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Helping Companies Achieve Supply Chain Excellence

Supply Chain Tower of Babel

Vivek Sood

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Note:

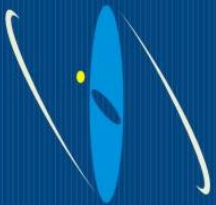
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Recently, while participating in the steering committee discussion at a client organisation that was going through a major supply chain transformation, the thought struck me. Definition of supply chain, its major components, methodologies, and processes depended largely on who you ask. The various practitioners in the game – from shipping/trucking companies, to third party logistics service providers, to their clients – each had their own interpretation of what was supply chain and how to make it better. It appeared as if the whole field was inflicted by a ‘Tower of Babel’ syndrome.

Let me give a few examples. To start with, even the definition of end-to-end supply chain causes confusion in many organisations. Does it include inbound shipments as well, or only the outbound supply chain from the factory gate? Is manufacturing part of the end-to-end supply chain or not? How about quasi-manufacturing activities such as postponement, blending, repacking, labelling etc.? In fact confusion arises about any value-added warehousing service carried out while the product is in storage. Do we include the freight component of CIF shipments in the overall supply chain costs, or not? How about our suppliers’ supply chain costs? What is the correct definition of the “Delivery in Full on Time” (DIFOT)? Does it relate to customer orders as placed, or as agreed, or as negotiated? What is the difference between logistics and supply chain? Many people use the two terms interchangeably – so, is there a difference between the two? What is the difference between supply planning and demand planning – are we not doing the same thing in both cases? even though academically accepted answers are available in many cases, these questions cause seemingly endless discussions in practical realms.



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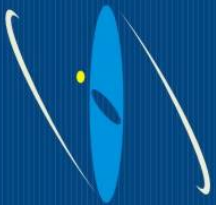
More than this confusion, however, is the case where various practitioners in the field of supply chain have different agendas, focus and language. Consider the following quote from the web-site of a supply chain systems company – “The XXX module handles all service requests between different functions including the importing and exporting of data. The unique design of this engine services all our products from a single integrated platform using “plug n’ play” capabilities with each product instead of having separate modules that need to talk to each other”. While lack of context somewhat obscures the meaning here, it is abundantly clear that the company is focused mainly on system functionality, rather than on concrete supply chain outcomes to the business. This is equally true of many other supply chain players as shown in the table:

SUPPLY CHAIN PLAYER	KEY LANGUAGE	KEY FOCUS
Senior Management Team – customer corporation	Our supply chain costs as percentage of sales have gone up by 1.5%, while our supply chain service performance has stagnated at 98%	How to deploy supply chain to create, sustain and recreate competitive advantage?
Logistics Management Team – customer corporation	<ul style="list-style-type: none"> •Last week XYZ missed 10 deliveries again. •I still cannot understand charges on 27% of their invoice – even after asking them 3 times. •XYA have again asked for a rate increase; we will have to give it to them this time. 	How to make sure that there are no customer complaints, and senior management does not complain about the costs.
Supply Chain IT system provider	The system generates a statistical forecast for each item-location combination that has been set up by the user. The user can then make adjustments to the system generated item-location (i.e. "SKU") forecasts and aggregate them nationally, regionally or by other criteria such as product, class or market zone. At this point, further adjustments can be made to the aggregates and be prorated back down to the item-location level to drive production and deployment decisions.	<ul style="list-style-type: none"> •What Bells and whistles will attract and retain attention and what smoke and mirrors will cover bugs and functionality gaps during the sales process? •How to maximise the revenue by increasing the number of seats, modules, functionality, customisation request, systems training, etc.?



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SUPPLY CHAIN PLAYER	KEY LANGUAGE	KEY FOCUS
Shipping Lines	“It may help today that the future supply of tonnage is well defined. But In a historical sense, when there is so much ship capacity available, even the supply side is not definite. Add to that the uncertainty of future demand and accurate forecasting becomes impossible .”	<ul style="list-style-type: none"> •How to maximise the utilisation of very costly assets in the shipping network? •How much economies of scale exists in the shipping network, and how to maximise its impact on the bottom-line?
Freight Forwarders	“The shipment has been delayed due to late arrival of the vessel and customs clearance problems. We will let you know once the shipment becomes available for delivery.”	<ul style="list-style-type: none"> •How to structure the door-to-door shipments for the customers? •How to apportion the total revenue/profits between various offices and/or agents in different locations, in order to carry out the task?
Warehousing companies	“Our paperless system enables us to have a real time visibility into warehouse inventory. Combining that with our state-of-the art picking and packing technology, we can ensure that right goods are dispatched to the right customer on time.”	<ul style="list-style-type: none"> •How to maximise the utilisation and throughput of the warehouse assets in order to grow the top-line? •How to keep costs under constant control to keep them from blowing out?
Trucking Companies	“Training and retaining drivers is one of the major current problems. Complying with the road and product safety standards has increased our cost significantly.”	<ul style="list-style-type: none"> •How to keep the trucks running all time, and keep getting paid for the miles (km) they are running? •How to minimise the running costs?
3PL service provider	“We will use a network of owned, leased and third party resources to make sure your logistics tasks are carried out to your customers satisfaction.”	<ul style="list-style-type: none"> •How to put together a credible end-to-end service offering for the customers? •How to maximise the size effect to take over more and more of logistics functions of the customers?



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SUPPLY CHAIN PLAYER	KEY LANGUAGE	KEY FOCUS
Supply Chain academics	Suppose we arbitrarily select q^* as the best level of inventory there could be. It must be true then that we receive an incremental gain by inventorying q^* rather than one unit more or less. Then, by stocking q^* , the expected expense of being under when demand is greater than q^* must be less than or equal to the expected of being over.	<ul style="list-style-type: none"> •How to get peer recognition for publishing more and more in the most prestigious academic journals? •How to get tenure?
Supply Chain process consultants	When you want to change your processes as a result changes in change in systems, or business needs – please be aware “this is rocket science – do not do it at home.”	How to turn the project in a mega process mapping/re-engineering exercise generating immense revenues?
Strategy Consultants	“The team will be made up of 4 consultants who will be guided by our international experts in supply chain management.”	<ul style="list-style-type: none"> •How to maximise billing, while deploying the junior-most possible staff? •How to maximise project profitability, and leverage the client relationships further?

These are actual quotations from their respective web-sites, press reports or assertions in senior level meetings. So – why is this important? And, what can be done about it?

Firstly, a common language is important to achieve alignment in objectives. By definition, the concept of supply chain management embodies cutting across silos with-in and outside an organisation in order to achieve shared goals - outstanding service performance at an optimum cost. This means working together with customers and suppliers to cut inventories, waste and waiting time. It is ironic, then, that the very people who are supposed to make it happen on an organisation’s behalf – i.e. its supply chain service providers – end up creating walls through lack of common understanding of purpose with the organisation. While mostly this is inadvertent, sometimes – particularly in case of shipping – it is a deliberate attempt to create perceived information/knowledge asymmetry through use of obscure language in order to drive super-economical rents. Ideally, in a well functioning supply chain each

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participant would co-ordinate its activities with all others in order to optimise the service performance and minimise the costs.

Pragmatically, even in the win-lose world of contract negotiation, it is crucial that the terminology, KPIs, and methodology are agreed upon well before the contracts are signed and put in place. Differences in objectives of various parties need to be noted and understood, especially by naïve customers looking forward to outsource all their logistical troubles and concentrate on their core business in peace. That peace never comes due to continual discussion about the terms, conditions, KPIs etc. which were vaguely defined and never properly set. On top of it the cost would continue to mount because the supply chain service providers would be quick to spot an information gap, and hence a profit opportunity. For a professional level of expectations management as part of on-going contract administration, it is crucial that parties understand each others' language and key objectives.

Finally, if it is true that the competition of the future will not be between one company and another but between one supply chain system and another, then it becomes crucial that all parties in a supply chain get used to working transparently, and seamlessly with each other. This applies equally to the materials providers as well as the logistics service providers in the supply chain system. At this moment, only few of the supply chain leaders in some industries are anywhere close to this state. However, the first mover advantage in getting there is worth the effort involved.