

Survey: Supply Chain Oversight Helps Everyone

(August 31, 1999) When Wal-Mart Stores introduced new rules for suppliers in the early 1990s, many vendors were nervous.

They thought the retail giant was being unreasonable. Wal-Mart suddenly was dictating how the goods they received would be labeled, how they'd be packaged, anything that made it easier for them to receive and handle goods and clear them through the store with minimum inventory.

"Now, they're considered best practices," said Bill Helming, a director in the supply-chain practice of PRTM, a Waltham, Mass., management consultant.

"A lot of companies initially found them very inconvenient and even a bit expensive, but the ones who stuck with it have prospered enormously," Helming said.

A recent survey by The Performance Measurement Group, a subsidiary of PRTM, confirmed what many have been saying -- that companies that emphasize supply-chain issues can gain a huge advantage over their competitors.

The best companies have cut their supply-chain management costs to as low as 4% to 5% of their sales. That provides a huge advantage over companies that spend up to 10% of sales on distribution, transportation and other supply-chain activities. For a company with \$500 million a year in sales, the supply-chain efficiency can mean \$25 million to \$30 million in savings.

Market leaders with sound supply-chain strategies are earning 75% higher profit than their less successful competitors, the study found.

So what does the smart company looking for an advantage do? The answer is that there are many answers.

A manufacturer might adopt "postponement" tactics, in which a product is partially completed and then stored, awaiting last-minute customization that permits stocks to be matched more closely to orders.

Or a retailer might demand that goods be packed in a way that makes them easier to store, stack or display.

Caught in the middle, a distributor might have to change the frequency or size of its deliveries, or adapt to accommodate different packaging.

Whatever the changes needed, every company will have to face up to one common element -- a change in culture, Helming said.

"You might have to change the way you distribute a product, or package a product, or even the way you make a product," he said. "People find that very daunting."

Helming said that **United Therapeutics**, one of the companies surveyed in the logistics study, said it achieved a significant financial turnaround by introducing 95 metrics to measure and control its supply chain.

Living up to expectations

But there's more to it than just collecting and collating data, said Kate Vitasek, director of supply chain design at **Deloitte**, based in Westwood, Mass.

United Therapeutics has about \$650 million in yearly sales from assembling computers, issuing and billing for software licenses for major computer companies, and related activities.

"Every department had to pick a metric and post it in their department. If they were not meeting their goal, they had to have a write-up on why not," Vitasek said.

"At first they thought it was pretty stupid -- us making them put it up on a board when they were already good at metrics. But we also made them write about success stories and the improvements that they made. It was amazing, when people focused on it, the success that it generated," Vitasek said.

The company saw costs fall and efficiencies rise by as much as 75% in some areas of business.

The next step was to marry good supply-chain management practices with the company's financial aims. **United Therapeutics** board members compiled a list of things that had to happen -- such as a 5% rise in earnings before tax.

"Every business unit mapped objectives to meet those points, and then every department mapped to that," Vitasek said. "It was a tightening-up of the organization as regards to focus."

Clear corporate goals

The change brought a cultural shift in the company, she said.

"It's not just the board looking at some financials," Vitasek said. "It's the fact that the entire company all the way from the boardroom to the shop floor understands the corporate goals, and they personally and pro-actively make decisions based on those goals."

One goal should be to tighten the supply chain by eliminating distribution centers, Helming said.

A growing number of companies are shipping directly to the customer, he pointed out. "Companies like FedEx are penetrating more and more industries," Helming said.

He said a client that makes diagnostic medical instruments recently started sending all its products by overnight or two-day delivery. The move allowed the company to get rid of distribution centers and staff all over the world, Helming said.

Survey of global operators

Performance Management Group's survey was based on data from 110 subscriber organizations from North America, Europe, and Asia in the chemical and pharmaceuticals, computers and electronic equipment, defense and industrial, telecommunications equipment, and consumer packaged goods sectors.

The companies include Johnson & Johnson, Bayer, Dow Chemical, IBM, Mobil, AT&T Wireless, Colgate-Palmolive Co., Honeywell Corp., Lipton/Unilever, AlliedSignal and Raytheon.

The survey used industry standard performance measures from the Supply-Chain Operations Reference-model, developed by PRTM in collaboration with the Supply-Chain Council. The metrics look at factors such as production flexibility and total supply-chain management costs.