



Managing Supply Chain Technology

*Bridging the Gap Between the Supply Chain
And the Technology That Supports It*

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Scenario 1: *Roy Hanley was feeling pretty proud of himself. In his quest for office furniture for his recently constituted work group he had diligently researched all the options, called numerous discount outlets, and ultimately negotiated a surprisingly low price for the 43 desk chairs the group required. He would have to tell others about the deal, he concluded.*

Scenario 2: *Very strange, Sandra Thompson thought, looking around the board room table. 35 people in this room, all of whom require connectivity. From where she sat she could see Palm Treos, Blackberries, Palm Pilots, HP Jornadas, and mobile phones from at least four different service providers, all paid for by the company. Really weird.*

Scenario 3: *"Check this out," said Tom Banks to his associate. "I'm running the audit on these guys and so far I've found 16 different non-communicating invoicing systems in the company. No wonder they can't get their arms around their spending."*

The scenarios described above are real and are illustrative of one of the greatest challenges facing corporations today: the ability to successfully manage the full scope of the supply chain and specifically to analyze what is spent across the enterprise. As companies evolve from highly centralized, vertically integrated entities to fully distributed organizations comprising a collection of largely independent sub-groups with varying degrees of procurement responsibilities, two things happen: decision-making becomes dramatically faster, and centralized spend control virtually disappears. And while the move to push decision-making as far down into the corporate hierarchy as possible is a good thing, it brings with it the loss of control of certain decision-making functions which should remain logically centralized – or at least centrally monitored.

Consider the examples shown above. Roy Hanley felt good about the fact that he took it upon himself to negotiate a lower-than-retail price on his company's behalf for the office furniture that his group requires. And while his actions are laudable he is actually costing his company money because unknown to him, the central procurement organization has already used its purchasing muscle to negotiate a significantly *lower* price from a different vendor. Sandra Thompson in her board room observation of a plethora of communications devices illustrates that while everyone is connected, the firm's fragmented purchasing practices probably result in less-than-optimal pricing, warranty and support plans. And the multitude of invoicing systems in the third scenario means that invoicing practices are sub-optimal and are most likely costing the firm dearly in terms of data analysis, economies of scale and buying power.

Buying off-contract, failure to optimize purchasing or leasing options and failure to leverage certain key data collection functions result in losses for corporations that can run into the tens of millions of dollars in a large corporation – yet at first blush the overspend is undetectable.

The critical question is not what you bought, but who you paid.

Senior executives focused on the supply chain care about four things: maximization of revenue, reduction of CAPEX and OPEX, stabilization or improvement of competitive position, and reduction of downside market risk resulting from operating in a competitive marketplace. To the degree that the supply chain can have an impact on these elements of business success, its management should and will garner an appropriate share of executive attention. And while executives may or may not care about the purchase of office furniture or the selection of mobile devices, they *do* care about the financial implications of off-contract purchasing or of poorly-

conceived and managed purchasing policies. – and the direct impact on the bottom line that those purchases make.

Scenarios for Success

Economist John Nash, about whom the movie *A Beautiful Mind* was made, was awarded the Nobel Prize in economics for his work on equilibrium theory. Nash defined equilibrium as a system in which every player in a particular market believes that he or she is making the best possible choices for themselves, and that every other player is making equally good choices. Equilibrium creates market stability through validation of participant expectations, bounded risk tolerance, choice validation, and behavior support. When a change agent enters the market it disrupts the delicate equilibrium of the system, resulting in disorder and instability.

***Remember:
It's not what
you bought,
but who you
paid.***

Nash's concepts apply equally well within the broad confines of the supply chain environment and our work in this field with numerous clients bears it out. And while a well-meaning employee with his or her employer's best interests in mind may think they are doing the best thing for the company, they may actually introduce a disruptive force into an otherwise stable environment that leads to less effective spending behavior and eviscerated cost controls.

Solutions that Work

We have extensive experience throughout all aspects of the corporate supply chain: the underlying technologies that power it, the systems that enable (or, in some cases, inhibit) effective supply chain processes, and the business issues and processes that affect corporate spend practices. Our clients range from very large multinational corporations with global influence and spending reach to small and medium-sized businesses that are more local and regional in nature. And while these businesses range widely in terms of size, complexity and budgets, the challenges that face them are largely the same. The bulk of our analysis, consulting and implementation services revolve around the following areas.

eCatalog

This is the Achilles Heel of eCommerce. Internal purchasers begin to distance themselves from purchasing systems (as well as contract and procurement policies) the instant they perceive that the items they want to buy are not included in the catalog. Our approach makes the whole issue of the eCatalog little more than a minor administrative task in terms of contract management. Our approach maximizes value and minimizes effort for all parties involved.

Spend Analysis

For many companies, this is an enormously expensive effort that is often outsourced. Through careful analysis of spend practices and patterns, we design a plan that facilitates instant spend information without the need for expensive, disruptive projects that yield non-reproducible efforts.

Supply Chain System ROI, Data Warehousing, Knowledge Management and System Linkage

We have significant experience designing and linking systems, under the aegis of accepted corporate policies and procedures, to get the most from supply chain systems. We have found that in many cases companies have acquired the right software, but don't know which data

elements are crucial and must be defined consistently across systems to facilitate the collection of the information that is required. This crosses various informational boundaries (technology, organizations, systems), and is rarely done well. By recognizing and then obviating the famous "silo effect," We identify and create information linkages to ensure that data mining practices yield corporate knowledge that results in competitive advantage.

Contract Bypass

Employees bypass contracts for a variety of reasons that range from how they are individually evaluated and compensated to the level of training that has been invested in procurement organization personnel. Corporate savings can be significant if the firm can negotiate better contracts (i.e., deeper discounts based on proven purchase volumes) with a single or limited number of firms and buy exclusively from them. We address the entire range of factors that contribute to off-contract buying including analysis and report creation that captures the magnitude of bypass, itself an elusive and definitional challenge.

Supply Chain Measurement and Workload Management

We offer a full complement of tested measurements for the procurement organization designed to be tailored and implemented on a customer-by-customer basis. We know that you get what you measure; we've got the experience to help you get what you want.

RFx Management

"Request for x," where "x" means Quote, Proposal, Information, and a host of other terms, is a major part of the initial procurement process. We can manage a major RFx for customer companies from the original requirements collection process all the way through supplier notification and proposal analysis. This service is often used by our clients that wish to demonstrate true impartiality to their suppliers. The process is beneficial to all.

Purchase Classification

Purchase and Supplier Classification are important issues - without them companies don't know how they are spending their money, a function that is somewhat important given that workload management and managed purchasing discounts are based on this information. We have extensive, hard-won practical experience working through the process of classifying companies and the products and services they supply. We can speak to the most effective classification hierarchy for each area and the benefits and challenges associated with hierarchy adoption.

In Conclusion

All companies, regardless of size, operate within the confines of an established supply chain that is governed by either a formal or informal set of rules and spending practices. Our experience shows that there are areas that deserve attention and corrective in *every* corporation. In some cases the corrective actions are trivial, often nothing more than the introduction of an awareness-raising exercise; in other cases there is a need to change internal practices that yields significant financial returns when implemented. Required actions revolve around technology and information infrastructure, intra-corporate communications, accepted purchasing practices, and personnel actions. Each must be examined, analyzed and considered as a contributing factor. Only then can a permanent and economically-attractive fix be crafted and put into place.

*The **Shepard Communications Group** provides industry analysis, education and strategic consulting services to component and device manufacturers, service providers, regulatory agencies, professional services firms, universities, advertising agencies, venture capitalists, vertical industry sectors, and global economists throughout the world. **Garrett Business Technologies** provides supply chain analysis, consulting and implementation services, including eCommerce, Data Warehousing/Knowledge Management and system design, to a wide range of industry clients.*

Steven Shepard and Jack Garrett, the principals of the two firms, routinely collaborate to provide client and industry-specific services to their mutual clients. Mr. Shepard can be reached at Steve@ShepardComm.com; Mr. Garrett can be reached at JPGarrett@GBTLLC.com.
