



**OLIVER WIGHT CLASS A**  
*journey to business excellence*

# Managing the Extended Supply Chain

## An Introduction

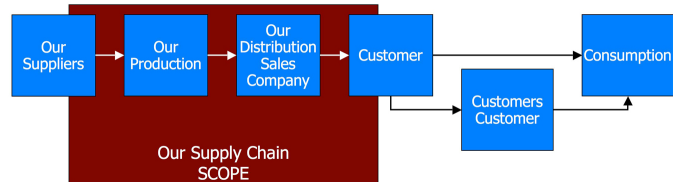
*By Ron Ireland*



**Ron Ireland**

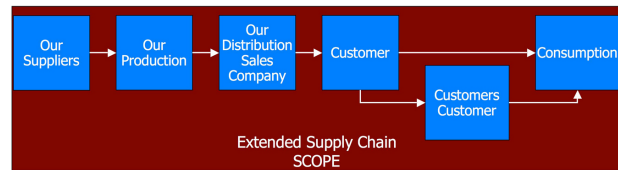
*Ronald K. Ireland, principal and board member with Oliver Wight Americas, is a globally-recognized visionary to many of today's value chain best practices organizations. He has over 25 years of business process and technology experience with leading companies with a primary focus in Demand and Supply Chain processes for retail, manufacturing, high technology, and aerospace. He has experience specific to the area of strategic consulting at the executive level. Ron's business experience includes manufacturing, retail planning and distribution, marketing, and consulting. His manufacturing experience at Martin Marietta included achieving six Class A implementations. He then led a 45-person IIS staff on software development projects for store and warehouse replenishment, forecasting, procurement, micro merchandising, labor scheduling, and data mining for Wal-Mart.*

Many companies have managed their supply chains to a competitive advantage. Others, noticing the successes of Wal-Mart, Cisco Systems, and Procter & Gamble, among others, are now developing their own supply chain strategies including dedicated departments to focus on supply chain functions (See Figure 1).



**Figure 1**

Based on the successes of these and other initiatives, leading companies are now broadening their vision and strategy and are developing "end-to-end" supply chains (See Figure 2). This extended supply chain concept has the companies focusing on their own internal core competencies while looking to outsource their non-core activities, such as manufacturing, to external supply chain partners.



**Figure 2**

Outsourcing, it must be understood, does not eliminate the ownership of the process. However, it does extend the scope of the supply chain that the company needs to manage. With the extension of the supply chain, companies also have inherited some new "opportunities" to manage, such as:

- Extended lead times
- Poor customer service levels
- Increased inventory levels
- Increased logistics costs
- Decreased product quality
- Trading partner reliability issues

Companies that have outsourced their manufacturing activities to Asia, Africa, and Latin America are now realizing that the benefits of low labor costs have come with a price. This “price” is causing many companies to rethink the strategy of outsourcing manufacturing to these countries. We believe the best way to solve these opportunities is with Class A Management of the Extended Supply Chain which begins with the three initiatives featured in this white paper.

Getting Your Own House in Order

Before venturing into managing the trading partner relationships in an extended supply chain, make sure that your own internal processes are operating in an efficient manner.

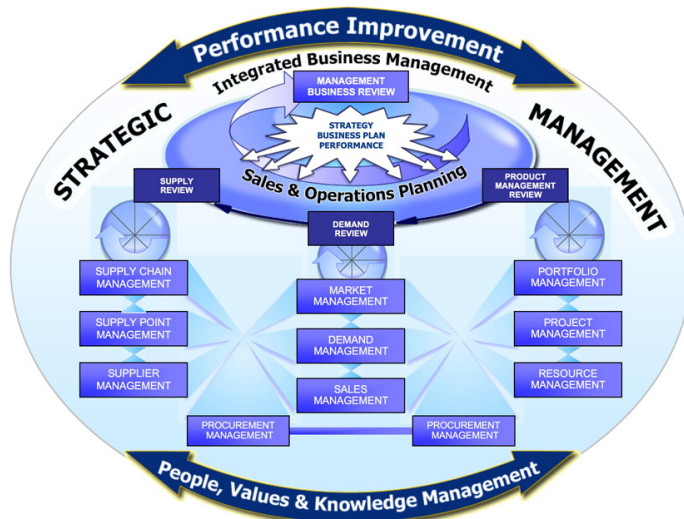


Figure 3

We strongly recommend that companies have Class A or near Class A operating status in the areas of Integrated Business Management. The Integrated Business Management model, in which resides Planning and Control, includes the processes of Sales and Operations Planning, Product Management, Demand Management, Supply Management, and Financial Reconciliation (See Figure 3).

It is essential that companies manage the Integrated Business Management process with minimum time horizons of 18-plus months. This will enable the Sales and Operations Planning process to support executive decision-making recommendations that could have a significant impact on the partners in the extended supply chain.

Product Management includes the development of new products, the timing of new product releases, and the phase-out planning information of discontinued products. This critical process includes extremely important information which must be accessible to our own internal supply chain as well for the extended supply chain partners. The output of the Product Management monthly process becomes the input to the Demand Management process.

Demand Management includes the functions of demand forecasting in time horizons from one to 18-plus months. Extended supply chain partners are often leveraged as contributors to the forecast of demand for increased accuracy. Demand Management also includes other functions such as demand creation as well as the procedures for demand control. The output of the monthly Demand Management meeting becomes a request for products and services to the Supply Management process.

Supply Management receives an unconstrained demand request, and the supply team determines how best to fulfill this request. It is in this internal process that the extended supply chain is most often impacted. As companies review their current supply capacity capabilities, they may look at other sources of supply to satisfy the demand request. It is critical that these external sources of supply also have visibility into the demand well in advance so they can satisfy this new demand request in a timely and cost-efficient process.

The output of all of the demand and supply planning requests are then reconciled with the company financial plan, areas of concern are highlighted and reviewed, and presented during the executive-level Management Business Review process within the Integrated Business Management module. It is here where the executives make the strategic decisions, such as building new factories, warehouses, or the outsourcing of product manufacturing for the long term, that potentially could change the shape of the internal and extended supply chain.

Trading Partner Readiness

Just as you put your own house in order, it is also important that your trading partners similarly do so (See Figure 4). We have all heard the old saying that the “Supply chain is only as strong as its weakest link.” This certainly holds true for the extended supply chain.

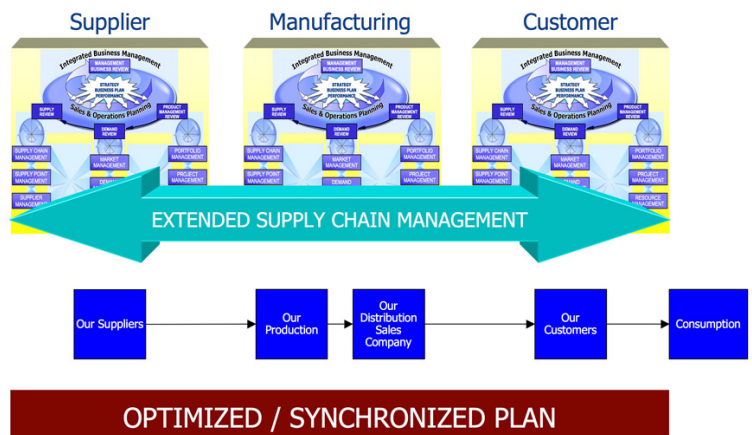


Figure 4

For example, Wal-Mart has long encountered this issue with many of their own suppliers. Wal-Mart has provided valuable information through its private exchange, called Retail Link. Yet, many of its suppliers failed to capitalize on and use this information.

This failure, we notice, is often due to the lack of Class A Planning and Control processes which could leverage the available information, such as Wal-Mart's demand forecasts. That's one of the reasons why Wal-Mart sponsored the development of the Collaborative Planning Forecasting and Replenishment (CPFR®) industry standard: to enable the Wal-Mart suppliers to receive a critical mass of customer information on demand and supply needs.

George Palmatier, author of the book, "Enterprise Sales and Operations Planning," defines this process of internalizing trading partner data as "the Pitch and the Catch". Companies such as Wal-Mart "pitch" the data, and the suppliers need to be able to "catch" the information and use it. Those who use it best, such as Procter & Gamble which has a Class A Planning and Control process in place, find the increasing demands of a Wal-Mart not only acceptable but, most importantly, profitable.

We are now seeing many of these suppliers approaching their own suppliers expecting to establish the same data exchange as Wal-Mart has with them.

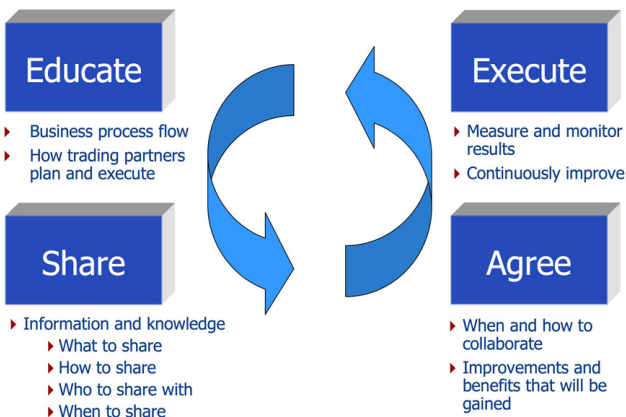


Figure 5

Supply Chain Collaboration

The final component of Managing the Extended Supply Chain is done through Supply Chain Collaboration programs such as CPFR®. The collaborative process is a commonsense approach in developing win/win partnerships (See Figure 5). However, they typically are extremely difficult to implement.

The Supply Chain Collaboration process begins with the trading partners educating each other on how each of their own internal supply chains functions. Using flow charts to illustrate on a time horizon showing when decisions and commitments are made is a good way to facilitate this discussion. Discussion points include:

- What kind of information is used and available during the supply chain planning process?
- How does the Integrated Business Management process function and what information results from this information?
- What time fences are involved in the manufacturing process?

This discussion between the supply chain trading partners will enhance the education process and foster a better understanding of the required time horizons to optimize the planning activity. There also exists the potential for new sources of information to be introduced that can be shared between the trading partners. This new information often is vital to the suppliers who would want or need it to improve the extended supply chain performance.

Once there is agreement to share information, the overall Supply Chain Collaboration process is documented with a Front-End Agreement. The document defines the mutually-agreed-to collaboration for:

- Scope
- Joint opportunity improvement objectives
- Information-sharing needs
- Roles and responsibilities
- Technology usage for collaboration
- Points of collaboration
- Performance metrics
- In some cases, benefits sharing

Other trading partner agreements that may already be in place, such as Service Level Agreements, also can be leveraged at this point of the process.

The final step in the collaboration effort is execution. The execution process often will uncover new issues that must be resolved. The Front-End Agreement, therefore, must be considered as a living document. It will need to be modified as we learn from the collaborative execution process and continue to



**OLIVER WIGHT CLASS A**  
*journey to business excellence*

improve our partnership relationship and performance. It is also in the Execution Phase that we will begin to realize the benefits of our efforts.

#### Summary

The future is clear and is already here for many. Supply chains are being extended to multiple partnerships, and no company can expect to survive in the near future as the "Weakest Link". Therefore, it is essential to manage the extended supply chain effectively and efficiently to reduce lead times, inventories, logistics costs, and to improve customer service levels and product quality.

As discussed in this white paper, success will be assured when you and your extended supply chain trading partners do these three things well:

- Have your own house in order
- Your trading partners must be ready with their own houses in order
- Leverage Supply Chain Collaboration partnerships for a win/win relationship

## Oliver Wight White Paper Series

Informative guides on industry best practice

### Oliver Wight Americas, Inc

PO Box 368, 292 Main Street  
New London, New Hampshire 03257, USA

Telephone: 1 800-258-3862  
1 603-526-5800

Facsimile: 1 603-526-5809

[info@oliverwight.com](mailto:info@oliverwight.com)

[www.oliverwight.com](http://www.oliverwight.com)

**together we make a difference**

#### Asia/Pacific

Suite 1, 112A Martin Street  
Brighton, VIC 3186, Australia

#### Europe, Africa & Middle East

The Willows, The Steadings Business Centre  
Maisemore, Gloucester GL2 8EY, UK

#### Americas

PO Box 368, 292 Main Street  
New London, New Hampshire 03257, USA