

Supply chain perspectives

To grow profitably, companies need to find those means to differentiate themselves from the herd...i.e., to achieve that enviable position where customers prefer their products. One way, in short, is to identify better – or optimal -- ways to do things across, and within, each component of the supply chain.

The supply chain is what the name implies...a chain of interdependent activities surrounding product, information and cash flows which, when properly integrated, consistently provide targeted levels of customer service at least cost...the latter an imperative for most firms these days.

Our philosophy is that supply chain management must be *customer focused* which creates a common set of objectives for all functional areas of the organization. More specifically, several issues – as follows -- need to be addressed that are fundamental to the operation of a successful supply chain.

Key issues that should be addressed

To identify requirements and determine opportunities to achieve supply chain excellence you need to explicitly consider the following issues.

□ How do we develop profitable supply chain strategies that are customer specific?

All customers are not created equal. Practicing customer-focused logistics dictates that you segment your customer universe based upon logistics requirements, including their operations, inbound logistics, basic service requirements, value-added service requirements, logistics sophistication, etc. Service bundles can then be articulated. This includes: a) understanding the value that these segments place on service offerings, b) their value to your firm and, c) the costs – through activity based costing – of different logistics options to satisfy service needs. You shouldn't invest in a customer without knowing what real return that customer generates for you.

□ How do we integrate and manage supply chain assets and processes to operate at peak performance?

Improved supply chain performance can be achieved through changes in organization structure and/or information technology and/or effective communication. The latter is a necessity. Most companies suffer from functional silo organizations. This type of model cannot reconcile the activities of supply chain management with sales and marketing strategies. A sales and operations planning (S&OP) process – involving every link in the supply chain -- is a best practice, yet still not nearly universally adopted. The goal of S&OP, supported by IT, is a synchronized organization.

Supply chain-wide performance measures need to be determined...common measures of performance, rather than those developed in functional isolation (e.g., working with a customer to develop an investment model to make inventory decisions). Service must be measured in terms of the perfect order as well as its components. The former ensures a customer-focused view. The latter facilitates understanding where the problems lie to generate remedial action. Coincident with developing the right

measures will be determining the right incentives to make it happen. Most important is the timely *feedback* of performance upstream to managers who can react expeditiously to flags and alerts.

□ *How do we provide supply chain visibility and use the information for decision-making?*

A supply chain-wide technology strategy is critical. It must capture information at the right time and level of detail and feed it to supply chain software applications at different levels: 1) ERP for transactions (SAP, JDE, Oracle, PeopleSoft, etc.), 2) supply chain planning systems (i2 Technologies, Synquest, Manugistics, etc.), 3) strategic network analysis (i2 Technologies, CAPS Logistics, Insight, etc.).

Key concerns you have might, among others, include: 1) what's selling – today – and how can we use that information to enhance demand planning? 2) how should we plan manufacturing to achieve JIT replenishment, maximizing customer satisfaction and minimizing inventory investment? 3) is our transportation planning and routing optimized? 4) once it leaves the plant, what is my inventory position and performance in the pipeline – warehouse, in-transit, at ports? 5) how is each component of the supply chain performing? 6) What actionable process and results metrics should we adopt?

□ *How do we use demand signals to achieve alignment?*

With few exceptions, customer service surveys rank product availability as the highest priority, dictating significant attention to demand planning. Forecasting is migrating from a marketing assistant's responsibility to a supply chain-wide collaborative initiative. Information technology is making it happen, e.g., internet-based e-Commerce solutions.

Intelligently collaborating with trading partners is mandatory for accurately forecasting demand and delivering the right products at the right time. This is all the more critical in volatile sales environments. Collaboration with partners, referred to today in the grocery industry as collaborative planning, forecasting and replenishment (CPFR), is an old objective...rarely achieved, but given new life through new technology. A typical first step in this direction is to collaborate with a willing and able customer, perhaps piloting a vendor-managed inventory program.

□ *How do we find and capitalize on leverage points in the supply chain?*

Is service a true competitive differentiator, or merely a necessity for "staying in the game?" Over time, special services become standard services as customers' expectations keep rising.

The challenge is to find the best balance between *scale* and *focus*...i.e., how do we avoid poor economics while trying to satisfy customized, value-added service requirement of key accounts?

□ *How do we manage supply chain-wide alliances*

Increasingly more companies are developing both informal and formal alliances to ensure that the activities of the supply chain are accomplished by the most cost-effective partner. This also includes outsourcing selected activities where it can be proven that a third-party provider can be more cost-effective without introducing undue risk. An explicit understanding of costs across the supply chain, a partnering mentality and mutual trust are imperatives.

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