



The Supply Chain Network @ Internet Speed

Preparing Your Company for the E-Commerce Revolution

by Fred A. Kuglin and Barbara A. Rosenbaum
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Take-Aways

- Modern shareholder value is driven by profitable growth, working capital efficiency, cost minimization, tax minimization and fixed capital efficiency.
- Advanced supply-chain management can minimize capital requirements and costs.
- You must choose the e-business solutions that address the unique factors that shape stock value in your industry.
- Supply chains, industries and services are blurring together.
- You can set up a networked supply chain with a one-to-many link or a hub that links several parties.
- An e-exchange can help link trade partners trade parts.
- You can improve customer relations with e-business solutions, such as Web-based catalogs and scan-based trading.
- In a retail environment, you will undermine profits if you lose customer focus.
- You can use a war room to increase productivity and deal with a crisis.
- In a crisis, strong CEOs respond quickly and decisively, seek future opportunities and show they are in control.

Rating (10 is best)

Overall	Applicability	Innovation	Style
9	9	10	8

Review

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Wade through the technical jargon and dive directly into this deep pool of operational intelligence on the complexities of modern supply-chain management. Fred A. Kuglin and Barbara A. Rosenbaum provide step-by-step guidelines on how to put e-based solutions into effect throughout your supply chain to achieve cost effectiveness (that is, save money). Using the CEO's perspective, they describe a series of supply-chain approaches designed to address issues like capital requirements and production costs that drive company valuations. The book, which is forthrightly technical, is targeted to the CEO or high-level executive in charge of operations. *getAbstract.com* highly recommends this book to this select audience, and commends the authors on their useful mix of charts, illustrations and dramatizations to illustrate supply-chain problems and solutions.

Abstract

Technology and the Blurring Supply Chain

Today more than ever, CEOs need to use supply-chain management techniques to streamline operations. If you are a CEO or an operations manager, you need to provide leadership to take your company through these technology-driven transformations. Your mission is to increase shareholder value by achieving greater efficiencies with technology. To accomplish this goal, you need to understand both your industry and technology, since in today's new economy industries, supply chains and services are blurring together.

Five basic measures drive shareholder value: profitable growth, working capital efficiency, cost minimization, tax minimization and fixed capital efficiency. You must choose the e-business solutions that address the unique factors that shape stock value in your industry.

Different strategies for supply-chain management produce different sources of value. For example, to increase productivity in general manufacturing, you can use the "war room" approach. In the retail-consumer field, Web-based catalogs and scan-based trading can contribute to profits. In high-tech, look into networked supply chains or high-tech matrix solutions to reduce the working capital you need. In the automotive industry, e-exchanges can reduce your fixed capital needs. You can reduce costs in the oil and gas industry by using e-exchanges for spare parts. In health care, product life management can be an effective strategy for minimizing the necessary amount of fixed assets.

Opportunity Out of Crisis

When you have to respond to a crisis, you can set up a war room to work out your response strategy. Imagine this scenario: You are the CEO of a manufacturing firm that is having trouble with inventory turnover and high receivables. Your payments to suppliers are delayed and your supplies are becoming more expensive. Then, one of your manufacturing sites has a fire that will close the plant and reduce your production for six months. You know you must respond quickly to shareholder concerns. Already, security analysts are calling to ask how the plant closing will affect earnings; employees are worried about possible layoffs and customers want to know if their orders are going to be fulfilled.

"The CEO's job description has changed to one of leadership through technology-driven transformation."

"In many cases, line-item proliferation only serves to confuse the consumer (not to mention the operations staff of the manufacturer). By simplifying the product portfolio, consumer-products companies provide their consumers with clearer choices. They can also build greater brand equity with stronger brand recognition and focused trade spending."

“The retail and consumer-products industries have been slow to adopt technology as compared to other industries.”

“The real power of these technological advances is the Web-based data and information synchronization between trading partners from the initial deal to purchase over the scanner to final cash settlement.”

“The answer lies in tightly connecting sales, marketing and the supply chain. These operating units’ boundaries must become even more blurred to ensure a quick and successful implementation plan.”

A war room can help you make decisions by providing an accelerated solutions environment (ASE) where you use technology and related services to think about alternative scenarios. Because you can conduct a fast analysis, you can respond quickly to this crisis. You make plans with your team to optimize your business processes. For your analysis, use intelligent e-business technologies to calculate the impact of various changes in demand. Calculate how those changes affect factory and supply-chain planning. Then, link the results into a series of pro forma financial reports, including P&Ls and balance sheets. In the war room, you can work through a model of this disruption and prepare to deal with its effects. By the time you leave, you know how to respond to all your stakeholders.

A war room has a different area for each critical function, such as project management, research, knowledge management, e-business systems and input from external partners and vendors. It also has enough physical room for large group sessions and team meetings. During an operational crisis, remember the eight key principles for dealing with Wall Street, so you can demonstrate that you are in control. Be yourself — if only for the sake of consistency — and be prepared, principle-centered, fact-based, honest, accessible, empathetic and patient.

Assemble your war-room team and start planning. Give everyone a description of the crisis and templates for assembling data on the company’s products, markets, operating costs and other information. After the team members gather data in small work groups, reassemble the whole group to discuss conclusions and possible responses. Various types of software can help you analyze this data, such as “Supply Chain Strategist” or “Shareholder Impact Tool.” You can use state-of-the-art video-conferencing to share your views or you can use scenario planning to examine different responses, outcomes and cost results. For instance, you might consider outsourcing, new customer-management tactics or e-business strategies.

The war room response can give you quick results, which you need during a crisis. As a strong CEO, you have to respond quickly and decisively, while you look for opportunities for the future. Weak CEOs often delay their responses and come off as defensive and confused. You can’t hide during a crisis when everyone is looking at you and your company. You have to show that you are responding from a position of strength and control and protecting the value of your shareholders as much as possible.

Retail and Consumer Products

Shareholders in consumer-products firms primarily want profitable growth, which can be undermined if you lose customer focus. In this scenario, envision yourself as CEO of a company that has been so concerned with cost cutting and efficiency that it has lost its connection to its customers. Making matters worse, your largest customer has introduced a private-label product that competes with your best-selling product. What could you do in a situation in which a big retailer that is your major customer has also become your major competitor?

To compete, you must develop outstanding brands that dominate their categories and are priced more competitively than private-label products. To develop these brands, you need innovative ways to renew your customer connections and still keep down costs. Your plan has to link sales, marketing and the supply chain for efficiency and quick response. You must improve branding, develop an improved customer focus and achieve profitable growth. If you improve your sales-to-line-item mix by simplifying your product portfolio, you can give your customer clearer choices and build greater

“The war room uses an accelerated solutions environment (ASE) that provides technology and services to perform business-process optimization and scenario-planning that take hours, not months, to complete.”

“When a crisis occurs, the true test of leadership for a CEO and his or her company is the usual result. Strong CEOs respond quickly, decisively and with a vision for opportunity. Weak CEOs frequently respond in a delayed, defensive and confused manner.”

“Whatever the CEO’s choice, his or her chances improve significantly with help from procedures like the war room, which signals to Wall Street, customers, communities and employees that he or she is in control and that shareholder value is protected as best as possible.”

brand equity through stronger brand recognition. You could use customer segmentation to identify your largest customers, you can link to them more closely and identify their needs more accurately. Another strategy is to coordinate activities across enterprises in your supply chain through an Efficient Consumer Response (ECR) approach, through which you improve customer service and reduce system costs.

You can also employ e-business solutions, such as Web-based catalogs and scan-based trading (SBT). For example, a Web-based start-up called ViaLink created a Web-based catalog (syncLink) that allows you to create a common database for all your trading partners to use. The database combines item, price and promotion information. This synchronizes everything in the transaction, including the purchase order, shipping order, invoice and payables. Additionally, if you use scan-based trading, you can share critical point-of-sale (POS) data among trading partners to establish a new networked supply-chain process.

Using these high-tech tools, you can take clear steps toward profitable growth, based on understanding your customers’ needs. These steps include simplifying your product line, focusing on your largest, most profitable customers, linking performance measures to customer satisfaction and loyalty, developing strong brands, simplifying pricing and deal structures, and using Internet technology to collaborate with your customers.

Cars, Tech and Gas

Supply-chain management is crucial in the automotive, technology and energy industries to minimize the required amount of working and fixed capital and to control costs — all key shareholder concerns. Some helpful e-business solutions include creating a networked supply chain, using the HightechMatrix system, and setting up e-exchanges among trade partners or to trade spare parts. For example, Dell Computer’s order-to-delivery process minimizes the amount of working capital it needs by reducing inventory. The basic drivers that can help you use your working capital more efficiently (thereby reducing the amount you need) are your cash-to-cash cycle time, days of sales in inventory, inventory turns, accounts receivables and accounts payable.

A better functioning, networked supply chain can cut your costs. You can use different formats. For example, the HightechMatrix Marketplace uses a one-to-many link to provide a variety of value-added services, such as giving customers real-time information on inventory availability. You can also create a private exchange — or hub — linking several parties. Another alternative is to build multivalued chain solutions, such as establishing networked access to all your suppliers and new product designers.

To increase your working capital efficiency, follow these steps:

- Identify and institutionalize your customers’ order-to-delivery expectations.
- Establish timelines for customer payments.
- Profile and link your order information, so it is visible to your suppliers.
- Map and transform your networked supply chain activities according to a set timeline.
- Establish the timelines for paying your suppliers.

For industries that need to minimize fixed capital and costs, e-business can make trade and exchanges more efficient. For example, Autolink.com is a business-to-business Web site for automotive dealers. It provides online employee training, customer relationship management services, mass-purchasing capabilities and an automotive information service. This Web site helps you save money by maximizing return on your assets,

“The CEO had been so intent on cost-cutting and efficiency that he and the company lost their connection to the customer — both the retail customer and the final customer.”

“Efficient Consumer Response (ECR) is an initiative the company has been involved with since 1992 in the grocery supply chain. The objective was to coordinate activities across enterprises in the supply chain, thus reducing costs in the system and improving customer service.”

providing you with an optimized network, helping you manage capacity and throughput, and linking you to potential ways to outsource non-critical functions.

In the oil and gas industry, where cost minimization is the key to success, e-business technologies — such as an e-based spare-parts exchange — can help reduce the total delivered costs to the final consumer. E-based technology can help you cut processing costs, find opportunities for outsourcing and identify services you can share with others in your industry. All of these are elements of cost minimization.

Operational Efficiencies

E-business solutions can help achieve shareholders’ goals in many other industries. As you employ e-business technology for logistics planning, scheduling and e-fulfillment, you can also have it include the tax implications in each network analysis. This would allow you to identify the taxes affected by supply-chain decisions, such as customs duties, sales or use taxes, property taxes and employment taxes. With this data, you can review tax reduction strategies and set up centralized tax planning.

To achieve better fixed-capital efficiencies — a priority, for example, in the healthcare industry — you can use a networked supply chain and a product life-cycle management (PLM) strategy. With this PLM approach, you first set your business strategy, create a system to manage knowledge, align the people in your organization, create effective business processes and develop an infrastructure for technology.

The particular e-business solutions you want to use depend on your company and industry, since the applicable shareholder drivers and types of network systems will vary. However, whatever your industry, these e-business technologies will help you better manage your supply chain and find increased efficiencies in your operations, while minimizing costs, taxes, working capital and fixed-capital, and promoting more profitable growth.

About The Authors

Fred A. Kuglin is vice president of the Supply Chain Operations practice of Cap Gemini Ernst & Young U.S., LLP. He has worked for more than 20 years in the areas of strategic planning, network optimization, process reengineering and overall supply chain management. He has held senior posts with Frito-Lay, Inc. and EDS/A.T. Kearney. Barbara A. Rosenbaum is a director with Cap Gemini Ernst & Young’s Global Supply Chain service line. In addition to more than 20 years of supply-chain consulting and industry experience, she has served on the faculties of John Hopkins University and Loyola College, published numerous articles and served as a contributing author of two books.

Buzz-Words

Accelerated solutions environment / E-business solutions / E-exchanges / Fixed capital efficiency / Shareholder drivers / Supply chain management / Tax minimization / War room / Working capital efficiency