

Ensuring Reliable Inbound Supply Integration



A new look at the challenges,
trends and opportunities in
the global marketplace

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Introduction

In business, control of vital processes is the key to improving overall performance in terms of both quality and cost. Today's emerging integrated business collaboration networks have prospered by being able to target connectivity and visibility with company-external processes for improvement and competitive advantage. Control of inbound supply processes from the supplier's location to the destination dock door has always presented challenges to the recipient due to a lack of control over what is normally a supplier owned logistics process. Today, leading companies are taking control with integrated supply chain organizations and now what was one of the most challenging areas has brought high rewards for these companies as they integrate supplier information seamlessly into their own operations.

Increasingly, there is a need for supply chain management technologies to not only identify cost efficiency issues but also consider the value of the supply chain. From a recent Capgemini report, "Supply chains will reflect the growing trend for collaborative manufacturing, increasing in complexity and changing shape in favor of fewer suppliers but more distributors."¹ From the PRTM Global Supply Chain Trends Report, "Limited supply chain flexibility and the lack of internal competency to manage partners are major barriers to globalization."²

This white paper will enumerate the critical business challenges, as well as specific opportunities and benefits of working aggressively to achieve inbound supply integration.

1. Source: Capgemini, "Manufacturing in 2020", December 2008, pg 14.

2. Source: PRTM Management Consultants, Global Supply Chain Trends 2008 - 2010 , Driving Global Supply Chain Flexibility through Innovation., 2008, pg 9.

1. The Challenges and Trends of Inbound Supply Integration

The logistics environment is challenging in general because it includes multiple company and supplier locations, and multiple carriers of different capabilities leading to a complex network of sourcing and transportation options. Improving quality and reducing costs throughout such networks requires meeting three primary challenges:

- 1) Responding to constantly changing trading partner networks;
- 2) Perception of IT as non-strategic to the logistics business; and
- 3) Volatile and increasing freight costs throughout the network.

Each of these is subject to important trends in the current business environment.

Responding to constantly changing trading partner networks

Supply chains are increasingly global and dynamic. Physical distances, language barriers, and international barriers, including security and customs requirements, must all be addressed in creating controllable collaborative systems.

Global logistics operations are strategically positioned within business networks to help control these factors across supply chains. They constitute the hub of supply chain activities working with customers on both inbound and outbound sides, in multiple supplier relationships, which puts them in a unique and challenging position—in the middle of everything but not necessarily in control of everything. But greater, value-added involvement offers a significant process improvement opportunity; they are ideally positioned to serve as the bridge between suppliers and their customers in a way that benefits everyone.

Traditionally, this is not a role logistics operations has been asked to play. On the inbound side, for example, procurement organizations have tended to monopolize all interactions with suppliers, ordering what to ship and when, with no direct coordination between procurement and the logistics teams involved. This represents the kind of organizational “silo” that hides opportunities for operational improvement and frequently perpetuates institutional resistance to such opportunities.

The powerful trend toward integration of business networks across operating disciplines and companies works to open up these silos. The dollar value of efficiency and time improvements is simply too great to ignore. Thus, the dominant trend in logistics networks is toward adaptable systems that constantly “flex” to adjust to global cost drivers and shifting options for offshore or near-shore sourcing and fulfillment.

Increasingly, participants on all sides have begun to understand that excessively vertical organizational hierarchies (i.e., supplier > logistics > customer) prevent the necessary “Flexing.” Only when these relationships function more like nodes in a network, each with the capability to respond to the others, are the greatest improvements realized. This flatter, more inter-operable model is the true definition of collaboration in inbound supply.

“Flexing” is just as important in the day-to-day operations of relatively stable supply chains. Manufacturers, suppliers, and logistics operations all have to receive the information that’s important to them if the network is to operate efficiently as a whole. That’s the purpose of the trend toward visibility, particularly between procurement and logistics organizations, so that exceptions on either side can be responded to swiftly and decision making can be as timely and flexible as possible.

Procurement organizations are and will remain the drivers of this new level of inbound collaboration, but logistics operations face the challenge of preparing their own organizations and systems to be in a more team-oriented role that will keep them competitive. That’s the subject of the next section of this paper.

Perception of it as non-strategic to the logistics business

Logistics service providers are in a low-margin business. The marketplace continues to be competitive, one could consider it almost a commodity business and therefore having a high threshold to meet in deciding to invest in information technology that hits their income statements as overhead. In other words, bid with a low unit cost or lose the business. More money spent on IT systems can look like an indefensible increase in base costs that have to be passed on to customers without clear benefit to a customer population that wants to pay only for trucks, drivers, and fuel, or their equivalents (planes, ships, trains, etc).

But there are three things logistic operations should understand about such conventional wisdom. First, the logistics function is no longer a commodity in the changing global economy. Price is not the only measure of their value, as the “flexing” discussion above should make clear. Second, investments in information technology are small compared to the equipment, fuel, and personnel costs associated with transport of goods. And third, the right IT investments can have a favorable impact on both the commodity perception and the cost of doing business. But what are the right IT investments for logistics providers or logistics operations? They’re the ones that actively contribute to what we call “streamlining.”

Streamlining is the process of eliminating waste, delays (such as manual steps), errors, and information gaps in dealing with partners large or small. Specifically, can you connect with your various business partners easily and cost-effectively? Do your systems enable you to identify problems, communicate them quickly, and identify solutions that meet your own needs and those of your customers in real time? Can you communicate your most important cost variables? Not the cost of your truck on a given route, but your cost-per-unit for a given increment of delivery time? Speaking your partner’s language enables you both to communicate more effectively and choose the most mutually beneficial options for the required logistics services.

This means that logistics operations have two types of delivery requirements in today's market: 1) delivering the goods, and 2) delivering information about delivery of the goods throughout the process.

Investments in logistics IT are increasingly a differentiator in capturing new customers, who are also sharply focused on the requirements for speed and superior information management.

The second requirement is critical because customer needs have become increasingly dynamic. Their need to adapt quickly to their customers' needs has increased. The more they can see into logistics operations, the better they can identify opportunities to coordinate their demands with your capabilities. For example, with this visibility they can adjust their inbound and outbound transportation needs with your routing requirements. They save you money and time by reducing one-way or empty trips, and you save them money because they don't have to pay for inefficiencies they've helped create.

It is these kinds of IT capabilities that can make all the difference in your use of information technology. Knowing the competitive business value of your projected investment helps minimize implementation costs by putting the focus on the right variables for improvement. There's no point, for example, in paying for new bells and whistles on "silos" that keep your information segregated and proprietary.

The most important cost and investment issues with regard to IT are simply stated. They must enable you to communicate freely across departments, disciplines, company boundaries, and, increasingly, international boundaries. They must allow you to interact freely with your customers and support flexible decision making in the face of exceptions and unexpected events. They must enable you to change and grow with your customers as their needs and your capabilities grow through time. And they must take advantage of industry standards and third-party expertise which permanently reduce the level of in-house customization and application development expertise required to stay current with customer expectations. "Streamlining" is not the lowest incremental addition to this year's IT expense total. It's the shrewdest possible investment in IT systems that helps transform logistics operations from a commodity to a value-added service capable of playing a strategically competitive role in the business plans of the companies it serves.

But what are the specifics to look for? The definitions of value-added? The measures of success? That's our next topic.

Volatile and increasing freight costs

Reducing freight costs is an ongoing challenge in managing the variables that impact those costs. The volatile fuel cost swings, increasing fees, carrier business failures and government regulations. Many of these variables are out of a shipper's control as carriers generally pass these costs on in their contract rates, fees, and fuel surcharges. With the intense pressures to lower operational costs and the global economic impacts to optimize inbound supply chain functions, these variables can no longer be tracked manually in spreadsheets. The tracking of these variables, the options for global sourcing and the speed of decision making dictate the need for an automated solution to make quick, informed decisions. These automated solutions can provide a quick return on investment in both operational costs and staff productivity.

Often, the information required to calculate the landed cost of a product is located in multiple organizations, internal and external. Where raw data numbers are readily available, they may not be segregated out by the required level of detail, products or units, to provide the associated costs an organization requires. Gathering the data is the first step in improving control over costs and starting progress toward the necessary ROI. But this measure is both the challenge and the opportunity associated with an integrated inbound supply process. An effective system implementation needs to track these costs seamlessly and automatically identify exceptions throughout the business collaboration network which normally affects landed costs adversely.

These are the key business challenges that companies must be aware of in pursuing improvements. Meeting them requires smart management and close working relationships with partners in the supply chain and the selected IT resources. There are crucial performance factors in each of the challenge areas.

2. High Impact Inbound Supply Projects You Should Consider Now

Flexible business integration solutions reduce costs while driving revenue expansion. These are welcome in any business climate, but when money is tight and markets are in a state of flux, they are essential. Logistics organizations experience maximum pressure in this respect. They are now struggling to differentiate their offerings as value-added services capable of enhancing the competitiveness in existing operations and for prospective customers. Their strongest business argument consists of improved integration with, and connectivity to, their inbound supply chain to offer seamless integration with inbound partners to provide their customers with immediate order status or exception updates.

This is the type of inbound supply integration companies need most when times are tough. Consider the following three high-impact projects and how they exemplify traditional enterprise integration methods. The themes are cost-cutting and revenue-generation.

Optimize and collaborate with your supplier base

The trend toward large dynamic supplier bases that may even be global in scope highlights the importance of a performance factor called “easy onboarding.” The objective here is to rationalize the process for integrating a new supplier/partner in minimum time and cost.

A variety of shippers who focused on facilitating easy onboarding in a disciplined fashion have achieved very significant benefits: reduced IT implementation costs and reduced order processing time. While minimizing onboarding costs, they also registered major improvements in internal customer satisfaction.

A leading distributor of retail propane tank exchange was looking for a solution that would provide greater visibility and tracking, the ability to create B2B data maps and business processes internally, faster onboarding of new trading partners and improved reporting. They also looked to alleviate a “hands-on everything” approach for EDI personnel. Through its integrated approach the company achieved:

- Reduced onboarding time to bring partners into the process
- Increased visibility of data streams
- Enhanced reporting capabilities to identify patterns and exceptions
- Improved internal customer satisfaction with timely implementations

A company manager summarized the results thus:

“Now [the] Integration Suite is in place, we have improved communications in both time and efficiency and are better able to leverage our people and processes. We are no longer limited by the previous software. Instead, we are able to respond faster with better business solutions to both the divisions we support and to trading partners”

Not all new or valuable supplier/partners will bring the same level of information technology to the business collaboration network. Flexible options and transitional tools must therefore be made available and sufficient to handle all types of onboarding. These include, for example, Web forms and fax to EDI technology that allow effective communications between large, medium, and small businesses regardless of the level of expertise within their IT systems and critical areas of integration.

One of the informational requirements associated with integration among collaborating partners is the ability to measure “total landed cost” referenced earlier. It consists of all the expenses across the entire supply chain that are relevant to cost analysis and control, including the freight costs of carriers who operate outside both the shipper and supplier organizations. Identifying all the correct variables in this measure represents the first critical test of the collaborative effort. When the required degree of visibility into total landed cost variables has been achieved throughout the supply chain, the backbone of the integrated cost information system has been set in place.

But this backbone must be fleshed out and brought to life. Managing the cost variables of logistics in a dynamic environment means that all partners must be tracking the same data and provide transparent access to it in real time. This level of integration requires adjustments in accounting and administrative practices, IT implementations and interfaces, and potential changes in staffing responsibilities throughout the supply chain.

Streamlining complex, multi-source supplier order fulfillment processes

Another opportunity for improvement can be achieved with effective order allocation across multiple internal locations. An efficient, reliable and secure single integration platform can effectively optimize across multiple sources for enhanced global collaboration. Supplier data integration, such as with an ASN, supports optimal execution creating lower operating cost. This level of implementation and execution aligns the system with the architecture of the internal organization, ensuring that processes are synchronized and working in all locations.

A major international exporter of dairy products addressed its own multi-source order fulfillment challenge using advanced information technology and achieved the following:

- A reliable and secure communication foundation for enhanced global collaboration
- Tightly integrated business relationships with efficient up-stream supply chain sourcing with suppliers
- Optimized and transformed supplier satisfaction
- Ease of integration for faster onboarding of partners, current and future

A company manager sums up the benefits:

“[Our IT] solution helps us streamline our supply chain with our suppliers while continuing to meet the increasingly stringent requirements of our customers”

Reducing freight costs via on demand transportation solutions

An on demand transportation management solution can save costs in two ways.

First, as an IT implementation the return on investment is more quickly realized due to the lower initial start-up cost, the reduced need for company IT resources and ongoing database storage costs that are the IT provider's costs. The on demand solution brings with it the IT expertise necessary to manage the initiative. It is possible the costs of the on demand solution can now become an operation expense versus a capital expense. The on demand solution is easily updated in the background as version revisions dictate minimizing downtime while keeping operations running efficiently.

Second, the on demand solution executes daily planning and optimization on par with an on-premise system as described in the following. For inbound, managing the daily dispatch and routing decisions as to which carrier is to be used for inbound supply transportation is where cost control really begins. This is a requirement that extends beyond the receiving customer and their supplier organizations and includes the carrier organizations, where optimization can be achieved to reduce the costs of all—supplier, carrier and receiver.

One specific opportunity is to automate carrier tendering and shipment assignments, which makes it possible to achieve cost-effective tradeoffs between cost and service on behalf of the receiving customer. A sufficiently capable TMS implementation also provides benefits to the carriers, such as accommodating their preferred lanes of operation whenever there is a cost advantage to the customer that doesn't materially affect service. This kind of capability is a function of integrating with a carrier system to gain visibility to orders and equipment in conjunction with the collaborative operational decision criteria.

In one example, a logistics service provider automated processes to streamline connectivity providing visibility and control with improved customer service by assigning the most cost effective carrier to the shipments:

- Streamlined the electronic connection with customers and carriers
- Easily provided visibility and control
- Provided scalability to meet the needs of any size customer
- Handled more freight with fewer people
- Improved customer service by assigning the right carrier to the right shipper at the right cost

A company executive declares:

“With [our] on-demand system, we can handle a large volume of transactions. This allows us to provide value to our customers, regardless of size.”

Another major opportunity for reducing freight costs is creating terms of purchase that allow the recipient organization to take control of inbound shipments and thus permit the utilization of that company's preferred carriers to potentially select lower cost freight options.

The closer relationships obtained by working with preferred carriers also creates an opportunity to achieve other economies. It becomes possible, for example, to coordinate inbound shipment moves with outbound shipment moves, minimizing the need for shippers to drive “empty miles.” Receipt of an inbound shipment can lead to faster turn-around with the loading of an outbound shipment that reduces carrier costs by increasing carrier equipment utilization. Larger operations with integrated trailer

yard management systems (YMS) can allow carriers to exchange an inbound load for an outbound load almost immediately (drop & hook) for further improvements for longer term mutual benefits.

This kind of mutually beneficial coordination results in closer ties throughout the supply chain and improves access and responsiveness of carrier equipment over what is available to shipping organizations that do not maintain these integrated partnerships. This integration across the business collaboration network at this daily, operational level will produce long term reductions in operating costs through the efficiencies gained by all partners.

There is a similar benefit in the quality of service that can be offered to end customers. Their specific requirements for each type of shipment can be configured into the automated system, so that in all cases their shipments will have first call on the “best carrier option” available for their unique shipping characteristics. Not only is the cost structure optimized, but customer satisfaction is dramatically improved throughout the process.

3. How to Get Started

Both the challenges and business benefits of inbound supply integration are significant. As global market competition continues to intensify, savings and service improvements in logistics will become an ever more important competitive strategy as leaders continue to outpace laggards with investments in integration and applications to optimize their logistics operations.

As identified in this piece, the initial effort can be large in scope as inbound processes cross through specific organizational functions. This requires the expertise of each impacted department to ensure implementations meet the unique requirements of each at startup and continuously flex and expand as the business collaboration network grows. That's why the essential first step for organizations seeking advantages in logistics is to form a partnership with an IT provider which has the expertise, experience, software products, and staffing support to augment the internal managerial and IT resources.

We at Sterling Commerce stand ready to help organizations of all sizes successfully undertake all phases of the assessment and implementation processes required to achieve state-of-the-art inbound supply integration.

The scope of a successful inbound supply program includes the following:

- Define collaborative goals that align the expertise of both the logistics and procurement departments to identify the “lowest landed cost”
- Invest in a systematic process, with logistics and procurement leadership input that segregates product costs and freight costs on a line item basis that allows the appropriate expertise to evaluate their portion of the challenge resulting in the best solution for “lowest landed cost”
- Classify and quantify all your inbound activity such as prepaid, collect, etc.
- Understand your current and desired supplier management strategy
- Evaluate what is the best landed cost/service combination by supplier while taking into account line-haul, fuel surcharge and assessorials
- Focus on the biggest and quickest wins for inbound
- Implement, measure and monitor compliance of the supplier base

If your organization can identify with the above inbound integration and operational success points and is looking to invest in a successful trading partner relationship for the future, Sterling Commerce is poised to bring you the solutions for success.

About Sterling Commerce

Sterling Commerce, an AT&T Inc (NYSE:T) company, helps companies optimize and transform their Business Collaboration Network quickly, easily and securely to accelerate revenues and reduce costs. More than 30,000 customers worldwide use Sterling Commerce applications and integration solutions to connect, communicate and collaborate with their customers, partners and suppliers so they can drive growth, adapt to change, enhance performance and protect the enterprise. Headquartered in Columbus, Ohio, Sterling Commerce has offices in 24 countries. Learn more at www.sterlingcommerce.com

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