

A structured approach to supply chain management

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A strategy is a commitment to an enduring course of action, according to Peter Fisk, and companies regularly revise their business strategies in line with prevailing market conditions. Business models and the supply chains that support them are a significant element of cost, the existence of which must be continuously questioned and aligned, according to changes in corporate strategy.

With complete functions of companies outsourced to multiple locations around the globe, the effective management of supply chains requires absolute alignment across multiple companies and between multiple layers - systems, processes, data, people, management and the physical layer.

Once established, the performance and alignment of supply chains can only be measured by appropriate metrics. The disciplined process of alignment, if driven by key corporate goals, will ensure the realisation of benefits through the supply chain, quickly.

The key benefits of alignment across the supply chain are as follows:

- effective management of cash, cost and quality;
- improved customer experience/satisfaction;
- organisational focus, driving lean and efficient organisations;
- facilitation of improved decisions at the appropriate level;
- renewed focus on the quality of human capital;
- optimisation of supplier performance;
- reduced long-term infrastructure investment and systems expenditure;
- reduced dependence on location and cost/currency fluctuations;
- granular level data, which eliminate averages and enables right decisions, first time;
- speed of information flow, enabling rapid and predictable decision making.

Companies embarking on business process outsourcing initiatives must ensure that the business objectives of partners are aligned and that the business model encourages alignment between respective supply chain layers. The ideal time to attempt this (re)alignment is as part of a corporate planning exercise; however, it often defaults to the project team selected to manage outsourcing events or initiatives to drive this alignment.

Change-management procedures, project sponsorship, and regular project and company-wide communications must be employed to counter the effects of local politics. Informal communication routes that cross both management layers and company boundaries can stall progress.

A 12-step programme aimed at devising a structured approach to business process outsourcing of supply chain activities helps to drive alignment. In the first six steps, the focus is envisioning the future business model and supporting supply chains:

1. Formulate future vision: Retaining only the core functions - sales, marketing and engineering - internally is a worthy goal. The outsourced activities must be driven by a future vision which, in turn, sets the supplier management objectives and performance metrics to drive performance for the future as well as today.
2. Top-down key metrics: Metrics and the measurement of success differ within functions reporting supply-chain performance. Outsourced partners, too, have different criteria for success. Each functional performance metric must be clearly linked to improved financial performance. Supplier metrics must clearly differentiate between supplier performance, and the performance of the business being managed.
3. Define information requirements and granularity: Reports and decision-making criteria applied to points in the supply chain have a tendency to stagnate over time, passing from one employee to another. Linking decisions to metrics and financial performance will drive greater transparency and financial performance. Transitioning portions of the business to a third party without adequate data definition will reduce supply chain performance, as cross-company metrics conflict.
4. Business process definition: Relationships and informal groups support the performance of business processes when managed within the company. Inefficiencies are concealed. As processes are extended beyond company boundaries, gaps appear and are filled informally with smaller localised processes. Superfluous localised processes are used to fill gaps that had been filled by informal relationships. These activities are slowly institutionalised in the extended supply chain and inefficiency of one type is replaced with inefficiency of another.
5. System roadmaps: An effective systems roadmap enables improved performance of supply chains. As functional activities transition to third parties, and business processes are refined, there is opportunity to eliminate existing systems, leverage third party capabilities, best practices and expand systems support to new areas to further enhance performance.
6. Automate business processes: As data touch points and simple decision making processes are outsourced, and data granularity and reporting requirements increase, workload and human capital requirements increase. Automating processes that enable granular-level system-to-system data transfer and support system-based intelligent and repetitive decision making, allows the retention of greater control at the appropriate levels.

These six steps ensure there is alignment of the supply chain partners to the overall business strategy and that business processes and systems support this new extended environment. The second six, to be discussed next week, focus on partner selection, managing change and successful partner integration techniques.

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