

The new firm, **Change Strategists, Incorporated** has been specially developed to provide highly-trained organizational change specialists for our corporate clients. **CSI** is a subsidiary of the **management consulting firm** Leading and Learning, Inc.® based in Los Angeles with clients across the U.S., Canada, Europe and Asia. We support leaders during change processes with focus on organizational change management, leadership development, and personal, professional effectiveness. Our client roster includes CEOs and other leaders in corporations and organizations spanning **banking, utilities, manufacturing, hospitality/entertainment, hospitals/health systems, technology/ aerospace, service industries, government and nationally-based nonprofits.**

EACH ISSUE, LEAD-ZINE®, the on-line electronic leadership newsletter of Leading and Learning, Inc., **focuses on a specific leadership/ management topic.**

Articles are contributed by Dr. Billie Blair, President of Change Strategists, Inc., and the CSI team of organizational professionals. Other professionals with specific expertise join the **Lead-Zine®** staff each month to offer additional perspectives. These combined views provide informative and balanced perspectives on the **Lead-Zine®** topic-of-the-month to our readers – approximately 250,000 CEOs, executives, and other managers.

Leaders and managers are continually planning, executing, or controlling **change**. Each **Lead-Zine®** issue looks at aspects of change that are of current interest.

This ISSUE of Lead-Zine® is the 2nd in a series with a focus on Supply Chain Management. The topic this month is: “Supply Chain Management: Selected Strategies.”

♦ **For those wishing to contribute to a Lead-Zine® issue** contact the **Lead-Zine® editor, Eli Isaacs:**
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***“When things change,
you have to change things!”***

December 2008 Issue “Supply Chain Management: Selected Strategies” Billie G. Blair, PhD

In **ALL THE MOVING PARTS: ORGANIZATIONAL CHANGE MANAGEMENT**, I talk about supply chain business integration and the necessity of having all parts of the organization working together to provide product and serve customers through use of a synchronized integration process. Organizations are discovering that they must rely on effective supply chains and their related networks in order to compete successfully in the global marketplace and the challenges of their new economies. **Lead-Zine®** this month looks at some of the supply chain management strategies being utilized by leading companies.

► **Supply Chain Strategy** is an important topic to consider during this time of year when great demands are made on most company supply chains – in fact, I'd be willing to speculate that Santa and his elves represent the original model for supply chain strategy. I have to admit that I haven't viewed the Claus Production Process (CPP) in person, but I do remember seeing childhood movies that clearly depict the highly efficient and effective marshalling of resources that go on at CPP – the optimizing of capacity collaboration, the use of supplier schedule management, the insurance of sequenced parts supply workflows that allow utilization of rules-based sourcing to ensure resiliency (to paraphrase one of our contributors for this issue).

This superior process for supply chain management, so the story goes, provides flawless execution in the production of products and allows CPP (that is, the Claus team) to provide breathtaking and timely customer service that is carried out year-after-year and just-in-time, without fail. Would that all of our companies were so dramatically successful!

Many companies do perform enviably, however, and in this issue we are providing overviews and case studies of some of these, as well as selected supply chain management strategies.

**HAPPY HOLIDAYS TO OUR CLIENTS, READERS
AND LEAD-ZINE® CONTRIBUTORS.**

** See: Dr. Blair's latest book
**ALL THE MOVING PARTS:
ORGANIZATIONAL CHANGE MANAGEMENT**
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IN THIS 2nd ISSUE ON SCM

THE TOPIC IS:

**SUPPLY CHAIN MANAGEMENT:
SELECTED STRATEGIES**

**WE ARE JOINED THIS MONTH BY
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Case Studies From:

**BeijingBenz-DaimlerChrysler Automotive,
Ltd. (BBDC) by Seeburger**

And

**Sunsweet Growers by Supply Chain
Consultants**



Optimizing Sourcing and Supply Chain Decisions for Greater Profitability Jerry Miller, Cincom Systems

Manufacturers with strong commitments to lean, optimized processes that link suppliers, buyers and logistics partners are able to respond profitably to customers' unique demands. As build-to-order replaces make-to-stock for many manufacturers, optimizing of sourcing and supply chains relies on being able to complete orders faster, cheaper, and with higher quality levels.

Key insights gained from manufacturers applying lean, optimized sourcing and supply chains include the following:

- **Faster time-to-market through accurate forecasting of standardized components.** Using optimization strategies for managing the mix of build-to-order and subassembly sourcing (delivery schedules, customization elements) are enabling manufacturers to fulfill highly customized orders accurately and efficiently. Field-to-factory initiatives optimize in-bound orders synchronized to sourcing and supply chain inventory levels; delivery dates are automatically defined for sales organizations.
- **Cost reductions gained from efficiency and greater supply chain optimization.** Making significant improvements in inventory allows optimal sourcing and supply chain strategies by alleviating time, material and resource waste. Cost reduction catalysts are time and material savings attained by making processes leaner, more responsive to customer requirements. With optimized sourcing/supply chain strategy, manufacturers are able to respond to unique customer demands and gain cost reductions by delivering on time and at quality levels that meet and exceed customer expectations.
- **Supplier selection, partnerships based on quality standards.** Optimizing sourcing and supply chains involves qualifying suppliers so that a supply chain resource model can be used to define the information infrastructure and measure performance to quality standards, not price alone.
- **Rules-based sourcing for optimizing supply chains and inventories.** One electronics manufacturer reduced inventory levels 66% while improving average fill rates through rules-based sourcing and inventory management. IBM applied rules-based sourcing to its Personal Systems Division for \$750M material costs and expense reductions. Hewlett-Packard uses the method to achieve gains such as a 25% reduction in supply costs of its best-selling inkjet printers. With 70% of any manufacturer's value derived from sourced components, the potential contributions of applying rules-based sourcing are significant.
- **Capacity collaboration, schedule management, sequenced workflow creates supply chain resiliency.** When each of these workflows are optimized using rules-based sourcing, waste that drags down the performance of supply chains are minimized. Overproduction is averted; inventory levels are reduced; costs related to transportation, logistics carriers and production staff are also minimized; and overprocessing is avoided.

Building an Ethical Supply Chain

Michael R. Levin, Esq., Integrity Interactive

Being an ethical company isn't enough anymore. A company is expected to have its entire supply chain ethical. Ultimately, every company finds itself part of a supply chain experiencing ethics or compliance violations. The supplier-generated ethics scandal is one of the biggest business risks most leading companies face today -- protective measures should be adopted.

What is the ethics problem in the supply chain? Almost every company buys unfinished inputs from other companies before refining and sending them on to ultimate end-users. The problem in the supply chain is that consumers often blame purchasers for ethical lapses that were committed further upstream by suppliers. It is worth noting that it is not just any company that takes the rap for wrongdoing committed by suppliers – in reality, the blame usually falls on the biggest brand playing a role in bringing the offending product or service to market. The scapegoat company could be closely associated with the unethical supplier, or many steps removed, but will always have the biggest reputation to protect.

This is a risk that no organization or industry is immune. In the last two years, the drama unfolded at eye-catching companies such as Mattel, Del Monte Pet Products, Toshiba and Dole. Each is a real-world example of a leading brand taking the hit for ethics or compliance breaches committed by suppliers. In these and similar instances, suppliers created the dangerous conditions that captured the public's attention – yet the suppliers' names could not be found in headlines. The biggest brand paid the price. When toy shopping, consumers boycotted Mattel, not the invisible-supplier Yip Sing. Despite the pervasiveness of the problem, companies can take a positive step toward inoculating themselves against damaging headlines by implementing a supplier ethics management (SEM) initiative.

What is the current state of SEM? Most companies do a good job of managing risk categories within their four walls but fall short managing corporate integrity risk in supply networks. For example:

- 88% of Global 2000 companies have said that they do not maintain a web-based portal for suppliers to receive communications from the purchaser. Of the 12% that do, none used these to deliver ethics-related information to suppliers.
- 86% of these companies concede that their primary ethics codes do not address the conduct of suppliers.
- 59% do not include suppliers in their analysis when assessing their company's ethics and compliance risks.

Compliance officers should collaborate with procurement colleagues. Few legal and compliance officers at Global 2000 companies possess a list of their company's major suppliers; fewer have adequate contact information. Internal collaboration is inexpensive, sensible and a "win-win." Collaboration can position a company to declare that it is not enabling or ignoring the ethics problem in the supply chain.

What can companies do today? Most Global 2000 companies lack the ability and infrastructure to communicate with their suppliers on ethics and compliance issues. A web-based SEM platform allows a company to collect and maintain contact information for its suppliers as well as to communicate mission-critical ethics and compliance information. SEM platforms typically perform several important risk management functions, including: 1) distributing a company's code of conduct and updates to suppliers; 2) documenting supplier receipts of these requirements; and 3) facilitating two-way communication between a company and suppliers on topics regarding ethics and compliance. If and when an ethics scandal crops up, a company will be able to credibly say that it has taken proactive steps to regulate and influence supplier conduct.

Ethical Purchasing: Does It Even Exist?

Andrew Miller, ACM Consulting, Inc.

Is there really anything ethical about purchasing? Are there companies that will actually change suppliers due to ethical reasons? I've come to the conclusion that ethical purchasing sounds like a good environmental strategy, but is in fact a trend that has no real strategic basis. Ethical purchasing should mean a few things: 1) that workers were not exploited in the completion of the product of service; 2) that materials used to make the product were environmentally friendly; and 3) that environmental resources were not compromised.

There are a number of reasons why the term is a nice-sounding concept and not a competitive strategy: 1) there is no standard against which we can measure whether a company purchases or produces ethically; 2) definitions of the term "ethical" vary; 3) most companies do not use any specific criteria to ensure that they are purchasing from ethical companies; and 4) there is no way to prove that a company is ethical, short of audits and business practice reviews.

The way to solve this conundrum is to define what ethical purchasing is and what conditions surround it. In construction, a certification process provides evidence that a building was constructed with environmental principles in mind. Why not do the same thing for supply chain? The specific conditions that need to be met can be specified to demonstrate certification as an ethical supplier. This will remove confusion in our definition and provide some tangible standards that need to be met. We can then compare suppliers from different countries – a status that might provide competitive advantage.

CASE STUDIES

BeijingBenz-DaimlerChrysler

In 2006, BeijingBenz-DaimlerChrysler Automotive Ltd. (BBDC) opened an all-new state-of-the-art factory in Beijing to build Mercedes Benz E- and C-class sedans as well as Chrysler's best-selling 300C. Despite the limited experience of Chinese manufacturing personnel with ERP or EDI systems, BBDC decided to automate all back-end processes at the new plant to implement **just-in-sequence** production. For BBDC, the decision to adopt JIS processing stemmed from the need to build several different vehicle platforms on a single production line. BBDC predecessor Beijing Jeep Corporation, the first International automotive joint venture in China, had a smaller and simpler operation that annually communicated purchase orders and forecasts, batch production, and a 3PL to collect, manage and stage locally made parts. Those systems would not be adequate to support the new factory's demands. The transition to JIS operations required more than a new SAP back-end. BBDC also needed to implement mandatory Electronic Data Interchange (EDI) throughout its supplier network, even with smaller local suppliers. "EDI is not widespread in Asia, but it was mandated by DaimlerChrysler to optimize BBDC's supply chain," says James Hatcher, Managing Director, Seeburger Asia Pacific Ltd. "The project therefore had even more challenges than a typical EDI implementation."

Seeburger was selected to handle business-to-business integration and to supply its Just-in-Sequence assistance to the manufacturing process. The result is that it is the first fully integrated automotive supply chain management infrastructure in China and one of the most advanced systems of its kind in the world. BBDC now builds over 100,000 Mercedes Benz and Chrysler vehicles annually in its Beijing factory. It is a joint venture of DaimlerChrysler AG and Beijing Automotive Industry Holding Company. The project was the focus of supply chain connectivity and EDI implementation.

The business benefits have been: MMOG/LE compliance; just-in-time production; just-in-sequence production; small supplier connectivity; 3PL integration in web portal; 150 suppliers live in 9 months; reduced risk of manual errors; AIAG B10 barcoding; automated goods receiving.

Technical benefits are: no outsourcing to community aggregator; no fees for small suppliers; easy new supplier onboarding; global standards support; English, German or Chinese languages; and seamless SAP integration.

Sunsweet Growers

Sunsweet Growers, the world's largest producer of dried fruit, was looking for ways to drive down inventory costs, improve order lead time and reduce transportation costs. It became increasingly apparent that further improvement in their supply chain was severely limited by their spreadsheet-based planning system. In addition, planners were spending a great deal of time managing the spreadsheets, most of which was repetitive work. Sunsweet decided to replace their spreadsheets with a business solution that could further improve their supply chain, while also automating the repetitive tasks so that their planners could spend more time dealing with important issues.

Sunsweet selected the Zemeter supply chain planning suite from Supply Chain Consultants. Spreadsheets were replaced with an integrated supply chain planning vehicle covering forecasting, collaboration, inventory planning, supply planning, and finite scheduling. A statistical forecast based on history is now produced and the performance of the plan is now monitored against actuals. If a critical threshold is hit, the software automatically issues email alerts to the appropriate users.

Sunsweet can now develop a better forecast in a shorter period of time and the early warning systems provides alerts for inventory levels, forecast open order discrepancies, and other potential problems, allowing them to react as much as 2-3 weeks earlier than before. Sunsweet has realized savings by reducing the number of production lines, reducing changeovers on the production line, and eliminating substantial costly overtime.

The company has been able to cut production overruns from 30 percent to 12 percent. "For most agribusiness, the use of transactional databases and spreadsheets is about as far as they go in predicting and forecasting to optimize an unpredictable supply," says Harold Upton, vice president of strategic business processes at Sunsweet. "I honestly believe that in order for companies to take it to the next level in the near future, they are going to need to have some way of very efficiently optimizing their supply. I don't know of any way of doing that other than to have some type of an analytical tool."