performance the whole Supply Chain Management concept becomes a strategic imperative. In some industries, companies directly compete for customers on supply chain performance while in other industries your supply chain system is a little more in the background, yet it's a valuable competitive weapon in terms of being able to quickly respond to your customer's needs. In all industries, really effective Supply Chain Management means significantly better performance.

Companies must work with their customers to determine how best to meet the customer's needs. Miscommunication, poor demand forecasting, leadtime padding, last-minute specification changes, and credit problems are some of the customer-side problems that can put a kink in the supply chain.

Sure, customers want perfect products, fast delivery, and a good price, but they must provide the supplier a window of high quality information that provides the supplier the planning and scheduling basis for how many they need, what options are required, and when they need delivery. The supplier needs to, more so than ever, effectively use the customer demand information in the planning and scheduling process. Just as customers can be given access to track supplier orders, manufacturers can better meet customer demands if they are given access to the customer's demand and inventory information. Also, customers can be brought in on production planning and product development sessions in order to assure that the final product and its availability will meet the customers' needs.

A good place for management to start making the right changes would be to examine and re-examine the essential core process issues that are the building blocks for success. As a first step, management should objectively assess current conditions. From really knowing the "as-is" condition you have the first fundamental building block which is where you are starting from. Determining a pragmatic "should-be" condition that will put you in a position to outperform your competition should be an objective. It's likely going to require some major investments in changing how things are done versus the way you have been operating. Answering some key questions along with an appropriate risk assessment is an absolute prerequisite. In fact, a thorough assessment and a go-forward plan are essential beginnings to achieving the necessary management commitment and support. Maintaining unwavering management commitment and support requires the right plan to be executed with results being achieved at a rapid rate.

Companies need to focus on the success factors and performance metrics that really matter for winning in a particular market. Significant and measurable benefits that include: reduced uncertainty in demand and availability, reduced cycle time, reduced inventory, lower costs, increased throughput and better on-time performance are really what matter. When Supply Chain Management is done correctly, customers and suppliers can achieve both cost savings and revenue increases from improved performance. Companies need to keep in mind that cost reduction is a common objective, but it should not be the sole reason for doing Supply Chain Management, especially if growth through marketshare improvement should be a high priority objective.

Using Supply Chain Management processes that were designed to run yesterday's manufacturing companies will not produce the value-added results that are needed today. For manufacturers, the marketplace is rapidly changing, and it's no blip, it's permanent. The mandate for suppliers is clear. Get rid of rigid, slow, bloated ways and become more innovative and flexible. The antiquated supply chain methods of yesterday are in need of an overhaul that will best service today's strategic, competitive and business performance needs.

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