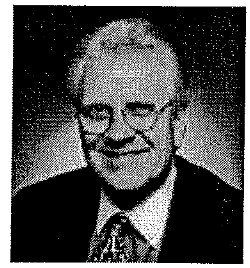
Supply Chain Revolution & the Fomenters of Discontent

IT'S ABOUT THE CUSTOMER!

CLM Southern California Roundtable Symposium speech excerpts, May 10, 2001



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Corporate America is experiencing a tidal wave of supply chain change. Progressive companies redefined the "supply chain", and are focused upon it as an essential element of who they are, how they function, and how they position themselves. Supply chain function and effectiveness has become a significant differentiating factor among companies.

This change has been driven by seven powerful elements.

1. Corporate America has discovered the supply chain, and has recognized it is not simply a means to an end, but an impactual facet of who they are. In the April, 2001 issue of Supply Chain Technology News, a research study by Dr. Vinod Singhal, Georgia Institute of Technology, and Dr. Kevin Hendricks, University of Western Ontario regarding Supply Chain Malfunctions and Their Relationship To Stock Price. The results were dramatic. When a supply chain malfunction is discovered, stock prices plunged an average of 8.62% within the first few weeks, and drop nearly an average of 20% over a 6-month period after the discovery. The average loss in shareholder wealth is a whopping $120 million per company.

If Corporate America has a mantra, it is "shareholder value". Any element that directly and significantly impacts shareholder value will find itself in the epicenter of corporate focus and resolution.

2. The "supply chain" has been redefined. It was formerly viewed as storing goods in the warehouse and shipping goods to the customers. The supply chain has been redefined as commencing at customer order-entry, and ending when the cash is collected after the delivery is made. Company functions are changing as a result of this recognition. The Director of Logistics is in charge

of a broader range of departments. Competitive, operational and financial implications are driving this transition.

3. Customers are demanding more. Our expectations are defined by the service provided by McDonalds and Federal Express. We don't go to McDonald's expecting a gourmet meal, but desire, consistency, low price, cleanliness and quick delivery.

Delivery of small packages is Federal Express' perceived service, but we do business with them because of their ease of use, reliability, and information transfer. Their customer interface is excellent. Their ability to provide quality, user-friendly information is transforming customer expectations in all industries. Federal Express has created a subconscious expectation regarding the delivery of products and the availability of information regardless of industry.

4. We can't afford to allow our competition to get ahead of us. Frankly, we prefer to set the standard and let them figure how to catch up. We must emulate companies like Sony when they developed the Walk-Man. Every competitor allocated significant resources to develop a similar product. When their products hit the market, Sony had completed two iterations of "kaizan", and had brought two improved models to market. Consequently, competitor's offerings were grossly inferior to the changed Sony models. Sony has continued to dominate this market with better features, smaller size, cheaper cost, and their product has become the standard by which all others are judged.

5. Process has to be customer-driven. Our customers have many choices, and our growth depends upon customer satisfaction. TQM is a process that has become "old news" in the manufacturing and engineering departments of major companies. Considering the magnitude of contribution TQM has made to American industry, it is a surprise that it has not found it's way more thoroughly into our day-to-day experience. TQM measures goods and services, from the perspective of the customer, and continuously improves customer deliverables.

While visiting the Georgia Tech Web Site, I discovered additional research by Dr. Vinod Singhal and Dr. Kevin Hendricks on the impact of TQM on corporate profit. Compared to the control group with no TQM programs, companies who won awards for the quality of their TQM programs were 44% more profitable than the control group over a five-year period. Could these companies achieve such a profit differential without more customers and increased customer loyalty? How could we integrate TQM into supply chain functions?

6. Customer's standards have changed. Increased standards create opportunities for "non-price" differentiation and superiority. Companies with "commodity-like" goods and services are in lock step price competition. Supply chain improvement and customer-friendly process is a huge differentiating factor.

Customer expectations are focused on increased value, quicker and predictable delivery, complete shipments, accurate paperwork, and user-friendly, accurate information. Quality information interface is a major customer satisfaction element. Large retail companies fine vendors as much as $25,000 for delivering an order a day late. They issue fines for incomplete shipments, and inaccurate orders. Fines are deducted from the invoice when payment is made. This is certainly a harbinger of customer expectations attitudes.

7. Supply chain efficiency creates a competitive advantage. Companies will purchase from vendors who meet and exceed customer standards. A more effective supply chain can significantly lower total costs as well.

I recently saw an article regarding Timberland supply chain changes. In a nine-month period, Timberland reduced their distribution centers from thirteen to three. They installed in a WMS, (Warehouse Management System), and strong operating procedures where they scan every box every time it is moved. They reported huge benefits as a result of these changes. They saved 25% in total costs, lowered their "pick and pack" work force by 40%, improved their order fulfillment time by approximately 50%, and report a 99.9% accuracy rate in order fulfillment.

Timberland has created a huge advantage over competitors that operate less efficiently. Timberland competitors must duplicate or exceed Timberland's new customer satisfaction levels. Presumably, Timberland will pass all or a portion of these savings on to their customers through lower prices, which creates price pressure on the competitors.

Never before possible levels of service are commonplace today. Technology has played a pivotal role in the innovation that has taken place. Both ocean and land based carriers can pinpoint the location of vehicles and vessels with Global Positioning Systems, (GPS). Web based process has improved service and the flow of information in a user-friendly format. Warehouse Management Systems, (WMS), and Transportation Management Systems, (TMS) have significantly improved inventory accuracy, customer satisfaction, shipping efficiency and shipping costs. Enterprise Resource Planning Systems, (ERP) now make it possible for disparate elements of the corporation to communicate with one another in common formats while preserving functional elements required by these departments. Material handling systems have lowered costs of operation while improving accuracy, performance, and have reduced damage. Electronic order entry has become increasingly prevalent.

Postponement has revolutionized many industries. Companies like Dell and Gateway inventory parts only and assemble to order. They ship within one day of receipt of the order. Postponement reduces inventory, provides significant order flexibility, and results in high levels of customer service and satisfaction.

Dr. Bernard La Londe, Professor Emeritus from Ohio State University has tracked changes in the logistics industry for decades through a yearly survey. This survey and it's implications are presented yearly at the Council of Logistics Management, (CLM), Annual Conference. Long-term trend analysis in the industry supports many conclusions. Some are as follows:

1. Logistics executives inside corporations have broader levels of responsibility.
2. Logistics executives have titles commensurate with their increased levels of responsibility.
3. Logistics executives have increased levels of authority.
4. Logistics executives are making more money.
5. Some logistics executives have ascended to the CEO position at major corporations.
6. Logistics executives have increasing levels of education.
7. Logistics executives average approximately 11 training days per year.

American corporations are increasingly focusing on their core-competency, and are outsourcing non-core-competency functions to outside companies. This is a partial explanation for the growth and proliferation of Third Party Logistics Providers, (3PLs). Progressive companies have recognized that they cannot be all things to all people, and consequently outsource all but their core competency functions to outside service providers who can do a more effective job at less cost. This creates huge opportunity for those suppliers who are at the head of the curve providing what the market demands.

We may be only at the forefront of change taking place in the logistics arena. It is a given that our customers expect more, and will be able to get it somewhere. They want it quicker, and at less cost, and our exchange of information needs to be accurate and easy. We can no longer run a warehouse with a pencil behind our ear taking notes on a grocery sack. We need to integrate technology into our business functions, and be open to reinventing who and what we are. We are always looking for opportunities to differentiate ourselves from the competition in a manner that does not involve lowering prices. This is it. Our customers will pay for our service if we demonstrate the reasons why it is in their self-interest to do so.