

Supply chain management in a Business process outsourcing World

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"The Chinese use two brush strokes to write the word "crisis". One brush stroke stands for danger, the other for opportunity. In a crisis be aware of the danger - but recognize the opportunity" - John F. Kennedy

We are in a time of crisis; A crisis of confidence in global business partners, the global economy and banking system has left many companies to ponder appropriate strategy for this time. As cash balances reduce, credit tightens, and sales figures fall to new equilibriums, companies seek out new strategies for success, part of which is the rebalancing of global cost structures.

Business process outsourcing in the "flat world" has become the global blueprint for managing cost through focused expertise, but expected benefits are not always realized. The implementation approach is often fragmented, leaving supply chains mis-aligned. 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, process, data, people, management, and a physical layer. Once established, the performance and alignment of supply chains can only be measured by appropriate metrics.

If driven by key corporate goals, the disciplined process of alignment, can ensure the realization of the following benefits:



- Effective management of cash, cost and quality
- Improved customer experience/satisfaction
- Organizational focus, driving lean and efficient organizations
- Facilitate improved decisions at the appropriate level
- Renewed focus on the quality of human capital
- Optimize supplier performance
- Reduced long term infrastructural investment and systems expenditure
- Reduced dependence on location and cost/currency fluctuations
- Granular level data, eliminates "averages", enables "right" decisions, 1st time
- Speed of information flow, enables rapid and predictable decision making

Companies embarking on business process outsourcing initiatives should ensure that the business objectives of partners are aligned and that the business model encourages alignment between respective supply chain layers. But often, companies take for granted that their implementations follow industry best practice and fail to plan or anticipate appropriately. The benefit of experience is often not applied.

In 1997 an American electronics MNC was experiencing challenging times. Today, that same company is highly regarded for its innovative products and marketing techniques. For a period of time during the late 90s, the company was busy transforming itself from the inside out. As architect of this transformation, The CEO's first act was to simplify and re-focus the product line. His second the design and development of a market-altering product. The co-design partner opted to manufacture the product - with large-scale Asian and regional satellite presence - it had extensive and mature supply chain capability to leverage.

FUNCTIONAL EXPERTISE

Planvisage

- Sales Operations
- Forecasting
- Product Planning
- Production Scheduling
- Materials Requirement Planning
- Procurement
- Logistics
- Service & Warranty

As soon as the product launched...

- Demand immediately outstripped supply.
- Global manufacturing capacity was constrained.
- Component supply was immediately constrained. An extensive supply base and five manufacturing locations challenged 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 2 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
- Airfreight was used to meet backlog. It was 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.

In response to pressure to improve performance, the supplier sites responded with a range of issues from no clear metrics or goals to labor relations issues. It took six months to re-establish control and instill discipline into the supply chain, a period which coincided with extremely high demand.



Roll the clock forward to today -

A recent interview with an IT executive from yet another electronics industry MNC (USD7 Billion in revenue Q4 08), bore an uncanny resemblance to the company of 10 years ago. The symptoms sounded familiar; severe operating losses over the past several quarters, continuous quarterly lay-offs and cost cutting, complex business model consisting of internal and external manufacturing, a product line-up that is so complex that outsourcing completely would require that suppliers were handheld every step of the way.

"With an IT roadmap like spaghetti junction" - multiple ERP systems and instances, customizations that are unique to each instance and have not kept pace with new revisions, - it is often easiest to install a small focused systems to solve business solutions, but these just exacerbate the larger problem"

Periodically, proposals have been made to consolidate ERP instances along business unit or regional lines but were quickly rejected. Outsourcing provided

medium term relief. It started with desktop support, then applications development, then data centers, then and analysts.

The IT executive reflects on the approach adopted;

- We assumed that our outsourced provider knew more what we did.
- We didn't consider the "value" associated with the cost. We negotiated rates without considering what we really were asking the outsource partners.
- We had no idea how to manage an outsourced business environment. Internally the business just ran. We had no idea how to measure performance - no metrics or goals were defined.
- We implemented huge IT projects, with capitalized budgets. Capitalizing made our budgets look good in the short term but contribute for 70% of our IT spend today!

The situation as of now, is that we meet or exceed local IT performance metrics as benchmarked to industry standards. Questions are being asked in regard to consolidation of systems, and we are doing some "in-sourcing". But in order to implement change that can effectively transform the company we must have clear corporate strategy !

The business world has gone through major change. Major portions of businesses have been progressively outsourced. In the rush to outsource the efficacy of supply chains has been compromised. Inappropriate performance metrics have helped conceal problems that degrade performance over time. A return to first principles is required. Redefine corporate strategy, create new business models, dispassionately assess the performance and fit of supply chains for today's BPO world and remodel for improved performance with metrics linked to financial performance.

Irrespective of the business being outsourced, the lessons learned and steps to ensure success are the same. The benefit of experience is seldom shared or applied.

Planvisage has devised a structured approach to outsourcing to help companies realize the benefits quickly and efficiently. The approach is based on the combined experiences of customers, suppliers, outsourced partners and consultants amassed over 20 years of massive change.

Planvisage offers the following:

- a) a 12 step structured approach to outsourcing that will align and optimize supply chain performance in a business process outsourcing world
- b) Top-down metrics driven operations performance, synching financial performance with operational metrics and goals
- c) The use of automation within aligned supply chains to maintain lean and efficient organizations

Over the next two issues, this structured approach will be introduced and discussed.

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