

What are the top priorities in supply



Tony Quartararo
Executive Vice President,
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We are very comfortable with the progress we've made in the last few years implementing lean manufacturing and developing our employee-involvement culture. The next supply chain challenge is taking our philosophy of doing business upstream to our supply partners.

As a company, we value the Earth and we understand that the sustainability of our planet is core to our future. So we're interested in doing things right, with our eye on the greater good. Of course, this is not always the easy way to do things. We are now actively engaged in better understanding all of our process streams—not only where our materials are coming from, but how they are made, how are they packaged and how much energy is used in their manufacture. Is it renewable energy? What is the waste? We look at all the elements involved.

We have set a very aggressive goal as a company that by the year 2020 we will be the greenest personal care company on the Earth, generating zero waste and using 100-percent renewable energy. That is a mind-numbingly aggressive goal, but it's core to our DNA as a company.

If you build a truly sustainable supply chain, it is more resilient.

To get there, we are focusing time and effort on our supply partners. We want to do business with like-minded companies who value the Earth. We have a lot of suppliers knocking on our door every day looking to do business with us, but we will only work with companies that we know are doing things the way we would do them.

We have recently hired a supply chain sustainability director and increased the number of professionals working in our vendor management program to help us build those relationships with our supply partners. We are not taking an ivory tower approach in this; we're looking to educate and be an agent of change so that our supply partners see the value of being green and sustainable. Our quality audit team works hand-in-hand with our suppliers and our vendor-management team to assist in

education and problem solving with our supply base.

Members of our vendor-management team are part of the core teams that develop new products and initiatives. In that process, we have regular multi-disciplinary meetings with our product development people so we can discuss the impact of proposed products on our ability to source materials from best-in-class supply partners who use the sustainable approaches we're looking for. It's not just an analysis based on cost and quality; it's a different lens looking into all these other factors and the sustainability of the supply partners' practices.

The benefits of this approach, beyond the most important—which is taking care of the planet—is that if you build a truly sustainable supply chain, it is more resilient. That will allow us to continue to grow as a business.

Focus on continuous improvement

On the customer side, we have just undertaken a core-process engineering review of our forecasting and demand processes. We had a multi-disciplinary team working to develop the methodology, and we have since rolled out new practices and protocols. Even in the first few months of the new approach, we have seen some dramatic improvements in communications and in understanding prioritization so we can run the business in a coordinated manner.

We're asking better questions about our processes, and we are expanding the relationships with our customers so we have a better understanding of their needs and priorities. We don't want to overproduce; not just because of cost issues, but because of the implications for wasted energy and resources by having excess inventory.

Over the coming year we will bring on board a new document management system we're calling WAX, for workflow automation express. This will become our "central nervous system," helping us better manage our operations and reduce paper.

On the manufacturing side, we make all of our products in the United States, and our continuous-improvement engineering team has led and implemented a number of lean initiatives in recent years. Our supervisors are now becoming coaches too—we have self-directed work teams on some production lines, helping to raise the skills and abilities of our employees. We are piloting this approach now and expect to see a great evolution in the years to come.

chain management for your business?

We looked at outsourcing manufacturing, and, because of our explosive growth (20 percent a year), we do use outsourced partners for some products to meet demand. But in general we want to make all of our own products. We feel there is a multitude of benefits to keeping our manufacturing in house.

None of this is easy to do, but it's our corporate philosophy, and we're seeing tremendous growth and progress. Like a flywheel, doing business in ways that value the Earth and our people, it takes time to build up momentum. But just like that flywheel, once it gets going, it generates a lot of power.



Mike Griswold
Research Director, Retail,
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One of the biggest issues for retailers over the next few years is the continued globalization of their supply chains as they source more and more products overseas. This challenge will prompt some companies to make significant investments in people, processes and systems to manage and improve visibility across a growing supply chain.

It will be important for retailers to improve their end-to-end visibility if they are going to maintain the right mix of products in their stores and capture the real value of collaborations with suppliers enabled by greater information sharing. (See POS Data article, page 17.)

Many retailers share point-of-sale (POS) data with their suppliers and have done so for quite some time. The next step is enhancing and integrating that data into forecasting and demand planning processes. Retailers want to see what the POS data mean to their forecast and how they can adjust that forecast and send the appropriate demand signals back through the supply base. As the supply chain extends, and lead times grow, the skills of forecasting and demand planning become more important if retailers want to keep the right products in the right stores at the right times.

Traditionally, retailers have left much of this analysis to the manufacturers and the suppliers, but now they want to develop more of that capability internally. That translates into a human resources challenge for companies because

retailers will need to invest in recruiting and, most importantly, retaining employees with skills in forecasting, optimization and supply chain planning. To keep talented people with those skill sets, retailers must stay current with the technology. People with those skills are in demand and will move on if they are not challenged or not working with leading-edge technology.

Working together around product-assortment planning will be the next big win-win collaboration between retailers and suppliers.

We are also starting to see an evolution in data sharing. Beyond just sales information, some retailers are beginning to share customer-loyalty data with their suppliers. In addition to what products have been sold, customer-loyalty data show the basket of products a particular customer buys together. Retailers can track the impact of out-of-stocks, or promoting various products, to see the effect on the overall assortment of items a customer buys. Customer data can be segmented by geography and other parameters to help retailers optimize product assortment store by store.

I think working together around product-assortment planning will be the next big win-win collaboration between retailers and suppliers.

Getting the internal house in order

While the value of these deeper collaborations across the extended supply chain can be captured by some, the reality is that most retailers are not ready to look externally yet. In the past few years, many retailers have gone through mergers and acquisitions, and now have a lot of work to do on their own internal visibility issues. Many retailers are dealing with disconnected and incompatible systems within their own company. Before they can reach out to enhance communication and collaboration with their suppliers, they need to get their internal systems and processes working together. That's going to require significant investments for some companies.

Another major supply chain challenge we see stems from retailers pushing to become more focused on cross-channels. They want to expand their Web, catalog and store sales operations, but those channels don't necessarily operate with the same systems. This causes supply chain

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complexity, even duplication, which increases inventory levels and costs. It will be important for retailers to rationalize their channels and optimize legacy systems.

Visibility, associate education and retention and cross-channel management are some of the significant supply chain challenges for retailers over the next few years. Improving internal and external collaboration and focusing on supply chain visibility will position companies to become supply chain leaders in the future.



Thomas L. Dadmun
Vice President for Supply Chain
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ADTRAN

For the past few years we've been doing a lot of work on our sales and operations planning processes to help us better understand demand and react appropriately. That will continue to be a top priority. In particular, I want to be able to get better information from our customers, and quickly interpret that information in ways that are relevant to our business—not only from an operations perspective, but also from a revenue and margin perspective. [ADTRAN develops and manufactures networking and telecommunications solutions to carry voice, data, video and Internet communications across copper, fiber and wireless network infrastructures.]

I believe the supply chain is really a demand chain. Customer demand drives it all, so if we can do better with forecasting and understanding the demand up front, then that's three-quarters of the battle. Of course, dealing with demand is difficult, forecasting accuracy is always tough and getting the information that we need, when we need it, to make the right business decisions can be a challenge.

What we need to do now is to get more point-of-sale data, and more point-of-usage data about our products, from our customers. Sales data sharing happens in the retail sector all the time, so if it works for them, then I say why can't it work for us? Of course, it can be more challenging for us to get the data, particularly for our enterprise clients, which we serve through distributors. But we're now establishing some pilot projects for that market to see if we can improve our performance.

Today, many of our distributors have different stocking strategies, some with monthly reporting, others with quarterly reporting. As a result, on any given day it can be very hard for us to know what's really going on with our distributors' inventories, what they have on hand, what

their sales to end users look like and so on.

On top of that, the inventory information we do have now can hide, or at least disguise, the real consumption numbers. We don't necessarily know if a demand fluctuation is real, or if someone is stuffing the channel for some reason. We can easily get burned by someone going on vacation. For example, during the course of regular operations we'll see that an ordering trend has a different curve and we won't know what's behind that change. So we'll assume it's real demand, and we will build new stock to deal with that increase, but sometimes it will turn out to be a false demand signal. What may have happened was someone had gone on vacation and ordered more stock to cover for a week or two. That sort of thing happens all the time, given the current state of our information and processes.

Greater visibility and VMI

To try and get access to better customer sales data, we're working on pilot projects to develop weekly reports from two of our key distributors, and at the same time to increase our visibility into their inventories and their pipelines. We expect this effort will provide us with a better understanding of real consumption, and we can adjust our production accordingly.

Another priority for ADTRAN is establishing more vendor-managed-inventory (VMI) programs with our key suppliers. Better use of VMI can help us ensure that a lot of our standard items are readily available, while removing inventory from our books.

The supply chain is really a demand chain. Customer demand drives it all.

We do have a global supply chain. More than half of our products are manufactured in Asia by our electronics manufacturing-services partners, and we have very good relationships and strong collaborations with them. We have a quick-turn chain; we can change our production schedule in the current week, even though we're manufacturing most of our products halfway around the world. So our focus now is primarily on the customer and demand side of things, because that's where I think we can make the greatest improvements.

Finally, one area that I believe supply chain leaders must never lose sight of is what we call CIPs—continuous improvement programs. At ADTRAN, we're well along the road toward building a culture of continuous improvement into the DNA of how we operate.

The Last Word



John Cummings
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Looking ahead, it's clear that getting closer to customers and satisfying the needs of those customers by making better use of information are major priorities for supply chain leaders in many companies. Because supply chain management has traditionally focused on supply, this will be a major shift for some companies, necessitated by the shift in consumerism. No longer passive recipients, consumers are now in the driver's seat.

Why? Consumers now have more information available to them than ever before, and that tips the balance of power in their favor. Consumers can—and in growing numbers do—use the Internet to find out everything they need to know about a particular product and the various competing offerings before they decide what and where to buy. They rapidly compare price and features across many brands and channels. They are far less loyal to brand names and much more interested in price and unique features.

This makes it all the more important, and challenging, for companies to develop innovative, differentiated products, and to have them available in the right place at the right price when the consumer is ready to buy. The effort is further complicated by today's shortening product life cycles, and the proliferation of SKUs companies are now dealing with as they look to create more specialized offerings aimed at smaller consumer segments.

To succeed in today's fast-paced, consumer-driven environment, companies need to break down the barriers between producers and end consumers, enabling them to better understand consumers' needs and to design products to meet those needs. Boeing did this recently with the design of the 787 Dreamliner. The aerospace company involved more than 100,000 frequent fliers in the design process, asking them what they wanted to see in an airplane and incorporating their input into the final design.

The promise of co-design

In other industries, some companies now try to get more intimate with the consumer by moving to the concept of co-designing products—that is, bringing together working groups from companies all along the supply chain to help drive innovation. In that process, the supply chain's

ability to deliver on the promise of co-design is critical. To meet consumer needs in profitable ways, companies must now do more than produce truly innovative products. They must also design for manufacturability, for component reuse, for distribution and for environmental sustainability. Co-design mandates more collaboration than ever among different companies in the supply chain.

Unfortunately, many companies are still very insular, focusing only on the next link up or down in their chain. They operate in a buy/sell relationship along the chain, versus a team approach to satisfy the end consumer. If the supply chain were truly transparent to all companies, then I believe we would see a very different approach to solving operational issues, and everyone involved would be better served. Companies would make better decisions that are based on the potential impact on the end consumer.

Better availability and use of information drive the change necessary for supply chains to move more rapidly and to foster collaboration across companies. To accomplish this, leading companies now strive for the purest demand signal they can get and to improve their processes to better understand demand trends. Point-of-sale (POS) data provide the moment of truth, and the further you can propagate that information along the supply chain, the better results you will see. (See article on the power of POS data on page 17.)

Furthermore, companies need to do a better job of surfacing other forms of information, beyond the demand data that already exist within their operations, and make that information visible in practical ways that improve supply chain efficiency. Tremendous amounts of useful supply chain information exist at all points along the extended chain, but today it is very difficult to get to that information and make it available for decision making. Supply chains face the same challenge that consumers did prior to the Internet: Large amounts of information existed in the world, but it was very difficult to find. Today, that problem has been largely solved by the Internet, but we have a long way to go before uncovering all the useful data in the extended supply chain.

Companies today have a lot of work to do to get their supply chains and processes moving fast enough to satisfy ever-changing consumer preferences. Finding ways to better capture and leverage information will benefit the companies in the chain and contribute to the prosperity of all.

Opinion interviews were conducted by freelance writer
Michael Cohen.