

Supply Chain Collaboration and Visibility:

The Results Are Beginning to Show

Compiled by Lothair, Written by Norbridge

SUPPLY CHAIN CACOPHONY

Let's suppose you've taken some business associates to the theatre and everyone in your industry is there. Look to your left, and then to your right. If you see one of your suppliers on one side and one of your customers on the other, you're looking at your supply chain. As trading partners, you're exchanging material and products, services, information, and of course money. Sound simple? It's not. Working well? Don't count on it.

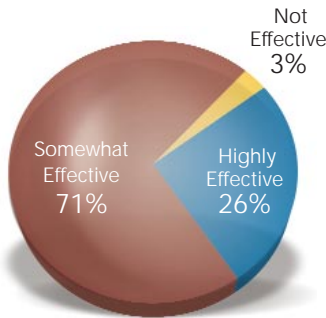
Multiply this analogy by all your customers and all your suppliers, and the whole sea of people in the theatre represents your supply and demand network. You can't possibly know what all of these companies are babbling about, and without realizing it, everyone is making trouble for everyone else. In a nutshell, most companies aren't sharing information and working together to the degree necessary for smooth execution of material sourcing, allocation, logistics, and customer order fulfillment.

Yes, a few outstanding companies have transformed their supply chains, often by leveraging the Internet, and the results are stunning. Dell and others have achieved internal efficiencies and customer service accolades that make other companies green with envy.

Most companies and industries, however, are way behind the leaders. In a recent survey of over 2,100 executives conducted by Cap Gemini Ernst & Young and *IndustryWeek*, 49% of the respondents reported that their companies neither have a formal value chain strategy ("value chain" refers to the combination of the supply and demand chain), nor are

they developing one. Among companies that have a strategy, most are not feeling very good about it (see pie chart below).

How Effective Are Value Chain Strategies?



Note: Represents 743 companies with formal value chain strategies. Source: Cap Gemini Ernst & Young and *IndustryWeek*.

This is good news for those worried that the U.S. economy has hit the wall in terms of industrial productivity. When you're talking about the supply chain, most companies have huge opportunities for further performance and profit improvement.

THE FUNDAMENTALS – INCREASE VISIBILITY AND COLLABORATE

Most of the supply chain leaders would agree – a highly effective supply chain comes from comprehensive transformation of a broad set of business practices, with some help from information technology. To identify the right strategies and implement lasting changes, however,

you've got to get your arms around your problems and the problems of your supply chain partners. How? By increasing visibility throughout the supply chain and tackling the external processes with your partners.

Visibility = Turn the Lights On and Look at the Processes – How many units will your customers order over the next three months, and in what configuration of features? Have your suppliers shipped what you ordered last week and are the orders complete? If you don't know what's coming around the corner, your production and logistics people can only react to events as they happen, forcing plant disruptions, emergency transportation costs, and unhappy customers. If you can shine a bright light on the recent and current actions of your customers and suppliers, you can anticipate change and make better decisions.

"Visibility" information takes many forms, and is most useful when it can be consolidated into a handy measurement tool. One useful form, SupplySolution's i-Supply Service, has been adopted as part of Covisint's fulfillment application. On one page, the user can see the current inventory on hand and in transit, status of each item, customers' past and future usage rates, and the latest shipments received. Automatic alerts are sent via e-mail, pager, or fax when inventory falls below minimum or above maximum levels.

In the future, capturing supply chain "events" in real time will be much more automated. Using combinations of 2-D and 3-D bar codes, radio frequency tags, cell-based communications, and GPS,



> companies like Qualcomm, Savi Technology, and WhereNet are filling out the “physical layer” of data collection needed to provide more frequent and more accurate information about materials and conveyances at rest and in motion.

Collaboration = Getting to Know You, Much Better – All trading partners have a transactional relationship, and some even share lots of information about their businesses. Collaboration goes much further to take the uncertainty out of future product supply/demand through joint planning and action.

By following a specified methodology – known as Collaborative Planning, Forecasting and Replenishment (CPFR) – companies can dramatically improve supply chain effectiveness with new product and package design, demand planning, synchronized production scheduling, and logistics planning. According to the CGE&Y survey mentioned earlier, this practice is catching on: 25% of respondents indicated that CPFR has been implemented in their firms.

CPFR’s popularity is spreading beyond company-to-company initiatives to include industry consortia as well.

In July, CPFR made a key breakthrough in the consumer packaged good industry. Transora, a global B2B marketplace, introduced the CPFR-compliant Data Catalogue. Manufacturers will enter product-specific data (package size, nutritional information, pictures of the product) into the Catalogue, and that information will be searchable by retailers who have never had access to this amount of data before. The Catalogue is a first step for global standards of data exchange within this industry.

In August, CPFR was introduced to the top five hardware stores in North America (Ace Hardware, Do It Best Corp., Home Hardware Stores Ltd., Rona Inc. and True Value Hardware) by E3 Corporation. These companies are using the CPFR approach to maintain and initiate collaborative relationships with vendors.

Supply chain visibility and collaboration capabilities are evolving rapidly,

and, not surprisingly, logistics experts often disagree on where this whole effort is headed.

ON THE RECORD WITH SUPPLY CHAIN'S LEADERS

Lothair and Norbridge hosted an Executive Round Table (see sidebar), during which 16 supply chain industry leaders engaged in a spirited, revealing discussion. What follows are their comments – some of the current best thinking on the subject.

Delegate introductions appear on last page of section.

DEFINING VISIBILITY AND COLLABORATION

REGAN, Tranzact Technologies: When you say “visibility” to me, what that basically means is the ability to see. When you’re saying “turning the lights on,” it’s the ability to see throughout your entire operation. When you say the word “collaborate” from my vantage point, it’s the ability to act. Now somewhere between the seeing and the acting is the thinking.

KIRKEGAARD, Vizional Technologies: Implementing visibility in the supply chain has actually turned the lights on to the whole process. The thing that is really compelling is that visibility reveals the areas that aren’t working – that is the real impact it has had. And that, in turn, brings about collaboration.

POLIS, Dotcom Distribution: From the warehouse perspective, we can’t ship it if we don’t know what is coming in. When we have visibility, we can plan our outbound freight properly. Ultimately, it all leads to cost savings for our clients, and it increases the quality of Dotcom’s services.

When Dotcom’s first warehouse was opened last December, it attracted customers shipping both business-to-business as well as business-to-consumer.

Colgate Supports Worldwide Brands with Global Supply Chain

Company: Colgate-Palmolive Company manufactures and markets a wide variety of products globally, including toothpaste, soaps, laundry detergents, and pet foods.

Situation: Colgate operates in more than 200 countries and manages brands globally. Colgate began rolling out the SAP® core enterprise solution in 1995 to improve its operations. While this contributed to large gains in efficiency, Colgate wanted more visibility into customer demand and its own capacity so it could serve customers better.

Goal: Colgate aimed to upgrade supply chain performance worldwide by replacing a regional sourcing model with a fully globalized supply chain built around vendor-managed inventory (VMI) with key accounts, cross-border sourcing, and collaborative planning with downstream subsidiaries. The business objective: improve service to retail and internal customers and reduce inventory and total delivered cost.

Process/Tools: Colgate selected mySAP™ Supply Chain Management (mySAP SCM) to provide instant, real-time access to information about orders, forecasts, production plans, and key performance indicators such as inventory levels and fulfillment rates.

Results: Colgate improved customer order fulfillment rates to 95 percent. It improved on-time and complete orders from 70 percent to 98 percent for VMI replenishment. It lowered inventory by 10 percent and reduced overall order cycle times. Colgate also increased compliance levels for intra-company replenishment.

mySAP SCM capabilities are critical to enhancing Colgate’s global supply chain performance. mySAP SCM enables Colgate to gain visibility into global logistics data. It allows the company to optimize operations through the use of advanced mathematical planning functions. And it provides a platform for collaboration with Colgate customers and partners. By leveraging mySAP SCM, Colgate is progressing toward excellence in supply chain planning across worldwide operations.

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GOLD, KPMG: And we have seen real live examples of companies that don't understand the cost metrics.

There are some companies that in the future might not want to collaborate on purpose. They may take the opposite approach of what we are talking about today.

There are reasons not to collaborate like we're seeing with the major retailers right now. They're going to give data on forecasts. They're going the opposite of exactly what we're talking about, which is something that we've got to be ready for.

KIRKEGAARD, Vizional Technologies: Wal-Mart just shut down the "free sharing" of their retail POS information. While Wal-Mart probably has the most competitive exchange on the planet, and has used it for competitive advantage, a

potential downside could be that others realize just how valuable information is and thus it becomes more difficult to collaborate.

ROBERS, Cap Gemini Ernst & Young: Our point of view focuses on creating more adaptive supply chains based on extended enterprise visibility. Supply chain visibility allows for better control and execution. Integrating pricing actions on the demand side with the complex and ever-changing conditions of the supply chain can reduce costs, increase revenues, and make more efficient use of critical assets.

TECHNOLOGY SOLUTIONS OR PROCESS TRANSFORMATION?

BLACKWELL, Florida East Coast Industries: (Mr. Blackwell recently served

as Group Director - Transportation & Logistics of a major forest products company.) Technology is not the answer, but it certainly is an enabler. We had over 500 locations, and we didn't have visibility throughout the supply chain.

We used a variety of ERP (enterprise resource planning) solutions. In one case we spent tens of millions trying to put an ERP into effect and then abandoned it because our enterprise was so complex.

REGAN, Tranzact Technologies: I think we're doing a disservice to the readers if we don't point out that, often, companies tend to keep the systems rather than deal with the illness. I personally believe that a lot of CEOs find it is easier to write a check for a major systems implementation than to deal with the reality that their business model might be flawed.



All Aboard the Supply Chain Train

Climb aboard the Supply Chain Train. You've heard that advice, and 16 industry leaders took the step literally one day this past August. A special Executive Round Table was convened aboard the spectacular railcars of RailCruise America, headquartered at St. Louis Union Station, for a trip along some of the heartland's principal transportation arteries. The setting for the meeting and round table session was just right for a thorough exploration of the complex and fascinating topic, "Supply Chain Collaboration and Visibility."

The experience of the train trip was a pleasant way to look at underlying components of the supply chain from a new perspective.

The train is a supply chain manager's dream come true. It has been carefully planned from the three classic locomotives to the elegant observation car at the rear, all of which exceed every passenger's expectations. There are comfortable wood-paneled lounges, elegant dining cars, glass dome cars, meeting facilities, and an outside platform where passengers can watch the world glide by. It even has an entertainment car with a dance floor. The staff is up to the job, providing service that is courteous, friendly, and flawless.

"We provide an experience you just can't have anywhere else," says Kathy Louth, marketing director, RailCruise America. Indeed, the train is composed of classic American railcars, originally built in the 1950s for such famous American streamliners as the Union Pacific Railroad's City of Los Angeles. They were top drawer in their day, but what RailCruise America has done to them would leave even the original designers breathless.

From this plush perspective, our 16 Executive Round Table delegates, along with 30 invited guests, inspected the tracks of the Union Pacific while watching barges ply the majestic Mississippi River along our route. Bracketing the on-the-record session, all aboard found time to catch up on valuable industry acquaintances, as well as to make new ones.

Everyone agreed that the relaxed, professional ambiance of the RailCruise America train was the perfect setting for this unique mini-conference, capped with a memorable meal prepared as the train rolled through eastern Missouri. Best of all, the train is available year-round, from coast to coast, for future Executive Round Tables...as well as your corporate charter. You can learn more about this amazing train at www.railcruiseamerica.com or call 314-231-9500.



Elegant RailCruise America train (top left), provided by Kathy Louth, Marketing Director (top right), was the site of the Lothair/Norbridge Executive Round Table.

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SHEPARD, Ryder: I'm a technology guy, and I often hear: "Give me ten pounds of technology and make it all go away." And we always say, no, you can't do that.

In a recent case, we spent almost a year looking at all of a customer's logistics business practices. And only then – when we had completed the gap analysis, agreed on what the process was (and is) and should be, and obtained the client sign off – did we bring in the IT people to start the functional design. It's a good example of a strong collaboration between our client, Applied Materials, our technology partners, SeeBeyond and Manhattan.

MATTHEWS, Optum: One of our customers was able to remove \$180 million in inventory costs in the first year. That's a significant number – and the kind of return you don't get from just seeing what's out there in your supply chain. It's a very interesting story. They didn't start with specific goals and aspirations for the project, but they knew they were hemorrhaging. They just knew they needed to make the supply chain more efficient. Achieving visibility was simply the first hurdle, because it revealed what wasn't working. The real ROI came from the cross-enterprise business processes that were applied and enforced by our software.

Looking at these huge savings with our client, we were able to attribute 25 percent of the savings to the product. But the bulk of that \$180 million in savings is a result of business process change they initiated.

MOREHOUSE, A.T. Kearney: Well, actually, I did have a word for this, and that is that every company's strategy is unique. Software doesn't solve the problem.

Also, I think we've completely missed a major point. We're sitting here like a bunch of operations people thinking we've got to respond to whatever the marketing folks decide they want to do to promote products, issue new products, or cut off products, or whatever it happens to be. And the fact of the matter is we shouldn't be sitting here just responding. We should be looking at this holistically, including the marketing and the new product development and the whole process. Instead of sitting here saying,

"How can I run new technology or do this a little better," it's important to first determine if we face a fundamentally flawed process.

GOLD, KPMG: Trading partners need to leverage technology to get connected first. Getting connected and determining how to communicate utilizing the right technology mediums and applications is a large task. The challenge today is more about the "how" to get connected rather than the "why." After trading partners figure out the "how," then they can begin to leverage the information they pass between them.

JOHNSON, SeeBeyond: First, like Ryder, you should focus on improving key processes that will drive value for you and your customers. Second, you must leverage proven technology to drive the

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desired value throughout the organization. Take the time to do it right.

ROBERS, Cap Gemini Ernst & Young: I hear a couple of common themes here. The first is that companies must use technology *intelligently*. The second is that companies must truly understand their business model. This is where Cap Gemini Ernst & Young is helping companies like Ford to implement their business strategy around service parts using a more customer-centric service model.

POLIS, Dotcom Distribution: What a CEO can do first of all is commit the company to embrace technology. But just as importantly he has to commit to change in his company. Unless a CEO commits to change in the company, any efforts will fail. It's that simple.

WHERE DO WE GO FROM HERE?

JENDROWSKI, NTE: We expect that the transportation industry will move to

the same type of model that has worked in the airline reservation industry. Today, virtually all airline bookings are done with a handful of companies who represent the airline carriers.

Similarly, NTE is one of the places shippers can go to secure and execute transportation services. We expect online availability of freight capacity to expand significantly over time. Private trading communities will be a major catalyst.

Also, NTE right now has many customers whose people are not trained to look at a browser window on the Internet. They want us to send them a fax that comes up behind them and then a little bell rings and says, I'm here.

KIRKEGAARD, Vizional Technologies: The most prolific measurement I've seen chipping away on this visibility supply chain problem, and it's been in the last ten years, is concurrency of information. Order visibility is the Rosetta Stone, the touchstone of concurrency. The breakthrough opportunity, to concurrently have many people acting on that problem, has tremendous benefits not only for the planned order, but for the unplanned order.

ARNOLD, Prologis: As best practices move toward supply chain collaboration, we foresee more customers including real estate in the strategic evaluations of their supply chain. This may well result in an optimization of distribution facilities through consolidations – in other words, consolidating several smaller, local facilities into a larger regional distribution center. With our global presence and local expertise we are already working with several of our large customers to provide not only the supply chain evaluation but facilities as well.

CICIO, Optum: The new collaborative supply chain begins with connectivity and ends in superior profitability and customer service.

MOREHOUSE, A.T. Kearney: Because we look at process as a series of discrete steps, we can't see the whole picture and can't optimize. Therefore, we've got a huge upside opportunity ahead of us. ■