Six Key Ways Supplier Enablement Solutions Can Immediately Reduce Offshore Sourcing Costs in Complex, Import-Driven Supply Chains

The Profitability Challenges You Face in Meeting Customer Demands

Meeting customer demands accurately and on time requires you to have a great deal of control over your supply chain processes—and all of the trading partners involved. Yet, developing and maintaining effective communication with a network of disparate suppliers located around the world is a challenge many companies are unable to conquer. These companies are dealing with long lead times, language barriers and time zone differences that can make the process nearly impossible. For those able to establish open lines of supplier communication and coordinate transactions with an integrated supplier enablement solution, a host of benefits awaits. These include reduced inventory levels, compressed cycle times and lower costs throughout the supply chain. But how does a company begin to attain these goals?

First it would be helpful to understand how a supply chain looks with and without a supplier enablement solution in place.

> ### The high cost of a supply chain without a supplier enablement solution:
> A manufacturer with goods coming from overseas struggles with **long lead times** and the **lack of visibility** into incoming shipments. Shortages of key manufacturing materials **halt production**. The company makes **unsuccessful** efforts to communicate with its supplier network, which is **incapable** of system-to-system collaboration. Language barriers and time zone differences make phone calls nearly impossible, and faxes become lost. The company doesn't know if shipments were made on time or if they were shipped complete. There is **no visibility** into in-transit statuses to determine whether shipments will arrive as scheduled. Shipments arriving without advance notice create **dock congestion**. Once shipments arrive, the company must complete a detailed, **labor-intensive** receipt of the goods to verify accuracy. The company wastes thousands of dollars on expedited shipments and extra verification procedures. These process **inefficiencies** and excess costs result in a **loss** of competitive advantage and customers.

If this sounds familiar, you're not alone. Many companies today lack an effective means of working with their supplier networks to develop a more efficient supply chain. The example below demonstrates how this is possible.

> ### With a supplier enablement solution: risk mitigation and reduced costs
> With a **cost-effective** supplier enablement solution in place, the same manufacturer can leverage a Web-based portal to share information with all members of its supplier network and extended supply chain. This **empowers** the company with **visibility** to the **status** of orders as they move from suppliers to consolidation points, to overseas and then domestic ports. It can **accurately plan** for receipts and **streamline receiving** activities. It can also receive **real-time notification** of any potential issues or exceptions occurring or about to occur to **eliminate or better manage unexpected delays**. By eliminating manual verification processes and unexpected expedited shipments, the company **saves** thousands of dollars and ships orders to customers on time.

Perhaps the scenario describing a supply chain without supplier enablement sounds familiar to you. The issues described in that scenario and those discussed below could be problems you face today:

- *Extended cycle times* - Manual, labor-intensive practices for information exchange and lack of visibility and control extend cycle times for weeks on end.

- *Material shortages* - Delays in the arrival of key materials cause manufacturing line stoppage.

- *Dock congestion* - Lack of visibility to actual inbound shipments results in inefficient receiving and congestion at the dock.

- **Warehouse labor costs** - Lack of visibility often results in maintaining staff for peak activity periods rather than smoothing staff to meet actual requirements.

- **Unplanned receipts** - Suppliers lacking advance shipping notice (ASN) capabilities ship without providing advance notice, creating congestion at the dock and the potential for detention accessorials.

- **Last-minute changes** - Unexpected changes in customer demand trigger changes to suppliers' shipments, often extending cycle times.

- **High inventory costs** - Excess time and uncertainty (what will be received and when) in the replenishment cycle lead to double ordering, buffer stocks and the associated carrying costs.

- **Vendor compliance issues** - Variability in the capabilities of suppliers precludes best practices that incorporate automatic scanning or ASNs.

- **Inbound transportation costs** - Expedited transportation services often compensate for extended procurement cycle times.

- **Limited visibility to inbound shipments** - There may be a visibility gap created based on the inability to get ASN information from suppliers or status updates from extended supply chain partners.

- **Invoice reconciliation** - The chain of integrity may be broken between a purchase order and a receipt, creating extra effort and error in the reconciliation process.

The answer to many of these issues resides in a supplier enablement platform connecting you with each of your suppliers to exchange information in real time. However, with suppliers ranging in size and resources, a one-size-fits-all solution is difficult or even impossible to establish. Even if you have a robust warehouse management system in place, many of your suppliers probably lack the infrastructure and/or technology required to synchronize your operations. Furthermore, many communication protocols (i.e., EDI) are cost-prohibitive for all but the largest organizations. True supplier enablement requires a platform that allows the exchange of information with a broad supplier base, regardless of the technology available to each entity.

Exploring Supplier Enablement

Effective management of your worldwide supplier base—supplier enablement—focuses on synchronizing supply chain operations through the real-time sharing of demand signals, inventory levels, capacity levels and performance issues. The supplier relationship of today must break down the barriers of the traditional "four walls" and move to an environment in which all partners synchronize their supply chain planning activities to achieve a common goal: meeting customer expectations on time, every time. This synchronization ultimately drives cost out of the supply chain through the reduction of inventory levels and cycle times—and is increasingly a critical factor in determining success.

Streamlining your offshore sourcing requires technology solutions that help you effectively manage all aspects of the procurement process. These solutions improve the velocity of materials moving through your supply chain by increasing the velocity and availability of information. Supplier enablement solutions provide an execution platform for this process and set the stage for greater efficiencies based on heightened visibility into incoming goods, ASN or auto-ID based receiving, improved flow-through, exception-based management, and many others. Use of these solutions empowers all parties to share current, accurate information and proactively manage the procurement process, no matter how far apart they are geographically.

The ideal supplier enablement solution will meet your functional needs, yet be adaptable enough to manage unexpected and ever-changing customer and business requirements. Key elements of the solution might include:

- Web enablement
- Flexible workflows
- Purchasing lifecycle management
- Shipment building

- ASN creation
- Compliance labeling and documentation
- Tools to help each supplier become more efficient
- Trading partner performance visibility

It is important to remember that not all solutions are the same. You'll find that capabilities and prices will vary greatly as you begin to research the offerings. Later in this report you'll find additional information for evaluating supplier enablement vendors and their solutions.

A Sample Flow

• Upon the release of a purchase order (PO), events will trigger and push e-mails with order information to the supplier.

• Links within the e-mail will launch a Web application. The application will allow the supplier to send a PO acknowledgement back to the initiating company.

• The fulfillment process is performed by the supplier and recorded in the Web application. This step is where the shipment is prepared and often includes confirmation of completed value-added services such as labeling, price ticketing or special packing requirements. Shipment details can be recorded, such as serial numbers, batch or lot numbers. The function of preparing the shipment also includes the creation of shipment documentation and bar code license plates.

• The supplier then performs quantity validations and shipment confirmations, both of which are used to generate ASNs, thus eliminating the need for EDI.

• Once shipments are in transit, extended supply chain partners (transportation providers, consolidators and freight forwarders) can report and view status. You have full visibility to the inbound shipment from the supplier's ASN as well as updates from extended supply chain partners.

• You are able to efficiently receive using ASN-based or scan-based processes.

• Ultimately, suppliers with system-to-system collaborative capabilities can bypass the portal and use XML (or other communication methods) to facilitate this flow.

What You Will Learn in This Report

This report will highlight the six key ways supplier enablement solutions can help immediately reduce offshore sourcing costs and empower you to better mange cycle times. Following this discussion, you will learn how to evaluate the range of software offered to meet your supplier enablement needs.

Six Key Ways Supplier Enablement Solutions Can Immediately Reduce Offshore Sourcing Costs in Complex, Import-Driven Supply Chains

1

Compressing Cycle Times

The opposing forces of delivering "the perfect order"—having the right product in the right place at the right time—and cost containment through reduced inventory levels must be balanced in your inbound supply chain. Delivering the perfect order is a key metric all organizations are focused on achieving. It is a calculation of the error-free rate for all components of the fulfillment and distribution process, including: order entry, warehouse picking, on-time delivery, shipping without damage and final invoicing. The benefits of the perfect order are clear: increased customer satisfaction, higher customer retention and lower cost of lost sales. Delivering the perfect order should be accomplished without excess inventory or increased costs in the form of expedited deliveries. Striking this balance requires communication and real-time coordination with your supplier network. Reducing your supply chain cycle times is the best way to realize the benefits of delivering the perfect order without incurring additional inventory and delivery costs.

Supplier enablement solutions can reduce cycle times by creating an environment in which communication is automated, timely, accurate and certain. Shorter cycle times and enhanced certainty on promise dates allows a higher degree of fulfillment on orders with short lead times. These solutions provide the ability to efficiently communicate both current and forecasted demand requirements with suppliers and receive responses in real time. Additionally, supplier enablement accommodates both system-to-system integration and Web-based portals to allow for the accurate flow of real-time information and best practices. This drives further reductions in transaction costs.

Particularly with offshore sourcing, the impact of delays and lack of communication regarding cycle times throughout the extended supply chain can be extreme. International and homeland security can introduce significant barriers to timely delivery in a process already complicated by multiple touchpoints and opportunities for delay. The ability to proactively monitor and effectively supervise the end-to-end process directly determines your ability to manage long replenishment times profitably.

2

Simplifying the Procurement Process

With procurement activities involving such a range of suppliers, languages, systems and technology capabilities, errors and delays are daily occurrences. There is often a break in the chain of integrity between a purchase order and its associated receipt, creating extra effort and mistakes in the reconciliation process. Supplier enablement provides a central hub for all procurement transactions, allowing for uniform deployment of best practices and Web-based self-service for procurement-related status inquiries. It introduces a simple, automated process of completing each step of the procurement process from initial PO to final receipt, making reconciliation efficient and accurate.

3

Reducing Inventory Levels

Your goal is to optimize inventory levels and reduce the costs associated with carrying unnecessary safety stock. Supplier enablement solutions create a tighter link between customer demand and your supplier network, allowing you to maintain high service levels with proactive replenishment while safely and reliably reducing inventory levels. With supplier enablement, all stakeholders can automatically monitor inventory and demand levels to ensure variability in demand does not result in an unanticipated shortage. Likewise, these solutions minimize the cost of product obsolescence in the face of ever-shortening product lifecycles by regulating inventory levels according to demand. Working collaboratively with your supplier network to meet common customer demand allows for true supply chain

synchronization where cost is not simply pushed back into the supply chain to be passed on later, but rather is pushed out of the supply chain by allowing all links in the chain to plan based on timely, accurate information.

Supplier enablement solutions can also be key in the successful conversion of inbound freight from prepaid to collect. Accurate shipment information can easily be obtained from suppliers to create optimal inbound routing and carrier assignment. With government hours of service (HOS) regulations, accurate pick-up appointment scheduling has become a critical component in this process. Unbundling inbound transportation costs from material costs can also generate further savings by creating an apples-to-apples comparison of suppliers. Supplier enablement solutions can also drive savings by keeping inbound routing requirements up to date across your supplier network where freight is not converted to collect.

Streamlining the Inbound Flow of Goods

4

You are continually challenged with optimizing resources as well as the flow of goods throughout your supply chain. Supplier enablement solutions create more accurate and automated receiving processes, which in turn reduce costs. Use of a supplier enablement solution empowers all suppliers in your network with the ability to provide you electronic ASN information. This reduces dock congestion resulting from unplanned receipts and significantly enhances your ability to accurately and efficiently receive inbound goods. Better visibility of inbound shipments will result in less need for expedited transportation and improved planning for least-cost inbound transportation. Additionally, these solutions can automate receiving with support of supplier shipping, labeling and bar coding. Supplier enablement solutions support additional value-added services such as special packing and sequencing requirements.

> "Receiving ASNs from suppliers typically reduces time to receive a shipment at the distribution center between 30-40%, with a corresponding reduction in costs to receive while improving the physical flow of goods. Web-based supplier portals can enable companies to receive ASNs from suppliers much more easily, especially those without EDI capabilities. Many companies can justify their investment in a supplier portal from the savings in receiving costs alone."
>
> - SupplyChainDigest 9.27.03

Further cost reductions can be achieved through the ability to plan labor more accurately for incoming shipments. Optimal staffing levels can be maintained based on actual quantities of inbound materials. Proactive supplier fulfillment compliance and accuracy ensures more efficient receipt and put-away processes in the warehouse. Supplier enablement of auto-ID labeling, shipment documentation and ASNs allows for streamlined receipt. Labor productivity can also be enhanced by using inbound visibility to plan the flow of inbound goods to require the least amount of handling possible, whether through cross-docking, flow-through or sequencing for the shop floor.

Streamlining the Flow of Information

5

For complex, import-driven supply chains, there are numerous entities involved in moving goods from raw materials to the end customer's door. Among them are raw material suppliers, manufacturing plants, freight forwarders/consolidation points, overseas and domestic ports, and a host of transportation companies moving inventory from one point to the next. A supplier enablement solution functions as a single, central repository for all information related to the inbound flow of goods.

With the ability to reach all members of your supplier network regardless of the level of technology each has implemented, your supplier enablement solution can serve as the system of record for all inbound material transactions.

By centralizing this information and making it available through a Web interface, you empower all stakeholders with an equal ability to participate in managing their respective segments of the supply chain. Duplicate orders, costly shortages and crippling line stoppages can be prevented because stakeholders have access to accurate, current information. Sales can be enhanced by the ability to provide firm commitments on demand based on accurate item availability and inbound cycle times.

Facilitating Proactive, Automated Management by Exception

Most companies are moving toward increasingly lean environments with reduced buffer stocks. Production plans and customer service are dependent on the timely receipt of raw materials, components and finished goods. Unfortunately, the unexpected often happens and causes problems with these dependencies, especially when supply chains extend across the ocean. Suppliers are suddenly out of stock, transportation is unavailable, goods become stuck in customs, and suppliers ship short or late. The list goes on.

The faster you are aware of these exceptions, the faster and more effectively you can assess the impact on your supply chain and take appropriate steps. These may include changing manufacturing schedules, expediting shipments, finding alternate suppliers and communicating with customers. Visibility, real-time notifications and automated event management through the PO and in-transit process allow you to have this capability.

Supply chain visibility demands automation and intelligence. As cycle times are compressed, visibility to potential performance issues must be intelligently and effectively elevated. Supply chain events such as shortages and quality issues must be automatically identified and elevated to the attention of managers or others who can work quickly to resolve them. Or better yet, they are resolved automatically. Supplier enablement solutions manage the tactical issues of goods and information moving through the supply chain, freeing managers to "scan the horizon" for larger issues.

Evaluating Supplier Enablement Solutions

Now that you have learned why supplier enablement solutions are beneficial for your business, it is important to understand the variety of offerings on the market today. These solutions range in both price and functionality. It is essential that you carefully evaluate the unique requirements of your business to get a strong understanding of what you actually need and the budget you can allocate to the project. The following are key points for consideration:

- *Adaptable connectivity and integration model*

A solution that offers the same level of connectivity to "Mom & Pop" suppliers lacking technology as well as the largest organizations will help ensure everyone in your network is operating with the same information. The materials coming from small suppliers are rarely less important than those arriving from large ones. Likewise, you will need to be able to support a variety of transports and protocols for your trading partners, including EDI, XML, flat file and Web.

- *Support for real-time visibility and execution*

A solution that offers real-time collaboration empowers all stakeholders to participate in the process with current and accurate information. This creates an environment where exception conditions are automatically identified and solutions are quickly and effectively negotiated with all parties informed and in agreement.

- *Integrated supply chain event management*

As discussed previously, automated management by exception is a key way supplier enablement solutions drive cost reductions throughout your supply chain. To maximize your ability to leverage this functionality, a solution featuring configurable, automated exception management is the best choice. Management by exception promotes proactive customer service and reduces costs by alerting managers and trading partners to supply chain events and exceptions via e-mail, pager, fax or phone. This promotes proactive resolution of supply chain issues, thereby minimizing disruptions, eliminating the need for costly expedited shipping, and increasing customer satisfaction.

- *Rapid implementation and simple user adoption*

Understanding the time frame and cost involved in system implementation and training is a critical step—and one many companies overlook in selecting supplier enablement software. One component of the implementation process is the ability to integrate with your existing systems, and often those of your suppliers. A solution with a configurable architecture will facilitate this. Another consideration for the implementation process is whether your vendor utilizes a best practices-based methodology. Ask potential vendors about their approach to implementation and how it will impact your business operations.

The system should also be easy to use so that users can become proficient with its functionality quickly. Check with your vendor to understand the training and technical support options available.

- *Ease of configuration to meet changing requirements*

As with ease of implementation and training, configuration is an important element when it comes to evaluating and selecting a supplier enablement solution. Your business, customer and trading partner requirements are unpredictable, and it's impossible to know what sort of demands you'll face a month from now, much less a year away. Because of this, a system that easily and cost-effectively accommodates your changes will empower you to save money by performing modifications in house without involving your vendor. This type of configurable system will help ensure your long-term total cost of ownership remains low.

- *Secure, controlled access for all trading partners*

Ensuring the security of your information is a top priority for your company and your supplier network. Supplier enablement solutions must provide multi-enterprise, role-based security to both functions and data. Each trading partner represents a unique relationship and level of authority that need to be reflected in its ability to access information.

Conclusion

Managing the complexities of offshore sourcing is often complicated by a black hole of information—and a great deal of frustration. Supplier enablement is a fundamental component of optimizing these types of supply chains. It is essential to your ability to meet customer demands on an ongoing basis and maintain profitability through continual process improvement and cost reduction. Understanding the relevance of supplier enablement solutions, the manner in which they should be evaluated, and the six ways they can help you immediately reduce costs within your supply chain provides an essential foundation for long-term success.

About HighJump Software, a 3M Company

HighJump Software, a 3M company, is the global leader in providing highly adaptable, best-of-breed supply chain execution solutions that streamline manufacturing and distribution from the point of source through consumption. HighJump's tightly integrated solutions empower operational excellence in the warehouse and optimize the flow of inventory throughout the supply chain by facilitating collaboration with customers, suppliers and trading partners. These comprehensive solutions combine robust, standard functionality; a best practices-based implementation methodology; and a uniquely adaptable architecture that facilitates fast, cost-effective system modifications. The result: the industry's lowest total cost of ownership for more than 700 satisfied customers worldwide. As part of the 3M family, HighJump leads the industry in financial strength and delivers on an unmatched commitment to innovation and quality. HighJump leverages these advantages to continually expand its solution footprint and empower operational excellence for domestic and multinational customers.

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