



Contract Manufacturing Organizations



Third Party Logistics



Practical Steps to Better Integration and Value from Your CMOs and 3PLs

Content

- Introduction 3
- Identify Pain Points & Opportunities 4
- Consider Cloud Technology for Fast, Easy Integration and Visibility 6
- Leverage Collaboration to Build & Strengthen Relationships 8
- Endnotes 9



Introduction

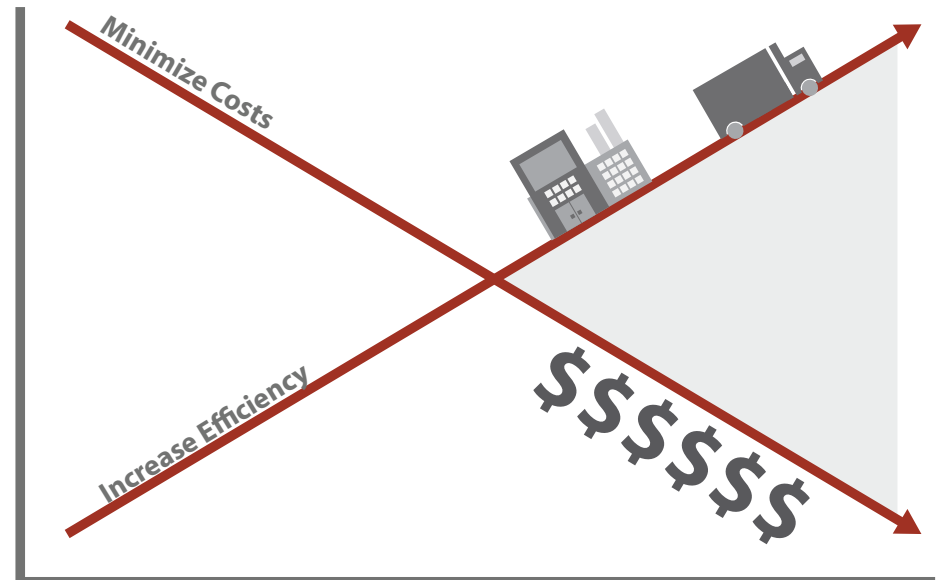
Across all industries, supply chain management has evolved over the past decade to leverage third-party logistics (3PL) providers and contract manufacturing organizations (CMOs) in order to provide enhanced service to customers in every region. The ultimate goal of outsourcing to specialty providers is to achieve maximum efficiency in product manufacturing and fulfillment while minimizing costs, time, and effort to deliver products. In a global economy where 95% of recently surveyed companies report procuring goods or services from outside the U.S.,¹ the abilities to integrate seamlessly with vendor systems and to build collaborative, sustainable relationships with these providers are critical competencies in a climate of volatile demand and shortened manufacturing and fulfillment lead times.

Simply put, everyone involved is on the same “team” to view, monitor, and procure the right inventory levels to meet demand; and to fulfill every order perfectly and on time, every time. Regionally sourcing manufacturing and logistics operations is one technique commonly implemented to achieve these goals; other organizations may focus on the cost savings and efficiency gains realized by using a specialized vendor. However, the increased complexity of a supply chain network that involves suppliers as well as 3PL and/or CMO providers presents additional challenges to real-time visibility, accurate demand sensing, and lean fulfillment.

Fortunately, the recent migration to cloud technologies and the availability of ERP-agnostic solutions specifically designed to address these unique concerns provide supply chain managers with a new level of options that cost significantly less while doing more, faster.

This eBook contains practical steps to help you determine the best methods for integrating systems, enhancing collaboration, and maximizing efficiency and value from your CMOs and 3PLs:

- Identify pain points in your data integration processes to identify opportunities for improvement. For example, do you experience delays in order fulfillment, invoicing, or payment? Do you lack complete inventory visibility or traceability throughout each product’s lifecycle? Do you experience other inefficiencies due to a lack of system integration with your vendors?
- Consider cloud portals for fast, easy integration with supplier, 3PL, and CMO systems; as well as real-time visibility into inventory and shipments.
- Leverage visibility and collaboration capabilities to build and strengthen relationships with best-performing vendors.



Identify Pain Points & Opportunities

The recent trend for 3PL and CMO organizations has been to focus on performance improvement initiatives to achieve greater efficiency in manufacturing and fulfillment operations within their four walls. Depending on the organization, solutions may have taken the form of labor management, warehouse management software, compliance labeling, or complete track and trace capabilities. In other cases, Business Intelligence (BI) and Analytics software tracks performance and generates graphical reports to highlight areas that are underperforming or not meeting KPIs.

As the supply chain has become increasingly complex, due in part to demand volatility and shrinking customer fulfillment time lines (both regional and global), the practice of outsourcing warehouse, transportation and certain manufacturing operations can provide significant cost savings. This is especially true as fulfillment costs and unpredictable demand have increased over the past year, due in part to the now-standard expectations of overnight delivery, free shipping, shipping discounts, local same-day delivery, and phenomena such as online ordering with in-store pickup.² However, without an effective method for seamlessly integrating with your vendor data to view and replenish inventory, track products from order to delivery, and collaborate both upstream and downstream regarding performance or quality issues, these cost savings will be eaten by the extra efforts spent managing multiple vendors, searching for information in disparate systems, and taking action to resolve problems in the chain. An intelligent system that provides end-to-end visibility for a real-time supply chain can leverage 3PLs and CMOs to reduce inventory while still meeting demand at a faster pace.³

The first step to determining the best solution for better integrating your 3PLs and CMOs is to perform a quick assessment of the major pain points and bottlenecks in the ordering, manufacturing, shipping, and delivery processes using current systems. Make a comprehensive list of all areas that would benefit from a more efficient process in order to narrow your

focus for determining the right solution(s) for your supply network. The following table lists some common pain points and typical associated causes:

Business Pain	Cause
<ul style="list-style-type: none"> Excess safety stock Inventory shortages Delayed fulfillment Inaccurate demand sensing Inventory tracking errors 	Little or no real-time visibility into 3PL/CMO inventory.
<ul style="list-style-type: none"> Time and labor lost searching for communication trails Lack of traceability Inefficiencies and disorganization Communication delays throughout the product lifecycle 	"Collaboration" is limited to phone, fax, and email – document transmission between systems is one-way.
<ul style="list-style-type: none"> Invoicing and payment delays 	Lack of integrated P2P systems; paper POs and invoices.
<ul style="list-style-type: none"> Resistance from vendors to using your system for integrating data with your ERP 	Difficult, time-consuming onboarding process for external organizations.
<ul style="list-style-type: none"> Inability to track, trace, and control shipments and packages Inefficiencies in picking, packing, and receiving due to varied barcode scanning requirements 	Lack of standard label and barcode formats.
<ul style="list-style-type: none"> Traceability and visibility is incomplete or not in real-time/near-real-time 	Lack of integration between barcode systems and both ERPs, or lack of automation in reporting pick, pack, shipping, and receiving data back to ERP.
<ul style="list-style-type: none"> CMOs are on a different process and system from the rest of your suppliers due to current gaps in your supply chain management software 	Your system does not have the capability to send customer Sales Orders to CMOs for processing and shipping, and integrating their site activities into your ERP.

Identify Pain Points & Opportunities

The method of integration is not a one-size-fits-all proposition. For larger 3PLs/CMOs, EDIs or APIs are often the preferred B2B method for connecting legacy warehouse systems to each of their customers. However, for mid-size and small vendors whose volumes do not justify the cost or technology investment for direct integration, and who may be still be using paper POs and invoices or struggling to manually upload their system's information, you will want to explore more efficient integration and tracking methods.

A supply chain software collaboration solution can provide a connective layer between your ERP and vendor systems. Look for collaboration tools that contain Vendor Managed Inventory (VMI) modules for your CMOs - these will allow you to view and track stock at the vendor warehouse and replenish inventory as required. For your 3PLs, look for solutions that can seamlessly transmit customer Sales Orders to the vendor, using a portal that provides complete visibility into order fulfillment as items are picked, packed, and delivered. Even if it takes some time and training for vendors to convert manual processes to automated ones, the enhanced real-time visibility and traceability gained from an ERP-agnostic collaboration tool will immediately result in more accurate data for strategic decisions.

Discussed further in the next section, deploying a cloud portal to connect with vendors and potentially automating data uploads is an increasingly popular and economical way to achieve data integration and so much more: visibility, collaboration, and traceability. If you have vendors who still use manual processes such as paper POs and invoices, very few arguments are left for resisting the transition to automation, especially if you are providing the technology. For more information about reasons to automate, please see our blog post—[*Time to Leave Your Manual Processes Behind?*](#)



Consider Cloud Technology for Fast, Easy Integration and Visibility

public cloud



Depending on the number, size, and IT capabilities of your suppliers, 3PLs, and CMOs, you may already have systems in place for your larger vendors to upload their data to your ERP using EDI or API integration. However, you may not have the same levels of visibility, traceability, and collaboration with 3PLs and CMOs as with suppliers if your current Procure-to-Pay (P2P) system does not have modules tailored to viewing and replenishing their inventory levels, sending Sales Orders for shipping, or forecasting demand.

Fortunately, cloud technologies continue to rise in availability, security, use, and acceptance, and now offer web portal solutions for vendor onboarding that were previously limited or unavailable. According to recent Gartner research, the past three years have shown significant growth in cloud-based supply chain solutions, and the most significant factor influencing SaaS adoption has been the low upfront implementation costs.⁴ The monthly subscription fees based on usage and the burden of system administration falling on the vendor have also been incredibly appealing

to mid-size companies compelled to generate a global network of vendors, but who do not have the vast cash reserves or implementation timeframes generally available to the larger supply chains.

It is important to note that, even with cloud portal (SaaS) solutions for supply chain management, there are a couple of deployment options, which may be critical for companies requiring all systems tied to their ERP to be managed in-house. Hybrid deployments provide an on-premise implementation at your site, but allow cloud portals for all of your onboarding vendors. Additionally, even within the SaaS model, there is often an option of a private cloud for enhanced security. Private clouds only contain data for a single organization, whereas a public cloud hosts data from multiple organizations. While private is more expensive than public, it is often the best choice for larger organizations with tighter security controls that may not require an on-premise implementation but would benefit from vendor hosting and management.

private cloud



Consider Cloud Technology for Fast, Easy Integration and Visibility

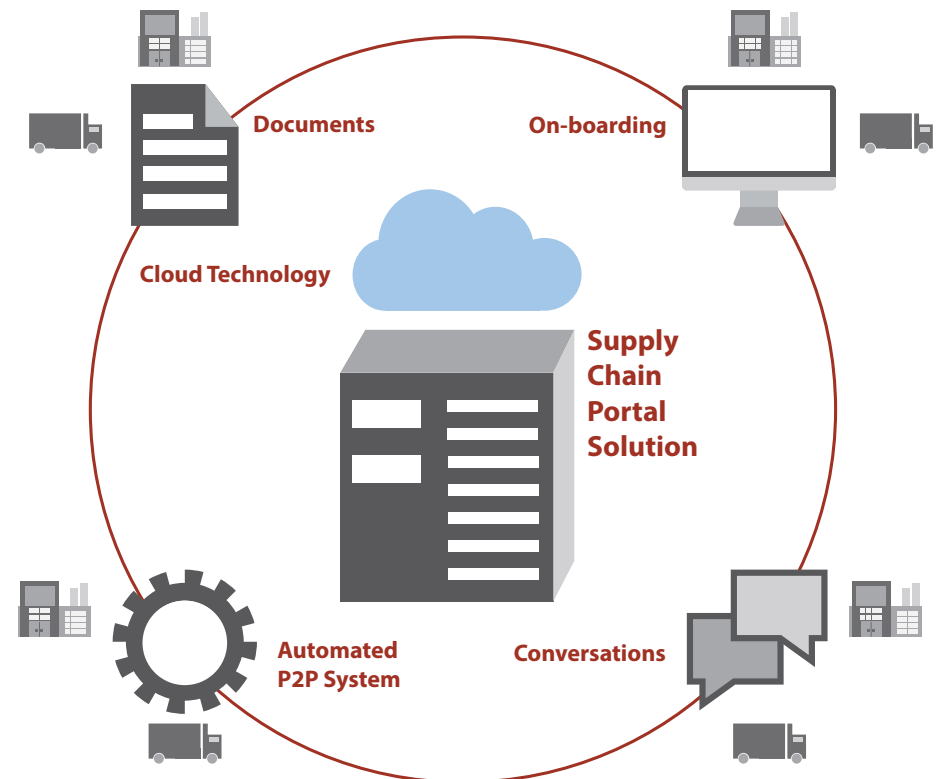
If you have found a supply chain portal solution that will provide integration, collaboration, and visibility with your vendors, and contains additional functionality to handle the unique needs of 3PLs and CMOs, how do you convince them all to get on board, especially if they are in the group still using paper invoices or POs? Ultimately, some of this answer will depend on your business practices and executive leadership strategies, but some possible solutions for easing the transition include:

- Outlining the benefits in time and labor efficiencies when using an automated P2P system.
- Showing the ease of using the solution: onboarding suppliers by providing training for end users. This training could be provided by your staff or outsourced to the solution vendor or training specialists. The investment in getting everyone up and running on a collaborative portal will reap tremendous ROI.
- Demonstrating the advantages of having all documents, notes, and conversations related to a purchase order, sales order, shipment, or invoice located in a searchable database.

For medium-volume suppliers, the issue may not be paper processes but a resistance to logging into multiple customer systems up to hundreds of times per day to type item numbers, PO numbers, etc. so that their data is compliant in your system. Instead, they may want your organization to find a way to upload data into their system. One way to resolve this problem is to make sure your software provider can create batch process transactions to automatically pull data from vendor systems at scheduled intervals, significantly reducing the volume of manual input.

Whatever your approach getting all vendors onboard, the time and effort spent will be quickly recouped in the savings realized by having the required visibility, traceability, and collaborative capabilities required

to be lean and resilient in the current climate. If excessive resistance or difficulty onboarding vendors is encountered, it is worth reminding them that the cost of using outdated practices can mean the difference between excelling in the competitive global economy or dwindling to nothing when it eventually becomes too late to catch up.



Leverage Collaboration to Build & Strengthen Relationships

Reciprocate for more value: Just as you want 3PL and CMO providers to comply with your system so that everyone is working with the same data, you will reap even more rewards by implementing modules that extract data from their systems as well. This will bring the visibility cycle full-circle.

For example, unique capabilities for 3PLs are found in Vendor Managed Inventory, which gives you complete visibility into third-party warehouse inventory. You can also replenish stock when it dips below your tolerance threshold. Sales Order Drop Ship capabilities, on the other hand, integrate your existing P2P system with customer Sales Orders that you send directly to a CMO. Using this type of solution, you have complete visibility and traceability of these items when they are picked, packed, and shipped to the customer. In both scenarios, look for collaboration tools such as instant messages, notes, and attachment features – even mobile applications – to allow communication to and from any location around the globe.

According to a recent survey,⁵ 67% of Chief Procurement Officers (CPOs) say their departments are more focused on building collaborative relationships with suppliers – i.e., investing in the long-term – than on obtaining the lowest short-term costs. This represents a shift since the early part of 2013, when 50% of CPOs said their companies pursued short-term savings instead of long-term value from suppliers. These findings suggest that companies are taking a “big picture” approach to supply chain optimization. Generating value by building and maintaining vendor relationships that are more like partnerships, organizations are able to prioritize mutual long-term success over short-term cost savings. This approach sets a foundation for competitive advantage in the face of rapid acceleration, change, and unpredictability.



Endnotes

¹Burnson, Patrick, "Consero Survey Reveals 67 Percent of Procurement Departments Focused on Collaboration," *Supply Chain Management Review*. September 23, 2013.

²Forte, "Look (Closely) Before You Leap: Turning over Distribution/Fulfillment to a 3PL May or May Not Be the Right Move."

³Bloomberg Businessweek Research Services, "Supply Chain Innovation Driving Operational Improvements," January 2013.

⁴Klappich, Dwight C. "Two forces for the future," in *Supply Chain Quarterly*, October 1, 2013.

<http://www.supplychainquarterly.com/topics/Technology/20130904-two-forces-for-the-future/>

⁵Burnson, Patrick, "Consero Survey Reveals 67 Percent of Procurement Departments Focused on Collaboration," *Supply Chain Management Review*. September 23, 2013.

