Bangkok Post 2.0 BETA Business

# LESSONS LEARNED BY EXPERIENCE

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Published: 11/02/2009 at 12:00 AM
Newspaper section: Business

In previous columns we introduced a 12-step programme aimed at helping companies align resources and supply chains in order to obtain the best possible benefits from business process outsourcing.

The immediate reaction by most readers was, "It's just common sense!" Companies take for granted that each step is loosely followed as often as companies make the case that their implementations follow industry best practice. Why, then, are companies that have gone through extensive outsourcing initiatives still not seeing results equate to success?

Let's roll the clock back to 1997, when an American electronics multinational was experiencing challenging times. Today, that same company is highly regarded for its innovative products and marketing techniques. For a while during the late 1990s, though, the company was busy transforming itself from the inside out. The CEO, the architect of this transformation, immediately simplified and re-focused the product line.

The success and survival of the company hinged on product innovation. The business model and supply chains that supported the distribution of the first product were revolutionary and should be required reading for supply chain students. From the outside, it looked easy, from the inside it was tough, spawning huge on-the-job training throughout the company.

The original product was a unique design, complex to make, awkward and heavy to distribute. The co-design partner opted to manufacture the product. It had large-scale Asian and regional satellite presence with interconnecting "mature" supply chains. The intent was to leverage this capability.

Internally, the company was experiencing massive change. Layoffs and attrition created new and greater responsibilities for those remaining. New products meant new relationships with suppliers and customers. The need for product cost competitiveness pushed radically different business models and supply chains. A new organisational structure was informally developing - creating a product focus cross-matrixed with functional alignment. Sites, too, were absorbing regional responsibility.

When the product was launched, the following occurred:

- Demand started to outstrip supply but the key supplier only reacted on a monthly cycle.

- Global capacity was in short supply. The supplier indicated three months to install new capacity; internal manufacturing capacity filled the gap.

- Component supply was immediately constrained. Complex bills of materials, multiple coloured parts, an extensive supply base and five manufacturing locations all proved difficult for a supply chain designed to handle "vanilla" products.

- Regional manufacturing locations, used to assembling simple kits from one supplier, were not equipped to manage complex manufacturing under demand pressure.

- Information visibility was generally two weeks behind. IT systems were abundant but often had to be over-ridden to get product out the door.

- Manufacturing processes were not uniform and quality standards varied, putting a further strain on output

- Supplier sites complained that no clear metrics, goals, or processes had been supplied to them. There was no problem, it was claimed.

- Airfreight was used to meet backlog, making it difficult to apportion cost and responsibility.

- As demand slowed, material exposure became excessive. There was no clear method for establishing liability.

- Component cost reductions were not reflected in product cost. Off-invoice costs also ballooned.

- The definition of "co-design" was constantly discussed, particularly in relation to product quality and reliability issues.

It took six months to establish control and instill discipline into the supply chain. It took a total of 18 months to outsource the product completely. An alternate supplier with access to China manufacturing was found. A "greenfield" manufacturing location supported Europe; often regarded as a challenge for electronics manufacturers tracking regional P&L performance. US manufacturing transferred to California.

The experience gathered in installing and decommissioning lines, ramping and replacing products, establishing second- and third-tier unique capacity, in diverse locations around the world, was used to create a "start-up toolkit" consisting of processes, reports, quality and audit procedures, supply base management and cost tools, equipment, metrics, goals, organisational support and communication tools necessary to manage a multi-site, multi-partner outsourced model effectively. The same processes and techniques were used to successfully launch future versions of the products and outsource more complex products.

Abraham Maslow once said,"You either step forward into growth, or you step backward into safety". This company chose a path forward and did not deviate. Each new challenge was addressed and learnings absorbed.

Irrespective of the business being outsourced, the lessons learned and steps to ensure success are the same. Sadly, though, the benefit of experience is often not applied. Next week we will look at the experiences of two other companies - one of which is currently experiencing "harsh times".

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