

Supply Chain Integration

Achieving Small Supplier Participation

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Somewhere in your Supply Chain is an SME (Small or Medium Enterprise) – you may have to go down a few tiers but they are always there. While one SME may only provide a small part of the value of your supply chain they may well rely heavily on your business for their survival.

Supply Chain Management (SCM) has become a mainstream business issue for most large businesses; its importance in reducing costs and increasing customer value is firmly established. Falling costs of IT technologies and solutions available to deliver SCM mean that its adoption can be a cost effective way to increase competitiveness through more efficient SCM. Almost by definition this involves linking your IT systems with those of your suppliers, probably via the Internet, a process called Supply Chain Integration. However, even though your business case is compelling and your chosen solution is simple and cost effective, you may well find it difficult to get suppliers, particularly small businesses, to participate.

The National B2B Centre, part of the Warwick Manufacturing Group, is funded by the DTI and has, for more than 2 years, been supporting West Midlands SMEs in gaining business benefit from Internet based technologies in a business-to-business environment. When invited by several larger businesses to support the roll out of their Supply Chain Integration projects, the Centre saw at first hand the issues SMEs face when asked to integrate with their customers. At this time, few small businesses are considering supply chain initiatives

of their own but many are being asked to integrate with the Supply Chain projects of their bigger customers. Some understand it will reduce their own costs and improve their internal processes and are happy to participate. Many do it because they dare not lose an important customer. When one supplier was asked why they decided to join a supplier portal project, they replied "...when this customer asks us to jump, we ask how high". The fears and concerns small businesses have about Supply Chain Integration with their customers include the usual ones of what it will cost and what will the benefits be. Many have little understanding, not only of the many supply chain issues and solutions, but also of the enabling technologies such as XML, portals and even the Internet that they may need to use. Those that have several large customers also fear having to use different technologies and processes for dealing with each one.

In one example, a manufacturer implemented a supplier portal as a collaborative repository for the supply chain information needed by their suppliers (policies, standards, supplier performance data and to host their Request for Quotation process) and to allow suppliers to keep their own data current. Soon after, the same business launched an EDI solution to allow suppliers to collect and return delivery schedules and despatch notes.

Invitations to participate in these projects were e-mailed from a manager in the purchasing department to the usual business contact, often a sales administrator rather than the key decision maker. Only limited explanation of the

technology, its costs, and the benefits which both parties could expect was included. Take up, especially from smaller suppliers, was poor.

The combination of poor explanation of the project and lack of supply chain knowledge of the recipients meant that the importance of the invitations was missed and they were not referred upwards. Also, had the e-mails come from senior management the importance of the initiative would have had more weight. When the key decision makers were reached, most responded positively, though often this was to avoid the perceived risk of upsetting a major customer by not participating. Despite signing up, many remained unclear about costs, the technology and what they needed to do to use it, and about the benefits which they would gain.

There are four learning points from this case study:

- Identify the key decision maker in each supplier and address your request to them from your own senior management.
- Tell them what benefits both you and they can expect, and what it will cost.
- Tell them what they will have to do and how they will have to change.
- Use a technology which is effective for both of you, but is simple and cost effective for the supplier.

It is unlikely that these messages can be successfully delivered in writing; face-to-face meetings or seminars must be preferable.

A second B2B Centre client was aiming to reduce the high costs associated with sending orders by post, and with invoice matching; some 70% of invoices needed

intervention before payment could be made. They identified a managed service for the Purchase to Payment process and embarked on a pilot with selected suppliers to test ordering and invoicing. On a website suppliers can accept, reject or modify orders and post invoices, with the system performing invoice matching so the client only receives invoices they can pay with confidence. Supplier participation costs nothing as only a PC and Internet connection are required.

The key benefits expected by our client were savings in stationery and postage on the order side together with reduced time and telephone costs for dealing with invoices queries. Suppliers were expected to see similar benefits as well as less rejected invoices and faster payment.

The client's Group Purchasing Manager made presentations to key people in each supplier explaining the technology, the benefits to both parties and the costs resulting in all invited suppliers participating. Benefits in order handling were felt immediately, (faster than post, duplicate orders sent twice to speed delivery were eliminated) although weaknesses in the quality of order information from the customer were identified.

Suppliers, however, felt they needed more support from their customer; a clear single point of contact and more regular formal contact would have increased their level of comfort. They were also unsure of the level of support they could expect from the system vendor with whom they had no direct business relationship.

It became clear that the need for direct system integration was greater for invoicing than for ordering since most businesses generate invoices automatically. Failure to integrate would necessitate manual entry of invoice data from one system into the other, risking transcription errors and creating extra work. The chosen solution permits integration by several methods and most suppliers were happy to consider this route seeing clear benefits for themselves.

This company clearly benefited from avoiding the pitfalls of the first, but experienced new ones too. Clearly, suppliers need to feel comfortable with the project at all stages, which requires regular communication from a nominated contact person within the customer and the confidence that technical support will be available when they need it. A further learning point is that if the effort needed to support a small number of suppliers through a pilot was multiplied to the 150 expected in the roll out, significant effort would need to be put into planning and project management to ensure success.

These case studies provide important direction for businesses considering implementing Supply Chain Integration projects with small suppliers in the areas of Change Management, identification of benefits, technical support and project planning and management. Firstly, it is imperative that initial communications with small businesses are between the key decision makers on both sides to eliminate the risk of misunderstanding of the project's importance and possible failure to

participate. Suppliers need to understand the benefits they and their customer expect to gain as well as how the technology works and what the costs will be. Ongoing regular communication will help to build trust between Customer and Suppliers so a single point of contact for all enquiries should be provided by the customer at an early stage. Assurances must be sought from solution providers regarding the level of technical support suppliers can expect.

In summary, Supply Chain Integration projects may involve hundreds of businesses integrating with your chosen system. Underestimating what this involves will lead to suppliers failing to support you. On the other hand, with sound planning and project management combined with well thought out communications through the life cycle there is no reason why you won't succeed, whatever the size of your supplier.

About the author

Steve Orris is the Senior E-business Consultant with the National B2B Centre where he leads a team of consultants providing practical support to West Midlands SMEs, helping them gain business advantage from e-business solutions. Previously, Steve was a Consultant in IBM's Industrial practice, engaging with multinational automotive, chemical and utilities clients on business and e-business strategy. In 10 years with multi-national consumer goods firm Unilever, he became an expert in Ice Cream manufacture and in the application of computers and technology in a manufacturing environment, culminating in the role of Manufacturing Systems Manager for Birds Eye Wall's.

FORTHCOMING EVENT

- The Institute of Operations Management & The National B2B Centre are co-hosting a half-day event on the subject of Supply Chain Integration on the 21st September at the University of Warwick. Speakers from Land Rover and Calor Gas Ltd will talk about their experiences, with an opportunity to see Supply Chain solutions in action over lunch.

For more information or to register for the Seminar please
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