

creating a manageable supply chain

IT'S NOT EASY BEING LEAN. IN TODAY'S sputtering economy, supply chain leaders face the enormous challenge of satisfying customers with the most limited of resources. To do this, they must understand the complex and interdependent touch points within the supply chain. They must understand the obvious—and not so obvious—impacts of their decisions on total costs as well as service. They also need to balance all of these requirements under conditions of continual change.

As companies struggle to compete in a volatile economic environment, creating a manageable supply chain becomes all the more critical. Manageable supply chain operations dynamically integrate demand and supply management, target customers to boost revenue and help to maximize profit and shareholder value.

If that sounds like a lot of work, it is. But it's worth the trouble. By building a manageable supply chain operation, companies are better positioned to tackle changes in the supply chain environment. Beyond that, a manageable supply chain enables a company to become an adaptive enterprise, using technology tools to gauge changes in the market and respond quickly to them, consider the best options to use capital and grow its business faster than its competitors can.

The challenge is to get more out of what has already been invested—to achieve maximum return on assets (ROA). Every company must ensure that its most important assets—its existing IT infrastructure and its database of information on customers, suppliers and employees—are optimized for maximum return.

Elements of a successful supply chain

Strategically, it is easy to talk about minimizing costs while maintaining or increasing customer service levels. It is at the operational level where this strategy will either succeed or fail. This is the area where logistics is critical to meeting customers' needs in a cost-effective manner.

The cynic in all of us will question whether it's truly possible to balance customer service and total supply chain costs without sacrificing one for the other. With a lot of hard work, it is possible. The result is higher profits, higher earnings per share and higher stock values.

In order to meet the customer's needs and still obtain good financial results, supply chain leaders must focus on technology, infrastructure and human capital. That's more than mere theory. The following are some actual examples of cases in which supply chain leaders have come up with solutions that reduce overall operating costs and increase service levels:

- A project team designed standard business processes that consolidated more than 20 different order fulfillment process flows into two standard business processes, improving expected turn time by 15 percent while increasing order accuracy and decreasing back orders.

- A decision support team's analysis of a client's shipping costs resulted in a change in packaging material and grouping, leading to cost reductions of more than 18 percent.

- A shipping team came up with a plan for grouping customers' shipments based on destination, reducing the number of order status inquiries by more than 15 percent.

- Operations specialists proactively modified a customer's packaging types, resulting in a 20-percent savings in material costs.

But successful supply chain leaders have to do much more than satisfy customers; they must balance those customers' needs against profits. The





only way to know what is possible—and determine its impact on your balance sheet—is to adopt an in-depth supply chain approach. This requires leaders to use the following three tools to manage every facet of the production and movement of products:

Technology. A central element of being a supply chain leader and creating a manageable supply chain is the ability to integrate with legacy systems, ERP systems and workflow systems. Once connectivity and visibility are established across the supply chain, it becomes essential to harness the available data to help managers make informed decisions affecting the supply chain.

Two important technological changes will affect how business is conducted with customers: integration of software applications, such as enterprise resource planning (ERP), customer relationship management (CRM) and advanced planning and scheduling (APS), and the advent of Internet-based communication.

Companies have begun to realize that every customer interaction is an opportunity to ensure that a customer is satisfied and that satisfied customers buy more products. The need for companies, especially those in the mid-market sector, to achieve greater return on relationships, enhance customer loyalty, expand and protect market share, and adapt to constant change can only be met by integrating ERP, CRM and material requirements planning (MRP) functionality into their supply chain.

Infrastructure. To remain competitive, supply chain leaders must be able to sell their products worldwide, at any time and in any quantity required. The prerequisite for this is a system of connected/networked global distribution points (and the associated information) that can respond individually and quickly to customer demand. What is needed is an integrated supply model that can coordinate sourcing of multiple products/components from multiple suppliers on demand.

There is a great deal of planning involved when considering how much of an on-demand model a client can effectively incorporate into its supply chain. The most compelling reasons for considering this cultural change in a company's operations include the following:

- On-demand solutions greatly enhance a client's ability to communicate with its entire customer base while sending messages that are individual, personal, unique and targeted.
- On-demand solutions distinguish a company from its competition, resulting in improved customer retention and loyalty.
- On-demand solutions add flexibility to order design and program management.

An organization's ability to manage a supply chain infrastructure that integrates on-demand solutions will give it the flexibility to adapt to the market's ever-changing requirements.

The cornerstone of on-demand manufacturing is material management, an area where true supply chain leaders will have to focus their attention and energy. This is the grouping of all management functions that support the complete cycle of material flow from procurement, warehousing and production to fulfillment and distribution.

Human capital. It is people who come first. Without a good team, business success is impossible to achieve. The quality of products and services depends on the competence and professionalism of the people who provide them. A true supply chain leader is one who not only understands the importance of enthusiastic employees, but also consistently and effectively motivates them toward continual improvement.

Building trust with your employees comes from being able to rely on the other links in your supply chain. A successful supply chain requires an understanding of the new interdependencies being constructed and of the roles and responsibilities that must be adopted for the enterprise and its supply partners to become more collaborative.

Beyond the requisite technical skills, employees must become comfortable with the new workflow and underlying concepts introduced by supply chain initiatives before the company will benefit from increased productivity.

To help shorten the ramp-up period, businesses implementing supply chain solutions should plan a comprehensive training program that offers employees hands-on access to a system that simulates real-world supply chain environments and provides insight into strategic supply chain operations.

Great expectations

Supply chain ROA can be greatly enhanced—or impeded—by the way a company addresses the difficult challenge of adapting to a supply chain workflow model. Ultimately, it will be the human factor that makes or breaks this new work process within an organization.

The future development of supply chains will determine the success of companies and their profitability. Working with other supply chain leaders can translate into cost savings and enhanced supply chain solutions. Your organization will begin to adopt the practices, attitudes and expectations of the customers and suppliers with which it interacts. By selecting the best, working with the best and expecting the best, you increase your chances of achieving the best. □

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