

Cutting supply chain costs to enhance performance

Tighter corporate finances may open the eyes of the CFO to the savings that can be achieved through seeing the supply chain a little more clearly. Given a chance, availability of information can cut costs, improve performance and deliver strategic competitive advantage.

With a recent Ernst & Young report indicating that over 80 per cent of major global corporations are adapting their business strategies to a deep international recession, few can be in any doubt that supply chain costs will come under close scrutiny. In the same study fifty eight per cent said they expected significant or reasonable savings in their supply chain operations.

The question facing many chief financial officers (CFOs) and senior supply chain managers will be, how to deliver the necessary savings without disrupting customer service or supply? In a world where cash is very much king, can efficiencies be made that deliver financial as well as strategic advantage?

Over the past 15 years a great deal has been written about the efficiencies that can be brought to bear by introducing visibility across a supply chain. The free exchange of sales information and forecast data between collaborating buyers and suppliers can take significant amounts of inventory out of the system, which has a direct cash benefit. But there are many further advantages B2B integration can afford the retailer or manufacturer beyond a potential saving in inventory and these are not always readily understood or recognised by the CFO, or even, in some instances, by the supply chain director.

The use of intelligent electronic trading holds a far more profound influence over operational efficiencies within the chain, from tracking and tracing product at the SKU level at every stage of its lifecycle, offering more accurate forecasting and planning, reducing transactional complexity, enabling the measurement of supplier performance, integrating and automating third-party relations for direct ship operations, pre-invoice matching, to facilitating local sourcing of goods for direct to store shipment – and this is to mention just a few examples.

Until fairly recently, a significant barrier to companies taking advantage of these many process benefits has been a technical one – the thorny issue of systems integration. Complexity surrounding the various formats and protocols involved in linking multiple suppliers using a diverse range of ERP systems is a daunting prospect for even the most proficient chief information officer (CIO).

Organisations required to conform to the systems requirements of a number of powerful customers experience the pain of IT variety, and variety in IT normally means cost. So, taking out complexity here removes cost and opens up a broad array of opportunities.

An integrated B2B platform removes complexity from the equation and offers the means to create an intelligent trading network between customers, suppliers or divisions of a single enterprise. Alstom Transport, a leading manufacturer of railway systems, implemented an on demand supply chain management solution to iron out inconsistent and unreliable inter-site service levels across 20 of its sites worldwide. The result was an improvement from 70 per cent to 90 per cent in 16 months and a significant reduction in inventory costs. By determining stock levels across the various factories Alstom was able to get a view into demand based upon production quantities – in other words, finite numbers that would be needed to meet demand.

Of course, outsourcing the technical complexity surrounding the connectivity issue presents a cost saving opportunity for those who identify with the benefits of exchanging data electronically - you can throw away existing software, cut out an EDI VAN bill and re-deploy staff to more profitable tasks. The software as a service (SaaS) model also presents a flexible approach to outsourcing that allows you to pay for what you need without expensive support packages. But, in addition to the significant savings in inventory that can be achieved through enhanced visibility in the supply chain, important cost benefits come about through the automation of laborious and error prone manual processes such as the transcription of information from one system to another, or re-keying from fax to digital format.

Opinion Piece: B2B Process Visibility

The big grocery retailers are tapping into the very significant efficiencies that can be gained through re-platforming the exchange of data to enable electronic trading with all their suppliers, regardless of size. Such web-based platforms present a homogeneous and organised way of sending orders using, in effect, a 'single pipe' for outbound orders. What is particularly important for the retailer is that they can be confident that orders arriving with suppliers will not have to be re-keyed, lowering error rates dramatically and increasing the chances of receiving the correct product and order quantities at the right time. Which all makes for well stocked shelves and happy customers.

On the inbound side too, the same principles apply. Shipping information and invoices can be sent and received with no need for manual keying into different applications, resulting in fewer mistakes and documents that are updated in real-time. Reducing error rates cuts costs and improves customer service.

The grocery retail sector fully understands the benefits of moving to intelligent B2B integration using an internet-based platform, but other sectors have yet to take advantage of this. Surprisingly, the wide adoption of EDI is still very low - single digit figures in some sectors - despite the fact that the technology has been around for 20 years or more. The vast majority of purchase orders and invoices are still being dealt with manually and typically arrive on paper. Even within organisations that have adopted some element of electronic trading they may be only pursuing this with the top 20 per cent of their suppliers and customers, or they may be only using B2B integration for one particular process flow, whether it be some element of logistics or invoicing. So most businesses have a great opportunity to cut costs and reduce expensive errors.

But beyond the simple cost saving principles involved in exchanging data electronically, the strategic advantages presented by using intelligent B2B integration to facilitate such initiatives as pre-invoice matching, direct ship, supplier performance monitoring or local sourcing can bring deeper savings and importantly, competitive advantage.

As any finance director will be fully aware, matching an invoice to a purchase order and checking against goods actually received creates a tricky three-way matching and approval process that can all too frequently result in a delay in payment due to inconsistencies, errors and poor communications. Accuracy and consistency is essential to getting paid quickly and in this financial climate facilitating smooth cash-flow is now more critical than ever.

If invoices were to be pre-checked against purchase orders and delivery notes prior to sending to the customer potential problems and mismatches could be identified and addressed in advance, reducing hold-ups in payment and speeding cash-flow.

It may be that, say, 100 items were ordered by a buyer but under their terms and conditions it was acceptable for the supplier to ship up to a maximum of 110. However, the invoice might fail if there were a discrepancy between the purchase order and shipping notice. Action in advance could allow for the invoice to be adapted accordingly or for a buyer to be notified.

In particular, if one line item in an invoice containing, say, 80 line items fails the whole invoice may well be halted. Under these circumstances an alert would enable a supplier to pull out that one item and generate an invoice for 79 items instead, so ensuring fast payment of the majority of the order.

This pre-invoice matching process is now easily facilitated using intelligent electronic trading technology that is able to look at the data carried inside the message. So spotting errors or mismatches in invoicing can become an automated process that brings direct cash benefits.

Another area where intelligent B2B integration can be successfully deployed to create cash efficiencies is in the area of supplier performance. As next generation systems are capable of looking at the content of the messages, and can apply intelligence to the data carried, analysis of supplier key performance indicators (KPIs) can be used to reveal the most reliable suppliers. By knowing that you can rely on a supplier that has a 98 per cent performance rating enables you to reduce the safety stock you hold or it may even allow you to move to a vendor managed inventory (VMI) arrangement.

Understanding supplier performance can also allow you to skew your purchasing to suppliers that perform the best or perhaps, just highlight areas where key suppliers can improve their performance.

Some retailers use a type of 'green lane' system where trusted high performing suppliers are allowed to ship direct to store, bypassing QA processes. By doing this, nodes of inventory are removed, reducing risk and costs whilst improving service performance. In fact, understanding and monitoring supplier performance is a prerequisite to Direct Ship.

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Direct Ship is a further area where costs can be saved, risk reduced and operational benefits made. Multi-channel retailers are taking advantage of the efficiencies that come about by getting reliable suppliers to ship product directly to the customer – taking inventory, cost and time out of the supply chain. The technique also allows retailers to expand their product ranges without the need to tie up cash in inventory or expose themselves to the risk of carrying unsold stock.

The problem for retailers is that they lose visibility and control putting the order out to suppliers for direct delivery. Although most retailers have pretty slick internal systems for the whole order-to-cash cycle, they revert to antiquated techniques, such as faxes, when it comes to working outside the four walls of the enterprise. However, an online platform enables the live exchange of information between retailer and supplier, which also links into the carrier to give real-time updates on scheduling.

The great thing is, this allows the customer to have a very tight delivery slot given to them and offers the retailer far greater control over the whole order-to-cash cycle for direct ship operations. A leading retail building supplies company has pushed this out to break new ground in co-ordinating direct ship activities across multiple suppliers for consolidated deliveries to customers.

As already alluded to here, there are many ways in which an intelligent B2B platform operating on a software as a service (SaaS) basis can be used to deliver significant cost savings, both through inventory reduction and enhanced supply chain performance. Clear visibility and the exchange of accurate information across a supply network offers the necessary mechanism for controlling costs and presents the potential for strategic competitive advantage. Next to cash, information is king.



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