

Supply Chain Performance Improvement for the Rest of Us

Revenue down, demand uncertain. Where do you cut costs?

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March 2, 2009—Competing on the basis of your supply chain performance has become more important than ever in this tough economy. With revenues down and demand uncertain, where do you cut costs? If your company isn't the biggest in your market or the lowest cost provider or the first to introduce new products, what kind of results can you expect to achieve with supply chain improvements?

Four strategies can work for the rest of us:

1. Stop obsessing over Six Sigma
2. Forget about achieving the "perfect order"
3. Pay your suppliers better
4. Don't talk to customers

Stop Obsessing Over Six Sigma

Leading companies have come to realize that business process innovation and improvement—not just new products or services—can be major sources of competitive advantage. Companies that have adopted this mindset employ a more disciplined approach to process management. But it's important not to obsess over the myriad methodology choices out there and instead focus more on where you apply the methodology. Whatever your company has chosen to achieve and sustain operational excellence, the most important thing to do in today's economy is to leverage that chosen process lifecycle methodology to focus on customer-visible process improvements.

It's time to move beyond optimizing individual processes to the nth degree and emphasize improvements that drive through your extended supply chain to your customer's customer.

Identify those business processes that matter most—and for manufacturers, distributors and retailers, surely the customer-facing supply chain processes would count among them, even if you do outsource some of them—and then digitize those processes. Business Process Management (BPM) is the leading means for accomplishing this, as it ties together all aspects of a process both from a descriptive and execution perspective, and from a line of business and IT perspective.

Don't just digitize those customer-facing processes to improve how work moves through them, but consider capabilities that also improve how that work gets done. Improving process with speed alone can only help you make the same mistakes faster, and forcing an unfamiliar, non-intuitive user interface on staff can hurt productivity more than it helps. Whether your goals are to comply with complex business rules for customer disputes or to gain faster access to customer correspondence for a "single version of the truth," people are your organization's most important asset to meet those goals. Use tools that can make your extended supply chain process work for the people, not the other way around. Think of how much faster your new and improved process will be adopted, whatever methodology you've chosen, and how often it will be adhered to, if it actually helps your people get their work done.

Forget About Achieving the "Perfect Order"

In supply chain circles, achieving the "perfect order," the right product delivered in full, on time, every time, is considered Nirvana. AMR Research's annual look at some of the world's best supply chains found that companies that rank in its Top 25, like Johnson & Johnson, Nike, and Publix, carry less inventory, have shorter cash-to-cash cycle times and are more profitable.

How do companies achieve this level of performance? Certainly they are continuously improving their supply chain processes to achieve the "perfect order." To better control costs and meet customer expectations, though, all companies need to focus more on better managing the mistakes or order exceptions when they inevitably do happen.

Effective exception handling is one of the most important competencies a company can gain, especially to make significant advances in demand-driven performance. The true test of a high performance supply network may well be what happens in exception handling "when good orders go bad." Profit margins on customer orders can suffer via downstream execution problems where excessive costs are incurred. Shipments delayed due to data inaccuracies cause manufacturers to expedite

delivery and sacrifice margin in the process. This behavior comes from increasing competitive pressures and the lack of visibility into what is occurring from the first point of customer contact to when the order gets shipped and billed.

It has become critically important then to understand how best to deal with order exceptions and how to cost-effectively address the problem orders. Technology alone won't solve all the issues associated with exception handling; however, there is a class of process intelligence technology that can provide the underlying tools for improved decision making: End-to-end process analytics, problem history reporting, root-cause analysis, and perhaps most importantly, real-time exception handling.

This technology can help, for example, in the order-to-cash process to identify and resolve errors in any step of that cycle. Exceptions such as a problem with external communications, an EDI problem, or data consistency issue can sideline an order in an exception queue for long enough to miss the delivery window or require expensive efforts to correct the sidelined order in time for delivery. This can not only bring financial repercussions, but can also damage key customer relationships. If missed delivery windows happen repeatedly, the customer may well turn to a more trusted supplier. Yet, response should not be achieved at any cost. A static view of inventory balances is insufficient; technology for a real-time view of the order-to-cash process and increased automation in critical workflows is required. When an anomaly is detected in the order process, real-time alerts can automatically be sent, allowing the key business process owners to deal with the most critical issues in time.

Pay Your Suppliers Better

Paying your suppliers better can save your company money. In a recent Businessweek article, T.J. Maxx was highlighted for settling accounts fast, in 30 days or less. They pay their suppliers better and by doing so strengthen vendor relations, drawing the best merchandise to their stores. This is critical to its business model.

For the majority of companies, saving costs is even more critical. However, there are savings to be achieved by paying your suppliers better—not necessarily faster, but “just in time” according to their payment terms. Now is the time to adopt better payment disciplines and processes that can provide accurate payment against your supplier SLAs. It will save you money by improving your ability to get agreed discounts.

To be truly effective at meeting customer demand while maintaining critical margins, how you treat suppliers may well be your key first enablement. You will need to be organizationally responsive: The ability to see the problem is important, but then it is necessary to route the problem to get it automatically addressed via a complaint process that includes human task and workflow progress.

Companies like Lowe's use BPM to improve accounts payable, eliminating errors that cause delays

and unnecessary adjustments, such as goods being received for which no invoice has been generated, or vice versa. Companies can avoid situations where the processor needs to track down the information, delaying the process and possibly missing time-sensitive vendor discount terms.

Don't Talk to Customers

Companies need to stop talking to customers? Yes. That is, stop wasting your time and your customers' time talking about items like credit disputes. You can automate and streamline your customer dispute resolution and spend more quality time listening to your customers. Engage in dialogs that explore consumer demand or their product interests and business process priorities.

Customer satisfaction is everything. Companies must find ways to control spending and cut costs all while keeping pace with their peers and meeting their customer SLAs. Suppliers typically don't capture enough granular data in their Order-to-Cash (O2C) cycle to make headway against deductions—or they can't easily and effectively access the data. Further, they lack the requisite dedicated staff in operations and systems, have not measured the extent of the problem to size the profit leakage opportunity or they simply don't know what steps to take to attack the problem.

Companies like adidas Group use BPM to set and meet KPIs and cut the time required to turn around customer claims processing. Further, its choice of a content-aware BPM capability prevents unnecessary losses on claims simply because documents cannot be found for verification and claims substantiation. Capabilities enable adidas to organize work, automate the aggregation of records, and simplify inter-department process hand-offs. All related documents—regardless of where they are stored—are linked and consolidated into a single view, and workflow is optimized between the claims analysts, researchers, and other departments involved throughout the entire claims management process—from the time the claim is received, through the resolution process, and all the way to record archiving. Manual intervention in the hand-off has been eliminated, and customer SLAs are now automatically tracked and managed.

From a process improvement perspective, the top supply chain companies may have an advantage that the rest of us can't duplicate. There are some basic tenants, though, that all of us can benefit from, especially in today's market conditions. The result is not only improved consistency of customer response, but close control of decisions that can affect profits.

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