Finding gold in the value chain
How CEOs are exploiting the latest ideas to link themselves to suppliers and customers

Quick! Name a company that revolutionized its industry through world-class supply-chain management.

Chances are you picked Dell, Wal-Mart, Cisco or any of a number of the mammoth firms whose names have become virtually synonymous with supply chain over the last decade. But these days, businesses of all shapes and sizes are finding ways to use supply-chain initiatives to bring down costs, bump up revenues and differentiate themselves.

Take Southwest Airlines. The upstart airline is proof positive that a company doesn't have to be a behemoth to cash in on the bottom-line benefits of supply-chain efficiencies. In fact, it doesn't even have to be dealing in physical goods. Tapping the same principles that enable, say, Dell's inventory management prowess, Southwest found creative ways to trim turnaround time between flights and configure aircraft maintenance schedules so the firm's fleet of planes-its primary asset-spends more time in the air earning its keep.

"Historically, when we've talked about the supply chain, it's been about reducing costs associated with manufacturing and the movement of physical goods," said Ed Starr, a partner at Accenture, who cites Southwest as a company finding creative ways to leverage its asset base. "But now, we're seeing businesses in a wide range of industries get much bolder and more creative about looking at ways to impact the industry value chain."

In fact, CEOs participating in a recent roundtable on supply-chain management, co-sponsored by Chief Executive and Accenture, hailed from companies as diverse as J. Walter Thompson, HarperCollins Publishers Worldwide, Rosenbluth Travel, Independence Community Bank and Choice Homes. Yet all recounted grappling with the challenge of optimizing connections between partners, customers and suppliers; finding and implementing the technology to manage them; and overcoming the internal organizational hurdles that crop up along the way.

The learning curve

For some, such as New York-based HarperCollins, the efforts are already paying off handsomely. "I've seen our revenues and profits actually double in the last five years, much of which is due to us practicing supply-chain management," reported HarperCollins president and CEO Jane Friedman, who credits enhanced communications with retailers, accurate forecasting and rapid order fulfillment as playing a significant role in the jump. "Publishing has traditionally been a business with 5 percent to 6 percent margins if you were lucky; we're now consistently in the double digits."

But for others, the end goal remains elusive. "We're trying to change the dynamics and culture of an industry that's very old, very stuck in its ways," asserted Michael Tryon, president and COO of Chicago-based Metal Management, a scrap metal recycler that resells the materials it collects to metals brokers, steel producers and metal processors. "We've finally gotten the walls torn down within the company and everyone communicating and focused in the same direction. Now we've got to do it externally."

What Tryon envisions would be a virtual revolution for the staid industrial metal industry, which has always operated as a commodity market where prices are governed by supply and demand. "I want to try to figure out innovative ways of pulling consumers into the fold as partners in an industry where that's never been done before," he explained. "Right now, it's a love-hate relationship of negotiations, month in and month out. Why not partner up so we understand the demands our customers are forecasting-which would, in turn, help us manage our inventory better and meet their needs economically?"

Clearly, where industries or individual companies stand along the supply chain learning curve varies widely. For most firms, efforts to effectively and profitably manage supply networks begin with partnerships. "At the first level, you've got a widget and you need to get the cost down so you come to me and I come up with a strategy to lower the cost," said Donald Nigbor, chairman and CEO of Benchmark Electronics. "If that's successful, you go to level two, where the customer comes back and says, 'Gee, maybe you can take the widget, put it in a box and ship it for me.' And the third level is when the customer doesn't draw a line and say, 'Here's what you'll do, and here's what I'll do.' You start off with a clean slate and talk about what each of you should be doing to make the product line successful."

Ideally, the end result is a value chain that extends from development on through to the end consumer, with each step along the way optimized to control costs and drive growth. While the potential gains to be realized by this Holy Grail of value-chain management are clear, the path to getting there can be arduous - particularly for firms with complex relationships with multiple, geographically dispersed suppliers, contract manufacturers, distribution channels and customers. At the same time, failing to find ways of effectively collaborating in real time at each stop can ultimately devastate a company.

Witness Kmart, decimated by archrival Wal-Mart. The younger, more tech savvy retail giant integrated its inventory management technology into its suppliers' systems to slash costs, achieve efficient replenishment, and muscle its former rival for the No. 1 spot into a reorganization.

"In retail, if you can't get costs in place you're going to have a tough time - especially if you're a Kmart, and you're not differentiating much," noted Starr, who argued that the trade-off between innovation and cost control as one of the biggest strategic decisions today's corporations face. "As companies get some of the inefficiencies out of the supply chain, that's the next set of decisions to make. Are we truly in a position of differentiation? Or are we in this to be in the low-cost position?"

For Joseph Wright, president and CEO of Wilton, Conn.-based PanAmSat, costs come a distant second to quality-control measures that ensure the continuous operation of his firm's fleet of satellites, which provide links for broadcasters, news organizations and telecommunications companies worldwide. "My service levels depend on that piece of equipment, and it's 22,000 miles away being bombarded with solar rays for 20 years," he told the roundtable participants. "I can't get to it for maintenance, so I put more margin into this equipment and take more time to get it up there, which costs money. But I don't give a damn how much it costs. If a piece of equipment going through the supply chain is the life or death of my company, I'll spend whatever it takes to make sure it's successful."

The differentiation dilemma

Cost control and differentiation, however, are not always mutually exclusive. In fact, several roundtable participants countered that in today's ruthlessly competitive business world pursuing both simultaneously is a strategic imperative.

"We've been the leading innovators in each of the industries we serve, and it's not enough," said Marc Giles, president and CEO of South Windsor, Conn.-based Gerber Scientific, which supplies intelligent manufacturing systems for mass customization. "You've got to be the leading innovator and differentiator, and you absolutely have to have the low-cost position."

That's no easy feat. The pursuit of cost efficiencies has led many companies to outsource a wide range of processes, from manufacturing and shipping to information technology - sacrificing the option of developing proprietary systems that enable them to either differentiate or achieve a cost advantage in the process. "In general when you outsource stuff you remove your ability to

differentiate," Starr noted. "You aren't better than everybody else at it. You're willing to accept the position: 'I want to be low cost and others can get there, too. So I'm not lowest, but low.'"

But that may be changing. More and more companies are using supply chain initiatives to simultaneously pursue lower costs and enhanced customer value. At Gerber Scientific, for example, outsourcing business processes streamlined operations while also enabling business unit leaders to focus on big picture issues such as where the market is headed rather than micro-managing, say, a glitch in transportation (see sidebar, left). The result? Customer satisfaction is up and inventory is half what it was a few years ago.

"To my mind, the model where you went with either differentiation or with low cost is an old one," said Giles. "I don't see the walls anymore. That's the beauty of optimizing our supply chain, whether it's outsourcing our freight and logistics and certain manufacturing components to people who can do it better and more efficiently or partnering with [other firms] in product lifecycle management. It frees up that mind space to focus on what new products, technologies and services I can provide to my customers."

The human element

For Leigh Abrams, president and CEO of Drew Industries, cost and quality are inextricably linked. Customers for the components of manufactured homes and recreational vehicles that his company produces are both cost conscious and time sensitive. "Our customers are just-in-time manufacturers, so if our product is not there the next day, their production lines don't operate," he explained, noting that this need for speed limits the company's sourcing options. "While we buy centrally, we have factories across the country for [some of our product lines] because we have to be able to deliver on time. So we have to make sure that our suppliers are willing to ship to 40 factories. And in some cases, we need more than one supplier to get our product to the 40 factories."

While streamlined manufacturing and distribution systems are essential for Drew to deliver on its promise of next-day delivery while also managing costs, Abrams is quick to caution companies against neglecting the human element in the pursuit of efficiencies. "I believe helping your employees understand what needs to be done is one of the biggest factors in service and cost savings," he said. "We educate our employees about the importance of that product being delivered to our customer the next day. And we also talk to them about the importance of making a quality product that we don't have to service afterward - because you can spend a lot of money on service."

The approach is already paying off for Drew. "One of our customers recently checked rates with one of our competitors, and told us that its on-time record-91 percent-was insufficient," reported Abrams, whose own firm boasts a 100 percent on-time record. "Our employees know that we have to be 100 percent. And they will stay as late as it takes to make sure that an order we get in the morning is done and out the next day."

Timing is just as critical a challenge for Kellwood Co., a $2.2 billion apparel marketer that overhauled its supply chain over the past two decades, shedding traditional manufacturing processes along the way. Fifteen years ago, the company ran 80 plants and manufactured much of what it sold. Today it sources materials from textile mills in Korea, Taiwan, China and other developing areas, then contracts with more than 700 manufacturers to produce its products.

As the company transitioned to more and more offshore manufacturing and grew by acquiring smaller firms, the need for real-time communications with far-flung suppliers emerged. "The real issue for us now is technology," asserted Kellwood's CEO Hal Upbin, whose St. Louis-based firm is currently rolling out a vendor-management system that will facilitate communications links with cutters and mills (see sidebar, page 53). "We can't afford to know too late that those goods are

the wrong quality, are not going to be shipped on time, or, in fact, never got from the cutters to where they were going to be sewn."

For Kellwood, and virtually all businesses founded long before the Internet age, the challenge is largely one of retrofitting existing departments like procurement, trucking, shipping and warehousing to a new, more nimble supply-chain model. "Too often, companies managed those functions in silos and now they're trying to optimize transportation without paying attention to what it does to warehousing, inventory and procurement," pointed out Douglas Duncan, president and CEO of Memphis-based FedEx Freight. "If you try to optimize them separately, you get the wrong answers."

"Your supply chain model has to fit the business you're trying to run and your corporate strategy - not the various strategies of different operating departments," he adds. "Companies who do that well are ones that take a holistic view of the supply chain."

[Sidebar]

Who's Who.

* Leigh J. Abrams is president and CEO of Drew Industries, a $325 million materials and construction company based in White Plains, N.Y.

* Ron Burns is president, global business, of J. Walter Thompson, a New York-based subsidiary of WPP Group, the $4 billion advertising conglomerate based in London.

* Rob D'Avanzo is a partner at Accenture, the worldwide management consulting and technology services firm. Based in New York, he specializes in global supply-chain management.

* Douglas G. Duncan is president and CEO of Memphis-based FedEx Freight, a $2 billion trucking company.

* Jane Friedman is president and CEO of HarperCollins Publishers Worldwide, the $1 billion New York-based publishing company.

* Marc T. Giles is president and CEO of Gerber Scientific, a $500 million industrial automation products company based in South Windsor, Conn.

* Harry E. Gould Jr. is chairman, president and CEO of Gould Paper, a $1 billion paper and paper products distributor based in New York.

* William J. Holstein is editor-in-chief of Chief Executive magazine, based in Montvale, N.J.

* Donald Karp is vice chairman of Independence Community Bank, which is based in Newark, N.J., and has $560 million in sales.

* Edward M. Kopko is chairman, president and CEO of Butler International, a $263 million strategic outsourcing firm in Montvale, N.J., and chairman and CEO of the Chief Executive Group.

* Donald E. Nigbor is chairman and CEO Benchmark Electronics, a $1.6 billion electronics manufacturer based in Angleton, Texas.

* Ed Starr is a Chicago-based managing partner in Accenture's Global Supply Chain Management service line.

* Pamela Thomas-Graham is president and CEO of CNBC, the cable television network, based in Fort Lee, N.J.

* Michael W. Tryon is president and COO of Metal Management, a $1 billion materials and construction firm based in Chicago.

* Hal J. Upbin is chairman, president and CEO of Kellwood, a $2 billion apparel maker based in Chesterfield, Mo.

* Stephen T. Wall is president and CEO of Choice Homes, a $420 million residential construction company based in Arlington, Texas.

* Alex Wasilov is president and COO of Rosenbluth International, a $6 billion travel services firm based in Philadelphia.

* Joseph R. Wright Jr. is president and CEO of PanAmSat, an $800 million telecommunications company based in Wilton, Conn.

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Kellwood's Missing Link

Before Kellwood started contracting with offshore manufacturers in the 1970s, the apparel company manufactured 100 percent of the apparel goods it sold. Today, it contracts production to more than 70 cutters and mills across the globe. The transition is, in turn, prompting a technology overhaul, reports CEO Hal Upbin, who recounts the company's efforts to establish real-time communications with its network of suppliers.

"We have piece goods coming from a great number of countries and going to companies contracted to cut those goods, which are often different from the companies contracted to sew them. Then it's got to come back into the U.S. in time for our distribution centers to distribute those products to retailers like Wal-Mart, Penney's and Sears. And that whole cycle has to be four months or less.

"So we've developed an Enterprise Business System, an internet production monitoring tool. We now have all production data residing in one database, accessible to all users, which minimizes the room for error and miscommunication between vendor, production and customer service. Production dates are live and, because they are entered directly by the vendor, 100 percent accurate to vendor commitments. We have instantaneous visibility through our computer interface to any and all changes in cut, ship and date status, which allows us to react quickly to changes.

"We also have access from Wal-Mart and other retailers to daily stock keeping unit sales, but we're still not fully integrated from a Wal-Mart store shelf all the way back through manufacturing. We have the very back end and the very front end; we're still working on linking the two.

"Getting everyone comfortable with using the new system has been the biggest challenge. We have the right people in the right places and the right approach: Now we're trying to quickly catch up with the technology. We've rolled the system out to most of the company, but not all of it. So

we're continuing the EBS rollout, which takes five to six months for each division to fully implement, and also working on a number of initiatives for calendarization of the four-month process of getting garments designed, made and shipped to the U.S.

"Our end goal is to identify and eliminate all non-value-added components of the supply chain and redundancies and reduce the number of weeks in the overall supply chain and corresponding inventory levels."

Gerber Scientific: Look, Ma, No Hands!

CEO Marc Giles doesn't use the term outsourcing loosely. His $500 million company, Gerber Scientific, is taking a hands-free approach to processing orders for spare parts and consumables, turning the business of picking, packing and shipping over to a third-party logistics provider.

Gerber partnered with delivery giant DHL, which took on the functions formerly handled by the individual subsidiaries dispersed throughout Western Europe. "We consolidated all of that business into a single location at the Brussels airport and outsourced it to DHL, which is connected to us through an electronic data interface," says Giles. "So when a customer in Europe wants a consumable item or spare part, the order flows directly to them - we never touch it."

In addition to eliminating the overhead of maintaining freestanding facilities and the associated labor costs, the switch dramatically reduced inventory and improved customer service. "Before, each country had its own inventory and we didn't know what the other country's business had, so we could be out of a part in Germany and have extra in France and no one would know," he explains. "Now it's all in one place and we have real pros managing a stream-lined operation, so we get better service."

The company has since extended the DHL partnership to its businesses in North America and Asia, and Giles says this and other elements of what he calls Gerber's "shared-services initiative" are expected to generate more than $10 million in net annual operating efficiency improvements. While these programs are now "running beautifully," there have been hiccups along the way, admits Giles, noting that the "people factor" was the biggest challenge. "Whether it's outsourcing or making changes internally, you're breaking down walls," he says. "Functions that used to operate one way in the past will have to operate a different way in the future. It's a very uncomfortable process for everyone."

"Putting the information technology in place is a lot of work but it's just another task. Getting people to accept that they need to change the way they do their jobs, and that these new processes will benefit you is the biggest hurdle."

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Supply-Savvy Service Sectors

Even as consumer goods companies continue to wrestle with the challenges of production- and distribution-related supply-chain initiatives, companies in other sectors are finding ways to apply the principles to their business models. Not long ago, you needed a photographer, a field producer and on-air talent to get a story from the field onto the air," pointed out Pamela Thomas-Graham, president and CEO of CNBC, who pointed out that the Internet and other technologies are revolutionizing the media industry's value chain. "Now, a reporter with a digital camera can record the tape, voice it over in the field, drop it into a computer and it shows up on our server and can go on the air with just a slight delay."

Similar efforts to leverage technology and the Internet in order to improve efficiency and lower costs led to a new product for corporate travel firm Rosenbluth Travel. "Our supply chain involves moving people around the world," noted Alex Wasilov, president and COO of the Philadelphia-based firm. "Two years ago, we decided that creating a global data warehouse and providing Web interaction for our clients would enhance our supply chain and lower our cost."

When security concerns suddenly leapfrogged to the top of corporate priority lists in the aftermath of September 11, Rosenbluth spotted an opportunity. "We created a program that tells a CEO-through real-time, Web-based access to our global database - exactly where each one of his or her employees are in the world," explained Wasilov. "In a time of crisis, that's pretty valuable."

Front-End Forerunner

Now that technology is capable of providing constant and complete knowledge of goods as, say, a bale of cotton flows from the fields all the way to store shelves in the form of a pair of jeans, companies are looking further down the value chain. Seizing on the concept of capturing consumer data at the front end, some have already launched innovative, front-end initiatives that seek to keep abreast of fast-changing trends and product demand.

At Spanish clothing manufacturer/retailer Zara, for example, store managers use handheld devices to send customer feedback directly to the company's in-house designers, giving the company a jump on sales trends-and the ability to curtail production of less-desirable merchandise. "Zara's design group uses the data collected at its 450 stores to turn around fashions that end up back on the store shelves in three weeks to six weeks, compared up to five months for competitors," reports Rob D'Avanzo, a partner at Accenture. "They're able to take that information back into the design process and be more consumer responsive."

Zara had already streamlined its back-end process, minimizing unsold inventory by acquiring fabrics in only four colors and postponing dyeing and printing until close to manufacture. Together, steps taken to optimize the value chain enable the company to bring 11,000 new fashions to market each year-and to deliver a healthy 10 percent profit margin.

"They're taking a real leadership position in the fashion retail segment," notes D'Avanzo. "We used to talk about Benetton having a leadership role, but this three week cycle is hard to beat."

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