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Learning Across Disciplines: What CEOs and Logisticians Need to Know to Discover New Ways to Success

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SUPPLY CHAIN: A CEO's Competitive Advantage

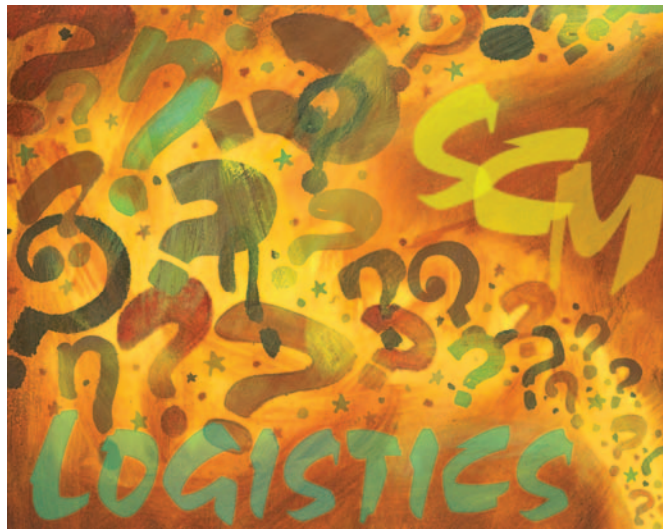
Too often executives and managers outside the disciplines of logistics and supply chain management have a narrow and uninformed view of what these practices encompass. Sometimes this can be disastrous. In most cases, a broadened understanding of supply chain management can make their companies a lot more competitive.

IT'S OFTEN a difficult task for supply chain professionals to explain the concept of supply chain management (SCM) to colleagues or senior executives in a context understood by general managers. The logistics industry, like most vertical disciplines, operates with its own assumptions and vocabulary. This makes it difficult for people outside the field to fully understand the generalities, let alone the complexities. The following presents supply chain management in the business context without bogging down in SCM jargon: supply chain management for non-SCM CEO's.

Many firms continue to dismiss both the importance and the impact of supply chain management and erroneously characterize this practice as a staff activity usually buried somewhere in the administrative process. More often than not it is oversimplified as a cost by the financial department, a bottleneck by operations and an impediment to customer service by sales; in other words a department-by-department issue. However, increased awareness regarding the importance of supply chain management at the executive level can offer significant competitive advantages.

First it's essential to broaden and embrace the full definition of the term. The conventional phrase "transportation, warehousing and distribution" still tends to dominate the mindset of many executives and is used somewhat interchangeably, albeit incorrectly with supply chain management. Nothing could be further from the truth. Let's see if we can strip out the textbook explanation and look for the uncomplicated overview of supply chain.

Once a product passes the planning and prototype stage and hits the production cycle the supply chain begins. Components



By Jim Davidson

and raw materials are sourced and pulled to the manufacturing facilities where they can be processed into finished goods. During that time some unfinished goods may be stored or sub-assemblies could be moved off-line and inventoried until final production is completed. Goods could then be warehoused and/or shipped to market and transportation expenses are incurred while reaching destination. Conventional theory focuses on negotiating the lowest cost providers of storage space and transportation rates. However, it overlooks the real

opportunity, which is to optimize the investment of the time and money required over the entire duration of the process.

Just as the modern day automobile manufacturers have gotten their designers and engineers talking and working jointly to produce the most efficient and highest quality automobiles, so too should supply chain be a consideration long before a product is manufactured. The largest and often double-digit cost savings are generally the result of having the ability to design an optimal supply chain that includes high discipline and integrity. This optimization is limited to those opportunities that include processes that are often well outside the typical supply chain thinking. Efficiency is the direct result of avoiding the compartmentalization of logistics to that of an afterthought to manufacturing or a pre-determined distribution channel.

At day-to-day ground level, logistics solutions don't need to be profound; they simply need to be practical. "We need parts now – get them here by airfreight." "Customer needs product – send them by courier." Instant solutions also add instant cost. It may relieve short-term pressure but kills profit. And every department has a different ground level demand. What works for the sales manager may drive the plant manager

crazy, and visa versa. Supply chain management demands an executive perspective. The theory is simple; shorten the time and reduce the cost to deliver product to market and the results fall straight to the bottom line. However, managing is measuring - so where do we start? There's only one way and that begins with mining available data to understand where the opportunities are.

It should be pretty easy to get at costs and timelines in the purchasing and manufacturing phase. Costs for input of goods and services like raw materials, freight, maintenance, and equipment are usually pretty exposed to scrutiny. However, not all costs are so obvious. For example, if unexpected sales activity on an item forces a shift of manufacturing resources or a production line from one product to another do you know the real impact? Do you know the cost of moving unfinished inventory to storage, the cost of damage or spoilage during the down time, the cost of space and the cost of the money that is tied up in the shift to non-productivity? Do you even know how to get at those costs (because the time and dollars are real)? They may be tough to dig out, but are they real? Every penny you find and save adds to the margin.

Often the terms logistics and supply chain are oversimplified by non-SCM general managers who often narrowly focus on negotiating freight rates. In reality, few manufacturers gain any advantage over their competitors by beating up trucking companies for cheaper rates. If your company's business strategy is clear, the real value is in negotiating service levels linked to rates. Working with transportation providers to leverage delivery cycles or to adjust load volumes and even scheduling load pick-ups or deliveries to dovetail with their drivers hours-of-service requirements mandated under new legislation can pay bigger dividends than simply pounding away on discounts. Raising the dialog above cheaper rates to focus on improving the time and cost to get market is where supply chain management can generate measurable gains.

Most companies generally assign decision-making to managers of departments who in turn develop their own strategies: purchasing strategies, manufacturing strategies, sales and marketing strategies, distribution strategies and so on. Each of these are critical links in the supply chain. And therein lies the opportunity as well as the threat. Some of the strategies are active at the same time. Some are coordinated and some are independent. But if there is no executive driven overall supply chain strategy by which the company is managed, then there is a missed opportunity overall to shorten the time and reduce the cost to deliver product to market. And that minimizes the prospect for added margin and profit. So what's the solution for a company executive to deliver supply chain success?

The cornerstone of supply chain management is information—knowing where to find it, knowing how to retrieve it and knowing what to do with it. Some of it as we discussed should be pretty easy to get at. The rest will take some digging. Each department more than likely has some data that needs to be put in the kettle.

The next step is to analyze the data and understand the current supply chain processes. Ask tough questions. Are the processes driven by our company's overall business plan or are they focused on departmental objectives? Do they address all of the relative costs and issues for both our com-

pany and our customers? Do they promote a healthy corporation or are they short term bandaids? Can we identify opportunities for both short and long term improvements? And most importantly, can we pull them together in a corporate strategy that serves everyone in the supply chain from suppliers, through our own plant to our customers?

The strategy can be a fundamental platform for a company's success, but it needs to be measured and that means setting benchmarks. If you can't measure it, you can't manage it. Executive ownership of supply chain management doesn't mean day-to-day micro-managing the process. Set the direction, lay out the benchmarks and assign the responsibility. It may be a project manager or even a management committee, as long as the supply chain strategy itself is the touchstone for all departmental sub-strategies or initiatives. After all, this is about your entire company's ability to cut the time and cost to move product to market. The strategy should focus on company wide efforts. If it is to be initiated through a launch project then the design, the goals, the process and the benchmarks need to be defined, understood and communicated.

Progress Not Perfection.

Reports need to communicate progress against benchmarks to ensure success throughout the organization. Supply chain strategies need to evaluate and constantly address the dynamics of a changing business climate. And to keep the concept relevant, build in the mechanisms for continuous improvement.

To summarize, supply chain management is the continuous thread, the common denominator throughout any organization that earns its living by delivering a product to market. SCM can only succeed if it is owned and managed at the most senior level of the company. Supply chain management shortens the time and reduces the cost to deliver product to market. This not only contributes to a healthy bottom line, by any definition, it clearly gives a company a competitive advantage.

SUPPLY CHAIN MANAGEMENT

encompasses the planning and management activities involved in sourcing and procurement, conversion, and all Logistics Management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers. In essence, Supply Chain Management integrates supply and demand management within and across companies.

LOGISTICS MANAGEMENT is that part of Supply Chain Management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer requirements.

The Council of Logistics Management (CLM)

For more information visit: <http://www.clm1.org>

**17 of 20 top scorers
last season had
something in common**

***They never
scored a
touchdown.***

During the 16 game pro-football season, it's the towering pass, the end-to-end rush and the crushing tackle that brings fans to their feet. But when the game's over, all that really counts is how many points are on the scoreboard. Again this year it wasn't the "glory players" that racked up the big points – it was the place kickers. Those guys on the special teams who know how to get the job done.

When it comes to supply chain management, we are the "Special Teams" solution ... the Wheels Group of Companies. We work with some of North America's finest businesses offering them a wide slate of supply chain solutions. We provide comprehensive dedicated logistics programs for companies in the auto industry ... and manage country-wide distribution networks for building products manufacturers. We find retail distribution solutions for greeting card companies ... and keep a constant supply of groceries on store shelves across Canada.

We have some of the brightest minds, most powerful data systems and broadest experience in supply chain management in North America. Call us and find out how the Wheels Group "Special Teams" can add power to your game plan. A whole new season starts with that call.

