



Advanced Supply Chain Management

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How to Build a Sustained Competitive Advantage

Charles C. Poirier
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Recommendation

Cheers to Charles C. Poirier, who took a topic that almost cries out for unintelligible jargon and undecipherable graphs, and instead laid it plain, in common English, for all to understand. His essential notion: To achieve efficiencies you must develop a closer working relationship with the vendors that make up your supply chain. The goal is to share real-time inventory and production data so that your network of business partners - Poirier's supply-chain constellation - is better able to meet the end needs of the consumer. The major shortcoming of the book lies in its omission of information-based companies from its analysis. How can knowledge industry firms integrate their less tangible supply chains, and will they reap the same rewards as widget-makers if they do? Regardless, *BooksInShort* strongly recommends this book to anyone not an expert in the latest logistics-management techniques - and, unfortunately, that's almost everyone.

Take-Aways

- Your supply chain - the network of relationships that provide the resources needed to produce your product - is the key to the success of your business.
- Most companies have a completely internal focus on managing their supply chain.
- The greatest opportunities to achieve efficiencies come from operating closely with your suppliers and vendors.
- Improvement in your supply chain is marked by more coordination and information sharing with your suppliers.
- For maximum results, create an information technology (IT) system that provides real-time information sharing and data access to your company and its vendors.
- Real-time data access will reduce the amount of safety inventories maintained, thereby reducing costs.
- To integrate your supply chain, you must be willing to share the value of the savings attained with your suppliers.
- A fully integrated supply chain is a close network of companies able to innovate together.
- Your ultimate goal is providing value for the consumer.
- An efficient supply chain will win over new customers with its ease of use.

Summary

It's the Supply Chain, Stupid

Your supply chain holds the answer to your business woes. The key to growing your business is not your strategies, your technology, or your people. It is your ability to manage the chain of vital inputs that you need to create your product and services. Every company has one, and every company relies on one for its survival - but not every company realizes that the secret to its long-term success lies in its ability to improve and perfect its supply chain.

“The supply chain is the main artery of all business.”

Efforts to bolster supply chain management have been going on for over a decade. Alternatively called logistics reengineering, process redesign, or distribution-channel improvement, they all aim at the same target: reducing costs by improving the logistics of purchase and distribution of vital resources. Today's successful companies have formed networks for sourcing raw materials, storing and distributing products, and ultimately delivering them to the customer. This is the essence of supply-chain management. In the past, these efforts focused on what the company could do internally to make the process more efficient. Unfortunately, this approach limits the effectiveness of your supply chain, and impairs your ability to compete.

“The new supply chain game is becoming a competition between effective supply networks rather than individual corporations, and the gap between the leaders and followers is growing rapidly.”

If you want to advance to the head of the supply-chain management process, you will have to commit to a process and not expect to take one great leap forward. Each step along the way must build on earlier initiatives. The cultural change required to share information with new business partners is not to be underestimated. You can accelerate your company's transition through the early phases to the advanced stages. Do not assume increased efficiencies at each stage, however, since First-Level economic improvements have been shown to be largely fictitious.

The Supply Chain Network

Today, logistics focus is expanding outside the company, as organizations strive to gain control of external factors that have an impact on efficiency. Managers are seeking to reengineer the entire network of supply, with an emphasis on satisfying the customer. This supply-chain management often employs advanced technology and the Internet. Companies are partnering with suppliers to provide real-time sales data, so that distribution is based on actual consumption rather than sketchy sales projections.

“An analysis of the supply chain should focus on the finish line (demand), not the starting point (supply).”

As the new systems result in savings, it is important for firms engaged in supply-chain redesign to share the enhanced revenues with the partners who helped them improve the system. After all, unless the purchaser shares the value of efficiencies with the supplier, the supplier will hardly be motivated to continue to participate in the ongoing design-improvement process. Trust is a key factor in establishing advanced supply-chain management systems, which rely heavily on integrated networks and shared information flow.

Supply-Chain Improvement: Level One

The first level of improved supply-chain management involves using teams to reduce purchasing costs, inventories, and logistical and freight costs. Initial efforts invariably involve leveraging sales volume for savings. This is because the increase in volume results in higher working capital costs for suppliers as their inventories expand. The inventory is neither reduced nor eliminated. The costs have merely shifted, and at the earliest opportunity the supplier will seek to recoup those costs, either through future price changes, or a reduction in quality and service. The mentality behind First-Level efficiency, therefore, still is not holistic in nature. Shifting costs to suppliers is still viewed as a way to attain efficiencies, as if those costs will not emerge later.

“Customers are drawn toward this type of network because of the ease of doing business.”

At this stage, the origin of suggested changes is usually internal, as opposed to initiatives arising from working cooperatively to share information and resources with suppliers. While Level-One results are usually exaggerated, they are genuine enough to encourage most firms to continue the effort of refining their supply chains. However, Level-One activity is important: It is where cross-functional teams begin to emerge. These teams will begin to build a supply network that will differentiate the organization in the eyes of the customer.

Stuck at Level One

Like an elevator that won't go anywhere, some companies get stuck at Level One. They usually have a narrow vision of the purpose and value of a highly developed supply chain. Some of the obstacles that threaten to leave your supply chain stuck in a rut include:

- Resistance to change. One of the most common forms takes the attitude that if it wasn't invented here, it must not be a good idea. Without vision, without executive leadership, and without a rewards system that recognizes sought-after achievements and efficiencies, it is difficult to move forward.
- Refusal to share savings. When your suppliers work with you to make your supply chain more efficient, you ought to find a way to cut them in on the profits. After all, this is what will give them an incentive to continue to help you in the future.
- Insufficient resources. The teams are resource-poor, the company is focused on downsizing, and it's easier to ignore the supply chain than to invest more resources.
- Withdrawal of executive commitment. The status quo is adequate. When senior sponsors return to their normal sphere of activity, interest in new initiatives wanes.
- Ignoring inaccurate forecasts. Forecast accuracy does not improve with Level-One efforts, because getting better information involves developing closer relationships with suppliers and that has yet to occur. Firms that continue to accept poor accuracy in supply-and-demand forecasts may not have the incentive to continue.
- IT blockage. After Level One, the next phase will involve integrating the IT system with the redesigned processes. It requires a close coordination with the IT function that is not within the capability of all organizations.
- Lack of trust among supply-chain allies. Until you earn their trust, those who would benefit the most from supply-chain improvement will not cooperate.

Welcome to Level Two

In the second level of supply-chain development, your firm will continue to exhibit a primarily internal focus, but will begin to discover new approaches. Specialized teams will start to harness technology as information begins to flow across the supply network. Building a totally integrated information pipeline, often with enterprise resource planning (ERP), becomes essential. Level-Two benefits are substantial:

- Cycle times drop exponentially.
- Quality improves even as inspection time drops.
- Inventories are reduced significantly.
- Paperwork is minimized.
- Customers are drawn to the network thanks to the ease of business.

Customer Selection

There are other important changes as well. As an organization develops a better picture of its supply chain, it will realize that some of its customers are actually costing it money. Either their internal organization is so poor, or their volume is so minimal that doing business with them siphons off resources that could be better used elsewhere. For most companies, the lower 25% of the customer base only accounts for about 5% of the total sales volume. It is often in the company's best interest to stop supplying to this group, or renegotiate terms that make better business sense.

Sourcing and Logistics

It soon will become clear that you should outsource activities that could be more efficiently performed by your suppliers or other companies. These relationships may require an exchange of actual manufacturing data on a real-time basis, to ensure adequate

inventories. In the most advanced stages of Level Two, companies will form buying groups and pool their purchasing needs to attain greater leverage.

“Modern systems demand the electronic linkages and passing of information that gives the network an advantage over slower and less efficient networks.”

Logistics is the leading area of improvement for Level-Two firms. Using custom-designed software to analyze demands, flows and logistics costs, firms wake up to the fact that they can consolidate warehouses and shift buying patterns to reduce, and in some cases eliminate, these expenses.

A Cooperative Model

Level-Two firms have begun to use databases in building new relationships with external firms, but the move to Level Three requires a much greater leap. Companies now must integrate prior internal improvements with the need to have external partners who are equally dedicated to adding value for the consumer. It is not individual companies but constellations of value-oriented companies working closely together that make the difference.

“Reconciling the mistakes occurring in supply-chain processing created additional work for those doing nothing more than covering other people’s lack of discipline.”

The key to achieving this degree of supply-chain efficiency is to develop a cooperative infrastructure. This involves four steps:

- Assessing the current relationship, situation and strategies.
- Designing a new operational model and the processes to control it.
- Using a pilot demonstration to prove the concept will work.
- Implementing the new model in test markets and with test customers.

Supply-Chain Nirvana

Level Four involves a plunge into the realm of forecasting systems based on actual consumption, rather than projections derived from historical information, and a reduction in safety stocks as information is freely shared in an atmosphere of synergy and trust. To achieve it, your constellation of supply-chain partners will have to develop:

- Proactive Roles - Suppliers can no longer merely supply. They must help to provide marketing support, differentiation, custom products and services, and even assistance with after-sale service. The goal is to make sure that your constellation is able to offer better service than a competing network.
- Shared Vision - Cross-functional teams will work together to create innovative features, improve order fulfillment, and enhance promotions
- Active Response - The network must engage in collaborative planning and operations in order to respond to the demand for more effective business systems.

The Payoff

Creating an integrated supply-chain constellation boosts shareholder value for all involved. Demand rises as a more efficient system attracts new customers. Operating costs decline as the need for safety stocks diminishes. The network activities are more closely in tune with consumer needs. And because timing of the product life cycle is tracked via online systems, the new supply-chain constellation is more adaptable to changing market needs. This leaves your firm with a turbocharged supply chain, ready to ride the next wave of change to success.

About the Author

Charles C. Poirier is a consultant and author with more than 40 years of industry experience. As a partner in CSC National Supply Chain Practice, one of the world’s largest management consulting and information technology firms, he has helped scores of

companies develop more effective supplier networks. He has held a variety of management positions, including senior vice president of manufacturing and marketing at a Fortune 100 company. Poirier is the author of *Business Partnering for Continuous Improvement*, *Avoiding the Pitfalls of Total Quality*, and *Supply Chain Optimization*.
