# Overcoming Barriers to Supplier Collaboration
## Why Most Projects Fail and What You Can Do About It

*Warren Sumner*

*April, 2008*

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# Agenda

- Issues with Trading Partner Collaboration
- Keys to Success – Business Process & Technical Linkage
- Keys to Success – Project Management & Alignment of Incentives
- Q&A

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# The Importance of Collaboration

"Streamlining cross-company processes is the next great frontier for reducing costs, enhancing quality, and speeding operations.  It's where this decade's productivity wars will be fought."
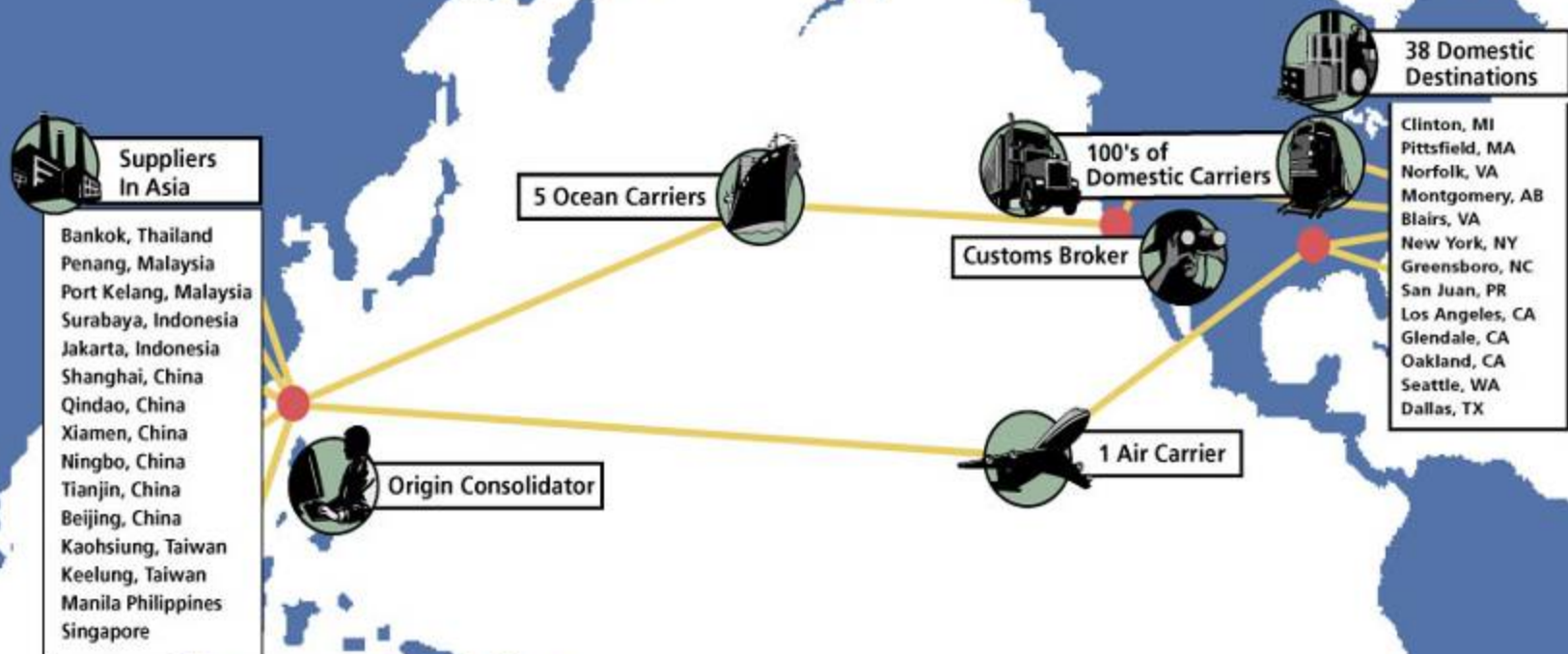
-   Michael Hammer

*Author of Reengineering the Corporation*

Harvard Business Review, September 2001

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# Outsourcing, co-packing, off shoring, and contract manufacturing lower costs, but create new challenges…
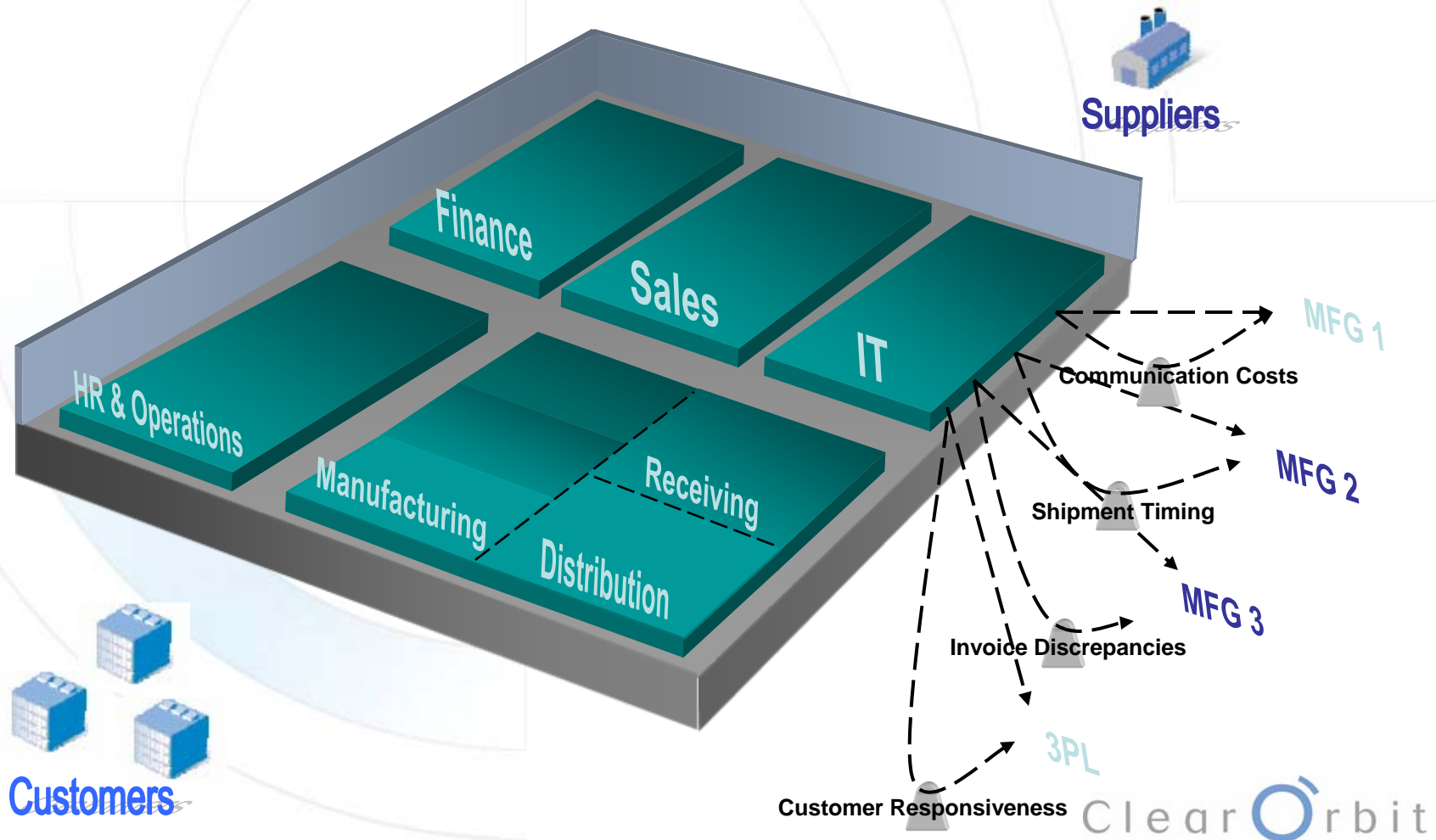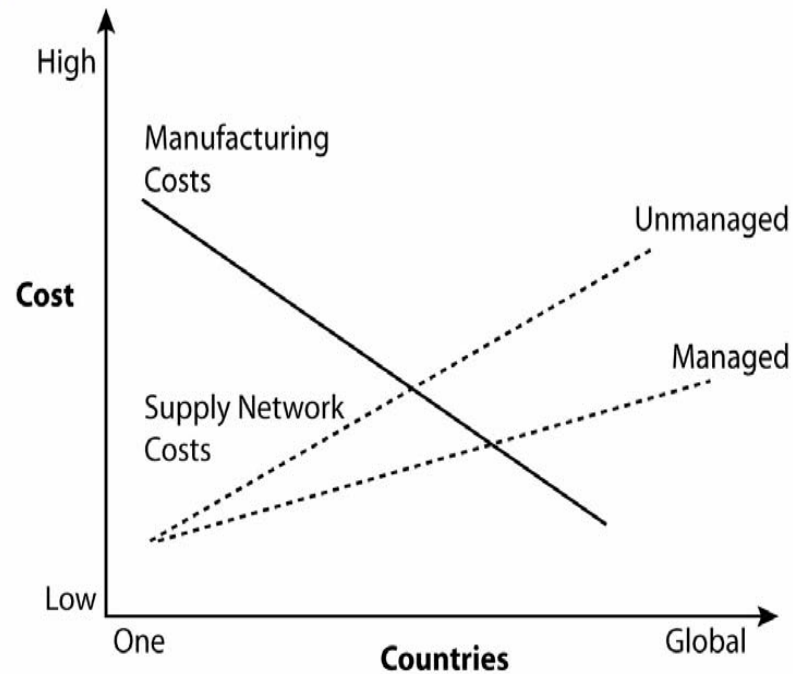
# Globalization adds complexity

# Global complexities affect our ability to perform…

Global supply networks increase variability



| Component | Supply Network | |
| --- | --- | --- |
| | Domestic | Global |
| Cycle time | 5 to 7 days | 25 to 40 days |
| Third-party touchpoints | ±4 | 5 to 20 |
| Government involvement | Minimal | Significant |
| Time zones | 1 to 3 | 8-plus |
| Transport modes | 1 to 3 | 3-plus |
| Transportation costs | Low | High |
| Languages and currencies | 1 | Multiple |
| Document requirements | Low | Significant |

*Source: AMR Research,*

*Hindering flexibility and profitability…*

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# Need for Trading Partner Collaboration

- Outsourcing and contract manufacturing trends continue at rapid pace
  - 89% of brand owners outsource manufacturing of some finished good items
  - 44% drop ship finished good items directly from CM to end customer
  - 70% manage critical components either fully or jointly with CMs
  - Not supply chain but multiple supply networks

*Source: AMR Research*

The explosion of contract manufacturing and rush to low-cost countries are straining brand owners' ability to manage their supply networks.
  **- AMR Research, "Contract Manufacturing at a Crossroads: Brand Owner Need for Visibility"**

# Collaboration by Brand Owner



Source: AMR Research

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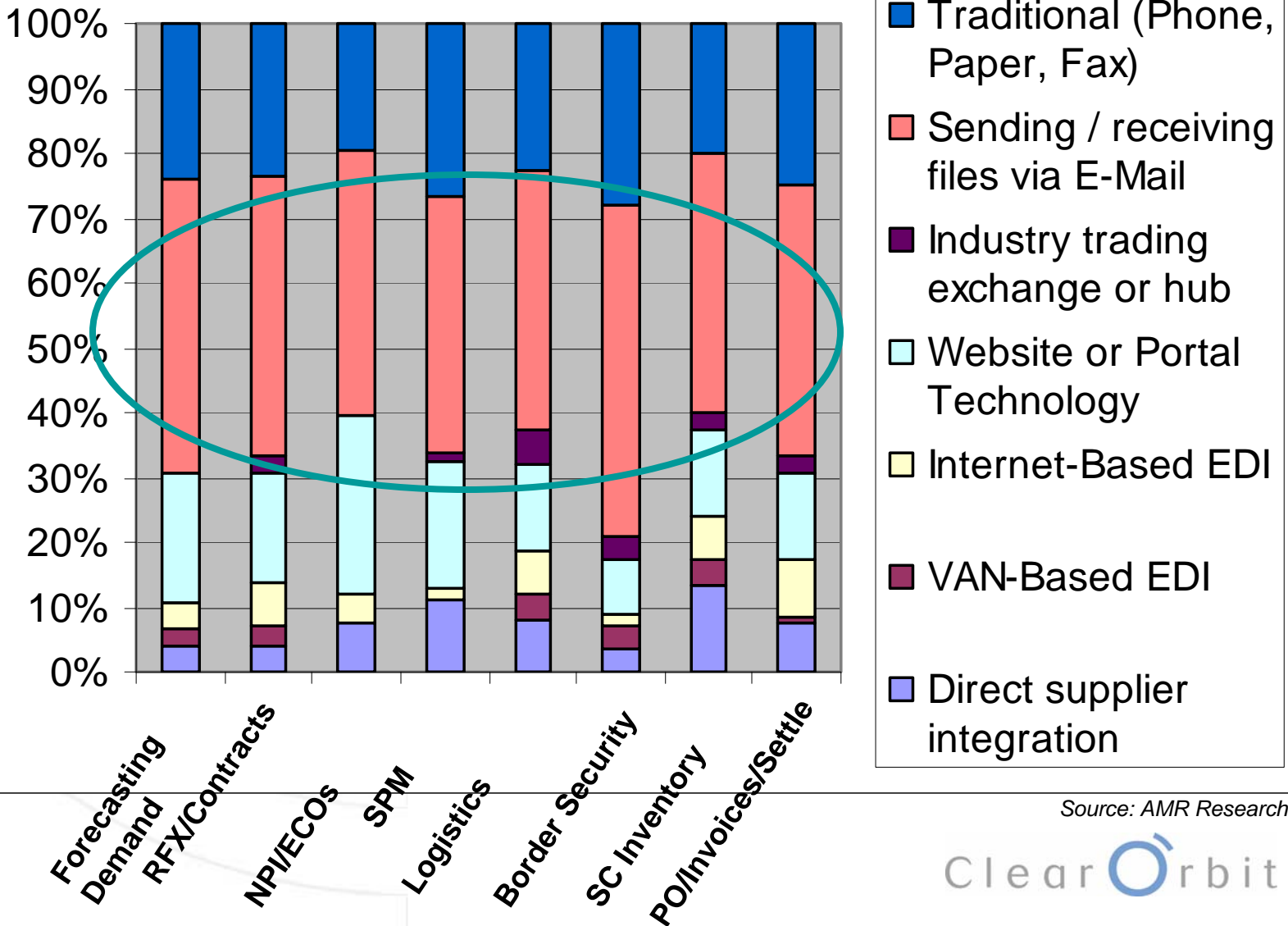
# Trends in Supply Collaboration

"US companies plan on increasing investment in supply management technology and processes by 13.9%" AMR Research 2008 Report

Focus Areas
- Freight optimization
- Move quality upstream
- Improve supplier connectivity
- Improve supplier visibility
- Supplier diversity management
- Supplier performance management
- Sustainability

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# Sustainability & the Supply Chain

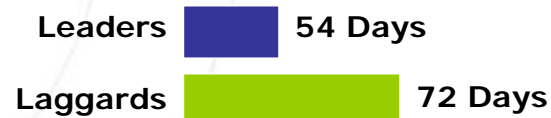- "sourcing policies that work on reducing energy costs and incorporating environmental frameworks into sourcing processes will be commonplace by 2010" – Forrester

- "smart technology is starting to facilitate efficiencies in the supply chain that promise to have a beneficial effect on energy consumption"

Source: "Why IT Must Take the Lead in Greening the Enterprise" Cisco Systems, 2007

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# What are the leaders proving? They can…

Deliver 20% More Perfect Orders…

| | |
|---|---|
| Leaders | 90% |
| Laggards | 68% |

…While holding 1/3$^{rd}$ less inventory…

| | |
|---|---|
| Leaders | 54 Days |
| Laggards | 72 Days |

…and spend 5% of revenue less on SCM costs!!

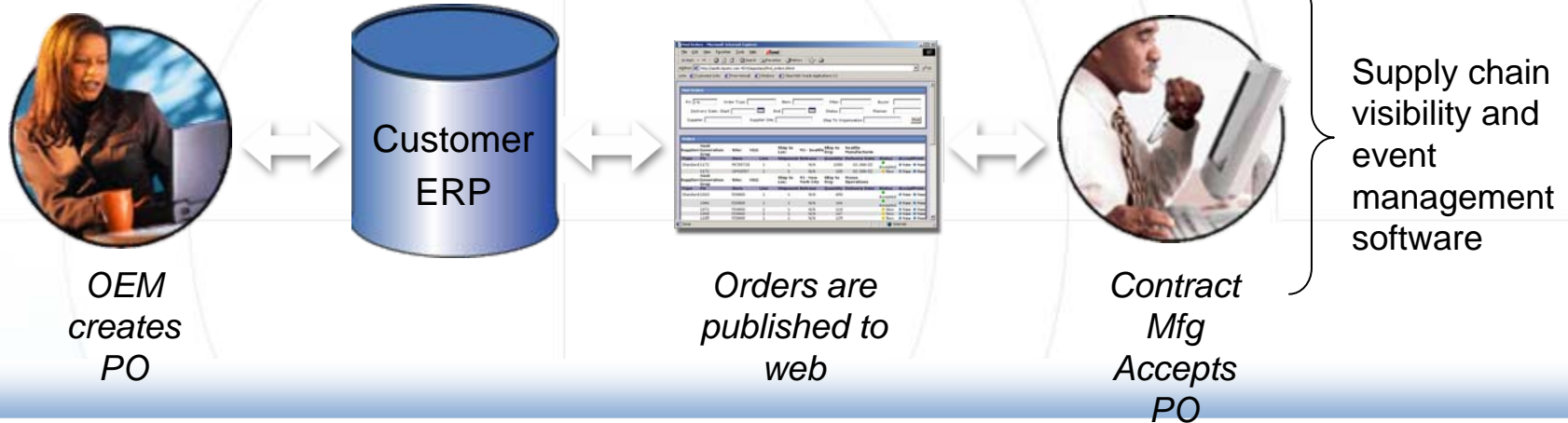| | |
|---|---|
| Leaders | 21% |
| Laggards | 26% |

*Source: AMR Research*

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# Keys to Success – Business Process & Technical Linkage

- Enforce process discipline between buyers and suppliers
- Real-time connectivity to OEM / Brand Owner's ERP system
  - Revenue information reflected instantly
  - Shipment signals initiated instantly
  - No-duplication of data in a separate system
  - Automated receiving transaction at supplier shipment
  - Automated receipt into consigned subinventory for Hub material
- Validation and prevent controls at supplier shipping dock
- Built-in compliance labeling
- Built-in shipping documentation from the system of record
- Utilize native ERP functionality (e.g. Oracle Grouping Rules)

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# Order visibility is not sufficient

**Visibility**

OEM creates PO

Customer ERP

Orders are published to web

Contract Mfg Accepts PO

Supply chain visibility and event management software

Disconnect between order visibility and shipment execution

**Execution**

Receipt info in separate system

Label generated from contract mfgr's system

Products which only provide visibility do not close the loop with execution

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# Key to success is visibility & control

Visibility

Execution



1. OEM creates PO

Customer ERP

2. Orders are published to web

3. Contract Mfg Accepts Order

6. All shipments reconciled vs. plan

5. Shipment receipt tracked by single system

4. Web-based label print directly

# Why Have So Many Collaboration Projects Failed?

Lack of Trading Partner Adoption
- Unequal distribution of benefits
- Organizational resistance to change
- Security Issues
- Lack of manufacturer commitment

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# Unequal Distribution of Benefits

Ex) Public trading exchanges

- Limited value proposition for the supplier
- Ignores quality, consistent performance, value-added services
- Removes supply chain cost through lower supplier margins

Ex) Vendor Managed Inventory

- Moves inventory to supplier balance sheet
- Shifts replenishment responsibility & overhead
- Diminishes supplier visibility & control

# Organizational Resistance to Change

*"Change is hard in your own company, harder in someone else's"*

- Business Processes
- Technologies
- Cultures

Ex) Electronic Data Interchange (EDI)

- Business process built around EDI capabilities and limitations
- Large investments in system integration
- Job descriptions tied to EDI maintenance

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# Security Issues

<u>Potential Concerns</u>

- Supplier and Manufacturer concerns about sharing ERP data
  - with the internet world, with the wrong supplier
  - price, production volumes, lead-times, sourcing information
- Firewall restrictions
- Corrupting production data

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# Lack of Manufacturer Commitment

"This too shall pass" – Overcoming Organizational Inertia

- Suppliers are looking for Executive commitment
  - At their customer and their own company
  - Is commitment in writing?
- Current project is affected by prior failures
  - "We can't seem to get anything implemented."
- Will it still be a priority at quarter-end?

# Overcoming Obstacles: Getting to Yes

- Supplier involvement in crafting solution
- Shared incentives
- Technology & security issues
- Visibility and commitment
- Creating rollout momentum
- Ongoing communication
- Key Performance Indicators (KPI)
- Training and support

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# Supplier Involvement in Solution

- Utilize suppliers carefully in solution development process
  - Selection factors: influence/thought leadership, attitude, representative processes, accessibility
  - Dangers: design by committee, losing control of design or communication

- Benefits
  - Understand the program's impact upon suppliers
  - Discover/remove hidden barriers to success
  - Craft the supplier value proposition

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# Creating & Communicating Shared Incentives

Supplier Benefits

- Communication efficiency:
  - Demand visibility – better planning, resource allocation
  - Change visibility – better ability to respond
- Customer process discipline
  - ex) receipt of goods
- Eliminate disputed invoices
  - Earlier collection of receivables
  - Lower cost of processing A/R
- Eliminate cash application errors
- Lower cost of compliance – ex) compliance labeling



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# Addressing Technical & Security Concerns



Technical

- Provide multiple integration paths:
  - Web Services, API's, XML, Flat-file, Browser, Appliance
- Minimize impact to EDI-integrated suppliers
- Engage with supplier IT management
- Package the process for the supplier
- Build time for supplier adoption into schedule

Security

- Utilize established security protocols
  - SSL 128 bit encryption, VPN, etc.
- Provide security briefing sheet for supplier's security experts

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# Visibility & Commitment

- Demand Executive Commitment & Sponsorship
  - Assign an executive owner of the project <u>results</u>
  - Executive owner launches project
    - internally and externally
  - Use "letter from the Exec" to introduce new participants to the project

- Maintain Executive Visibility & Commitment
  - Create a Program Management Office chaired by executive owner
    - Project progress reporting & phase exit sign-off
    - ROI-based scope control
    - Project results reporting to senior management

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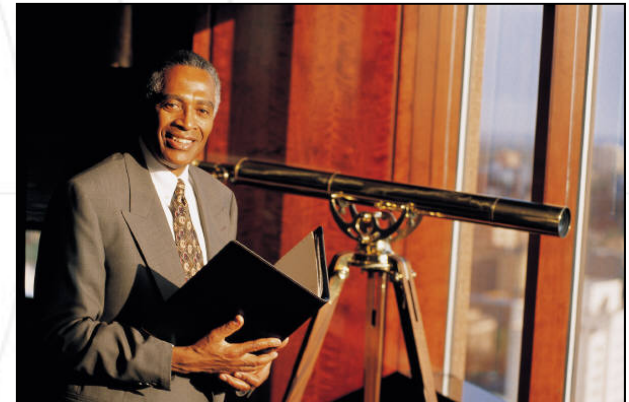
# Importance of Rollout Momentum

Build an atmosphere of success to create momentum

- Design pilot phase as a "Quick Win"
- Select pilot suppliers who will be a positive influence
- Minimize risk through "slow-live" versus "big-bang"
- Design pilot to demonstrate shared incentives and program ROI
- Pilot should be less than 6 months (2 quarters)
- Publicize the Quick Win internally and externally
- Post-pilot rollout
  - Get $ volume on the system quickly
  - Address key pain points
    (key suppliers, critical parts)
  - Build a repeatable process
  - Maintain team continuity for expertise

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# Ongoing Communication

- Use a multi-tiered communication program
  - Program launch meetings
  - Monthly management updates
  - Email Newsletter
  - Internal & external portal announcements, progress reports, FAQ
  - Supplier workshops

- Communicating to management
  - Utilize phase gate sign-offs
  - Require progress reporting on program metrics & benefits

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# Key Performance Indicators (KPI's)

- Collaboration Process KPI's
  - Linked to financial results & project business case
  - Built-in to the collaboration system (automatic), with thresholds & alerts
  - Assigned to an owner
  - Visible to executive sponsors each week
  - Measure the suppliers as well as the buying organization
  - Ex) Order Acceptance Aging, Frequency of Order Changes
- Implementation Project KPI's
  - Include scope, schedule & cost
  - Force linkage between change requests and project business case
  - Identify risks, owners & action
  - Incorporate timing of business case benefits

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# Training & Support

Training

- Train super-users early,
  end-users just in time
- Test "day in the life" scenarios
- Utilize job aids
- Ongoing training to cover turnover



Support

- Build a support structure before go-live
  - Local super-users, Corporate Center of Expertise, System Vendor
  - Post the support process and key contacts list
- Develop a failover plan and communicate the trigger points
- Build in system monitoring metrics with thresholds

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# Review of Key Points

- Early collaboration efforts failed from lack of supplier adoption

- Ensuring adoption requires a structured approach
  - Supplier involvement in crafting solution
  - Shared incentives
  - Technology & security issues
  - Visibility and commitment
  - Creating rollout momentum
  - Ongoing communication
  - Key Performance Indicators (KPI)
  - Training and support

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# World Wide Technology Collaboration Project

- **Business Need:**
  - New contract with major automotive OEM
  - 900+ New Suppliers to bring on within 6 months
  - More than 1,000 different items to be managed
  - Minimize addition of Purchasing and Payables Staff

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# The Improvement Opportunity

**Automotive OEM MRO Purchasing Operations**

1. Close to 1800 vendors serving 26 assembly plants

2. Little consolidation of spend across plants

3. Heterogeneous supply base

4. Persistence of paper-based transactions

5. Little standardization of in-house best practices

6. Decentralized purchasing decisions with multiple sources of "system nervousness"

*End result: an error-prone, costly purchasing operation with frequent incorrect deliveries and associated reconciliation transactions—all of this amid a fiercely competitive and shifting industry.*

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# Volume & Admin Costs Out of Synch
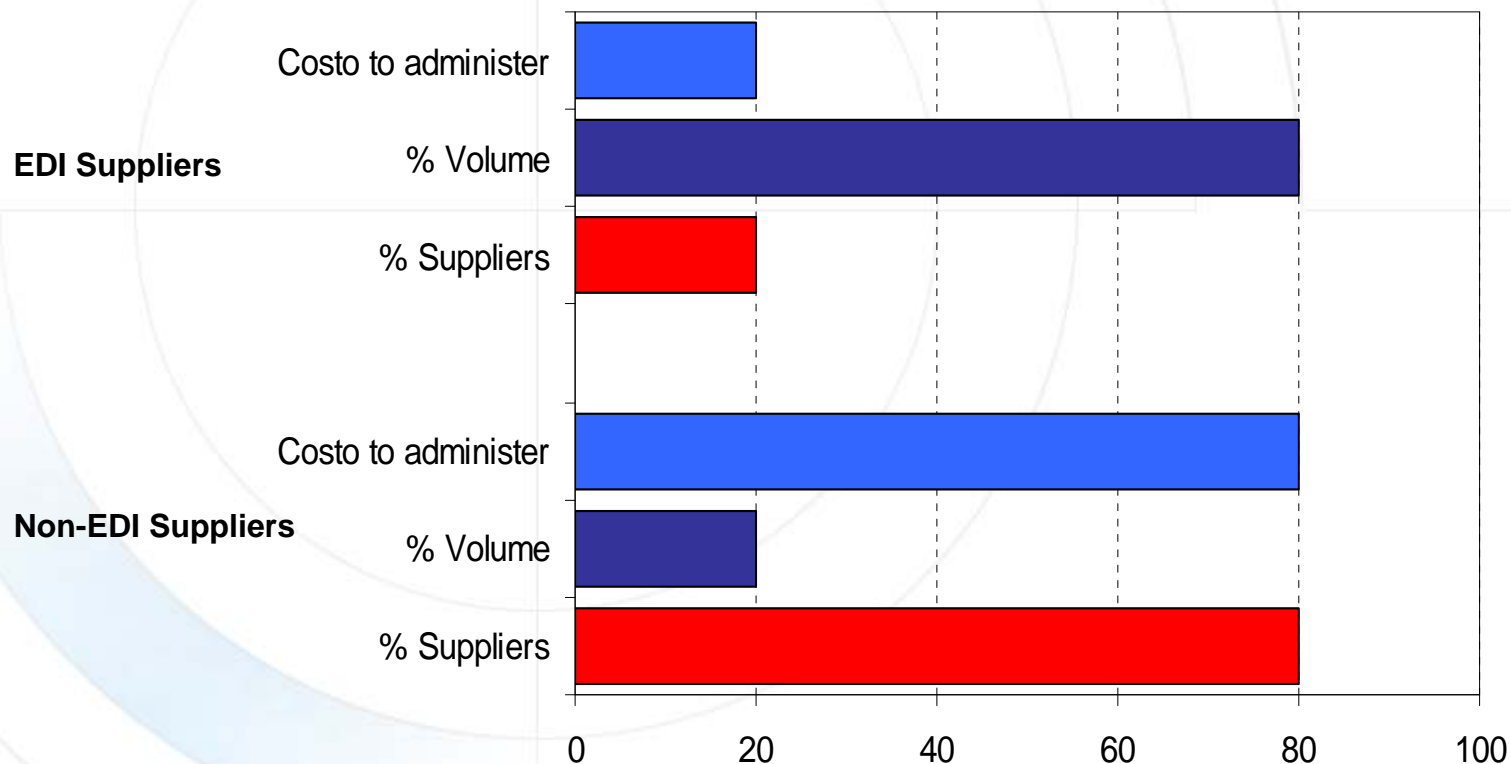


Source: World Wide Technology.

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# Project Results

- Install to Go-Live in 30 days
- Vendor self sign-up through ClearOrbit's supplier administrator feature
- Built-in training material streamlined application adoption
- Vendors came onboard at a rate of 50 to 100 per week
- In less than 6 months, around 1200 vendors connected to WWT via ClearOrbit

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# Business Results

## Automotive Manufacturer

- Reduced supply base by 33%
- Placed order with a single company, WWT, as opposed to thousands of vendors
- Reduced resources managing the purchasing operation
- End-users at plants perceived higher service

## WorldWide Technologies

- 50-60% reduction/cost avoidance in A/P personnel
- 20-30% reduction/cost avoidance in order processing personnel
- 30-40% reduction in personnel tasks
- 10-20% reduction in nonconformances at the receiving dock

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# Learning from Success

*"Overestimating the capabilities that a product can fulfill right out of the box can be disastrous in a short-term project"*

Customization needs

Vendor evaluation

Communication

*"We were convinced that ClearOrbit could be flexible and customize to our requirements to get the tool up and running as we needed it"*

*"[WWT] did a good job defining the project, defining the scope, deliverables, and timeline. ClearOrbit then became an extension of our development team, spending 80% of their time in St. Louis"*

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# Thank You

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- Lack of visibility and control:
  - Contract manufacturing and 3PL shipments or inventory positions
  - Duplicate, lost, or mislabeled shipments

  - Late or early shipments

  - Invoice matching discrepancies

  - Supplier payment delays or payment errors

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# Three types of vendors, one set of benefits

Sophisticated suppliers with own EDI linkages

"Medium" suppliers relying on third-party EDI services

Small, non-EDI suppliers

- Single sign-on access to POC transactions
- Customized reports
- Low-cost web-based interface and connectivity
- EDI communication whenever needed
- Fast transmission of documents
- Fast completion of transactions
- Fewer transactional errors
- Real-time tracking of both order placement and invoice payments

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