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Is Your Supply Network Positioned for a Rebound?

5 Strategies to Optimize Your Supply Chain

For any company that manages a supply chain, the trend toward cutting costs and increasing efficiencies is unprecedented – the current business climate demands it. Yet savings and efficiencies cannot be achieved at the expense of supply chain performance. In the face of volatile customer demand, increased product variability, heightened regulations, and a proliferation of new distribution models, leading companies know that improved supply chain performance is integral to quicker response time, greater supply accuracy, less waste – and ultimately, growth.

So how can companies strike the right balance between cost reduction and performance optimization at every level of the supply chain? We've uncovered five key strategies (and accompanying business solutions) companies can leverage to generate rapid ROI without losing sight of long-term business process improvement. By implementing such solutions in a complementary and incremental manner, companies can generate quick wins while driving toward their long-term goals.

But First, How Responsive Are You?

Whether the economy is waning or booming (see “The Economic Pendulum” sidebar on the next page), supply chain executives struggle with how to profitably respond to business changes. The key is not just the ability to react to an isolated event, but also having the responsiveness and efficiency to constantly re-plan and re-align activities based on the current business dynamics, without sacrificing performance. Companies strive to be part of a responsive supply network in order to intelligently sense and respond to changing market conditions and regulations.¹

We at SAP have spent considerable time working with industry experts, our customers, and our partners to understand the market needs. We've not only found that companies are interested in deploying functional capabilities within a particular area, such as supply chain management or customer relationship management, but that the distributed and interoperable nature of business is creating new requirements. Being able to design and implement business processes across a responsive, harmonized network is a natural next step in differentiation from the competition.

And this is exactly what we've focused on. To provide a roadmap for supply chain executives, with the long-term focus in mind, SAP has identified several end-to-end processes that we believe are key drivers of a responsive supply network (see the “End-to-End Processes” sidebar on the next page).² We're also sensitive to short-term realities and the fact that companies need to prioritize initiatives based on their business imperatives. To this end, we have designed these processes to be deployed in modular components. Throughout this article, we will explore short-term strategies to position your company for long-term success.

5 Supply Chain Strategies for the Upturn

In our conversations with customers, we've learned that most businesses are focusing on one (or a combination) of five strategies to address their short-term challenges while keeping their long-term, end-to-end business processes in mind. In the following sections, we'll uncover key questions that supply chain executives are asking in each area.



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¹ To learn more about responsive supply networks, see “Don't Just Survive, But Thrive, in a Networked Economy” by Richard Howells in the July-September 2008 issue of *SAPinsider* (sapinsider.wispubs.com).

² For more details about SAP's end-to-end business processes for the supply chain, see “A Supply Network That's Responsive in Good Times and Bad” by Richard Howells and Dr. Krish Mantripragada in the April-June 2009 issue of *SAPinsider* (sapinsider.wispubs.com).

The Economic Pendulum Swings Toward Recovery

Indicators are showing that we're emerging from the recession and entering recovery mode. For example:

- Retailers enjoyed a boost in their December 2009 sales. According to Thomson Reuters research, the industry experienced a 2.9% year-over-year sales increase at stores open at least a year, with 75% of retailers surpassing anticipated forecasts – the most to achieve this since March 2007.*
- According to a survey of US purchasing managers, a recent surge in new orders prompted US factories to increase production, with manufacturing expanding in December 2009 at its quickest pace in over three years.**
- China's December 2009 exports rose 17.7% – its first boost in 14 months – making the country the world's top exporter.***

* "Retailers See Holiday Sales Rebound From 2008," Stephanie Rosenbloom, *The New York Times* (January 7, 2010).

** "World's Factories Rebound," Justin Lahart, *The Wall Street Journal* (January 5, 2010).

*** "China overtakes Germany, becomes world's top exporter," Associated Press, *USA Today* (January 10, 2010).

End-to-End Processes: A Refresher

To succeed, you need to pinpoint the key drivers for your business and your supply network; SAP's end-to-end processes are deployment roadmaps targeted toward these drivers. Understanding the critical need to get a rapid return on your investment, we have developed these processes to be deployed in implementable steps. Each step is designed to deliver value to a specific stakeholder, measurable through a specific set of KPIs, in a three-to-six-month deployment project.

To determine which strategy – or strategies – to implement, first identify your organization's key pain points. A consumer goods company with poor forecast accuracy may struggle to understand its demand, for example, yet a competitor may have 98% forecast accuracy but poor visibility into its production chain.

By pinpointing your particular challenges, you can understand which strategy (or strategies) your business should pursue – and you can create a deployment roadmap that meets your specific business objectives.

1. Synchronize Supply to Demand

Matching demand to supply is not a new concept, yet we are seeing a renewed focus in this area because of high volatility on both the demand side and the supply side. Retailers are serving end consumers with rapidly changing demands, and this volatility is being passed on to manufacturers and distributors at different stages of the industry value chains.

To that end, many supply chain executives are struggling with this question: **"How can we balance increasingly volatile demand with what is often distributed supply?"**

A prerequisite for responsiveness is having a clear picture of demand – real-time demand signals – from the end customer that can be rapidly translated into upstream requirements and propagated across the supply network through collaborative processes. This real-time visibility will enable network participants to prepare for and respond to demand oscillations in a timely manner and drive the various planning and replenishment decisions based on this demand.

To synchronize their supply to customer demand, companies may consider targeted solutions and strategies to:

- Reduce variability in demand forecasts by increasing downstream supply chain visibility
- Increase internal and external collaboration to accelerate supply response
- Maximize opportunity by profitably responding to the right demand

Real-World Example

PVC pipe and pipe-fitting producer Amanco Brasil Ltda. wanted to increase sales, market share, and operational efficiency. To get there, it needed to track inventory across its supply chain and integrate its demand management, supply planning, and sales operations. By implementing collaborative demand and supply planning processes through SAP software, Amanco has dramatically improved demand forecasting and achieved total sales planning accuracy of 95%. The company has also improved its "on time in full" order delivery rate by 51%, while reducing its total inventory by 15% and its required working capital by 17%.

2. Optimize Inventory Across the Supply Network

In today's multi-tiered supply networks, where cost is a constant concern, many companies are asking: **"How can we respond to volatile demand and maintain – or even increase – customer service without increasing buffer inventory?"**

Managing liquidity, working capital, and inventories across the network is a key strategic activity that has separated successful companies from those that

are struggling. You need to optimize working capital across the network, but you can't just focus on your own operations and inventory levels. Squeezing inventory out of your operation may not do much good – and could even introduce significant risk – if it just shifts the burden to a supplier or customer.

The SAP Enterprise Inventory Optimization application by SmartOps helps you reduce inventory while ensuring optimal product availability.³ Enabling increased visibility across the supply network, this offering allows you to simultaneously look across all inventory stages to calculate interdependencies and consider various scenarios. You can also use this application to gain continuous insight into all levels of the supply chain.

Real-World Example

ConAgra Foods Inc., one of North America's largest packaged food companies, has deployed the SAP Supply Chain Management (SAP SCM) application and the SAP Enterprise Inventory Optimization application by SmartOps as a key element of its plan to migrate from eight planning organizations to an enterprise structure with a single, unified strategy, and replace 11+ supply chain planning applications with one. After the first year, the company has increased its forecasting accuracy by 30%. The case-fill rate is up by 0.2% and the store in-stock rate has increased for key customers, improving both revenue and customer satisfaction.

3. Drive Excellence in Execution

Faced with decisions to outsource and source operations from all corners of the globe, companies are constantly struggling with this question: **“How can we address logistics spend and the increased compliance pressures across our logistics network?”**

As customers become more informed and competition increases, accurately delivering on customer commitments at the highest possible service levels and most efficient price point has never been more vital. Companies, especially those in distribution and logistics-intensive industries, are increasingly fine-tuning their warehousing, distribution, and logistics networks to reduce costs, increase efficiencies, and be more responsive to changing conditions.

³ For more details about the SAP Enterprise Inventory Optimization application by SmartOps, see “Get on the Fast Track to Supply Chain Optimization” by Rebecca Newell on page 25 of this April-June 2010 issue of *SAPinsider* (sapinsider.wispubs.com).

If your business challenges center around logistics, focus on driving excellence in execution to:

- Deliver on customer commitments on time and on margin
- Increase warehouse throughput and efficiency
- Reduce transportation spend by synchronizing logistics and distribution
- Increase compliance and respond to exceptions profitably

Real-World Example

Ferrero manufactures high-quality, innovative, and fresh confectionary products for consumers worldwide. To enhance its warehouse and logistics processes and meet growing product demand, the company deployed the SAP Extended Warehouse Management (SAP EWM) application to synchronize its warehouse and distribution operations with logistics and order fulfillment operations.

With SAP EWM as a foundation, the company is reaping benefits: Enhanced visibility is improving management of corporate logistics resources, and more efficient warehouse processing is enabling streamlined logistics and fulfillment operations. Plus, increased performance in warehousing and distribution contributed to a significant improvement in on-time delivery, which will improve customer satisfaction.

4. Collaborate Across Continents and Company Boundaries

Because of global competition and the rapid adoption of outsourcing, today's organizations are operating in a networked business environment and collaborating with suppliers, contract manufacturers, and customers. As a result, organizations find themselves grappling with this question: **“How can we ensure excellent customer service while relying on external resources to help satisfy orders?”**

Collaboration is a competitive weapon that you can use to improve business performance. It allows you to establish strategic partnerships with your suppliers and trading partners in order to set mutually beneficial goals and share business processes and information across your supply chain. Yet as you collaborate with various organizations, you may be working with partners that are not as technologically sophisticated as your company.

By collaborating across the supply network, you can drive market share, sales, and product adoption while maximizing the return on your assets and your investments.

SAP Supply Network Collaboration (SAP SNC) enables you to collaborate with suppliers, contract manufacturers, and customers through an automated, electronic process, regardless of an organization's IT sophistication. For example, you may have outsourced work to overseas suppliers that have bare-bones IT infrastructures. Through a simple Web browser, you can share information about potential problems or delays, thus improving your ability to commit to a customer order or seek alternative strategies. You will still have visibility into your production process, regardless of your suppliers' technology limitations.

Real-World Example

Sauer-Danfoss Inc. is a leader in the production of engineered hydraulic and electrohydraulic systems, with more than 20 manufacturing sites worldwide. Each of these locations procures tens of thousands of direct materials from shared suppliers around the globe.

By choosing SAP software to implement a single Web-based interface for its suppliers, Sauer-Danfoss gained greater control over its procurement operations while reducing operating costs. As a result, Sauer-Danfoss manages incoming inventory with greater visibility and accuracy. Today, Sauer-Danfoss has reduced overshipments and significantly cut early shipments – up to 41% in the company's largest North America division.

5. Manage a Sustainable Supply Network

Sustainability is now a necessity, not a nice-to-have, and all corporate sustainability initiatives require sustainable supply chains, prompting supply chain executives to ask: **“How can the supply chain align with corporate sustainability goals?”**

Companies are now balancing corporate social responsibility efforts with operational efficiency, growth, and productivity to ensure its business activities are sustainable. To this end, companies need to carefully weigh the economic, environmental, and social consequences of its business activities. Global trade and compliance requirements, for example, increase the need to manage compliance controls, sustainability requirements, and product traceability across the supply network.

From a sustainability standpoint, the ability to trace your goods through all points in the supply chain is critical. Consider a pharmaceutical company

that supplies the H1N1 vaccine, which must be shipped in a temperature-controlled environment. So that the vaccine is effective when it reaches a patient, the company must ensure that it remains below a certain temperature throughout the supply chain. This could literally be a matter of life or death for the consumer and the supplier in this situation.

As part of its sustainability efforts, companies can use SAP BusinessObjects Global Trade Services to reduce the cost and risk of international trade by ensuring compliance with global regulations, accelerating trade activity, and minimizing duties and landed cost. You can streamline complex import and export processes and compliance checks, ensure expedited customs clearance, and use automation to optimize trade for lowest risk and minimal cost.

SAP BusinessObjects Sustainability Performance Management helps organizations track and communicate their sustainability efforts, set goals and objectives, manage risks, and monitor activities – all while helping reduce the time and cost spent collecting data and compiling disclosures.

Seek Quick Supply Chain Wins – But Don't Lose Sight of Your Long-Term Goals

To tackle the unsettled economic environment, most companies are cutting costs – but that's not enough. We're seeing that the best-run companies are also investing in key technologies to balance efficiency and supply chain responsiveness.

SAP is focused on end-to-end processes that a business can deploy in a modular fashion to achieve efficiency and responsiveness simultaneously. By employing one or more of the five strategies discussed here, along with their accompanying business solutions, you can gain quick wins without losing sight of your ultimate business goals. ■

The best-run companies are investing in key technologies to balance efficiency and supply chain responsiveness.

Additional Resources...

...from **SAP** insider

- ✚ The **Supply Chain Bootcamp** seminar (see www.scmbootcamp.com for event dates and locations)
- ✚ “Case Study: How Bayer MaterialScience Transformed Its Planning and Scheduling Process” by Bill Peace (*SCM Expert*, Volume 7, Update 3, www.scmexpertonline.com)