

Why Supply Chain Management Matters

By Robert H. Spencer, PhD and Randolph P. Johnston
Network Management Group

As a small-to-medium business owner, a lot of your time is invested in improving your profit margin. You watch your inventory levels, cut expenses, and minimize waste. All of these are the right things to do to improve profit margins; but, you may be missing out on increasing profit margins by not paying more attention to your purchasing process!

Supply Chain Management is about Procurement, and Procurement is a process. It is commonly defined as the acquisition of goods and or services at the best possible total cost of ownership, in the right quality and quantity, at the right time, in the right place and from the right source for your direct benefit or use. Perhaps stated slightly differently, procurement is the action or process of acquiring or obtaining materials, property, or services at the operational level; for example, purchasing, contracting, and negotiating directly with the source of supply.

How you procure (purchase) items is just as important as what you procure. It is important to manage the entire cycle of products you purchase and use to those you sell or provide. This is generally referred to as the Supply Chain, and Supply Chain Management is quickly becoming the hottest subject in accounting today.

Introduction to Supply Chain Management

As business owners, we typically focus on only two processes, buying and selling. Our underlying objective is, of course, to buy low and sell high. But, the purchasing process is far more complex than that. Taking the product or service we want to produce, the time frame we want to produce it in, and then we can back into when we need the purchase materials to arrive to provide the smallest amount of allowable time between the item, or as we call it here, inventory arriving, and our putting it to use.

If the purchased items arrive too soon, they sit in inventory longer. They have to be stored, and they may have to be moved, or relocated, multiple times – which also cost us money. The longer we hold on to raw materials, the more they depreciate (or rarely appreciate) in value. Holding inventory, raw or finished, costs us money! Supply Chain Management is intended to help us manage those costs.

Supply Chain Management is one of the most important strategic aspects of any business enterprise. Decisions must be made about how to coordinate the production of goods and services, how and where to store inventory, whom to buy materials from, and how to distribute them in the most cost-effective, timely manner.

Now if you consider yourself a small-to-medium sized business, you may be thinking that Supply Chain Management is simply some Ivy league school discussion and not important to your business. Think again. Yes, Supply Chain Management theory has been studied for a number of years and deployed by large enterprise companies worldwide. However, like all good business practices, managing your supply chain is just as important to small businesses as to large ones, and there is no reason that a small business should not benefit as much as a large enterprise.

Consider a typical manufacturer. The supply chain is made up of many inter-related businesses. There are parts suppliers, component suppliers and sub-assembly suppliers. Further up the chain are the suppliers' suppliers, finally reaching the raw materials suppliers at the far end of the chain. All of these suppliers should be linked together. I once heard a SAP Software executive describe what he thought Supply Chain Management meant. He said that to him, true Supply Chain Management meant that "If you were in the meat supply business and a customer bought a hamburger from a stand in New York City, a cow in Kansas should become very

concerned!"

Going downstream, back through the producing firm, the supply chain continues through the warehousing and distribution channels and then through the retail channels, ending with the consumer.

Putting Supply Chain Management to Work

The supply chain encompasses all activities associated with the flow and transformation of goods and services from the raw materials stage (at one end of the supply chain) through to the customer (at the other end of the chain - the hamburger, to continue the example above), including all associated information flows.

These information flows come out of your accounting software. At the mid-range, you may be using a product, such as Sage's Accpac, or MAS 200. At the high mid-market or enterprise level, perhaps it is MAS 500 or Sage's newly released X3, which provides you the ability to manage your supply chain.

In the case of MAS 90 and MAS 200, the Material Requirements Planning (MRP) module is used to eliminate purchasing and scheduling problems that typically occur. MRP is designed to simplify and speed up the work processes of purchasing and production managers, enabling them to plan more effectively. The Sage MAS MRP module looks at demand, based on open sales orders and sales projections, as well as supplies based on inventory stock levels and open purchase orders.

Product build times, lead times and supply and demand functions are then combined to estimate the need for an inventory item. The MRP module, at this level of product, produces reports, based on action by date, to advise the purchasing manager which orders need to be placed, which need to be revised, and which need to be canceled. For all of this to work, however, you must enter monthly and weekly sales projections by warehouse for each manufactured item, and monthly and weekly sales projections by customer. These estimates are compared with sales order information, and then suggest when to purchase raw materials. Without someone entering the data, keeping your electronic accounting system up-to-date, then the system cannot help you!

Sage MAS 500 is a higher level solution found in a number of manufacturing environments. The Sage MAS 500 Purchase Order module, like the MRP above, helps the user save time and reduce administrative costs through more effective management of the purchasing process. This module is part of the Sage MAS 500 distribution series, which was designed from the top down with input from supply chain experts and targeted to meet the specific needs of large businesses needing to manage inventory with lower stock levels.

Do service or product providers, other than manufacturing, need Supply Chain Management? The answer is obviously yes. Yet, the functionality is so often overlooked or simply not understood. Consider Professional Provident Society Investments' (PPSI) PPS, who deployed Sage's Accpac and SalesLogix CRM to track product to customers using a very traditional supply chain approach. PPSI needed to correctly track the investments of potentially 185,000 investors. PPSI's products are largely intermediated, so they needed to implement a CRM that could cater to the supply chain, starting with the investor and ending with the PPSI servicing point. Due to the nature of this convoluted supply chain, the company also required a daily view of the assets, categorized according to the various tiers of the supply chain. Real time information was not an option - it was essential to success. In a business where prices and products changed quickly, PPSI could not have prospered without a cradle-to-grave view of their business and customer needs. This, in essence, is the objective of Supply Chain Management.

Timing is everything with Supply Chain Management, so having access to your supplier's stock information, availability and pricing is crucial to making timely decisions. In some cases, the software vendor provides tools to help you integrate. Some depend on EDI-based tools for electronic ordering and fulfillment, but as those of you know who use EDI extensively, sometimes it falls short.

Because you deal with suppliers and buyers who all use many different vendor solutions, you need to look for is what is called middleware to bridge the gap. Some solutions that attempt to do this include eRequester, **www.erequester.com**, which is a web-based procurement management solution. eRequester allows companies to define and implement standardized purchasing practices, which streamlines and manages supply chains.

Another emerging star, Netfira, **www.netfira**, has taken a more strategic approach. Netfira is an Australian- based company that entered the U.S. in 2009 as a web-based solution that is in the unique position of not being product biased. It integrates itself directly into the seller's databases to supply data in real time, providing the most up-to-date information possible. This is quite unique, in that most middleware intended to share information between buyers and sellers does so via data warehouses, or smaller data marts. In both cases, these are simply images of the real data and may be anywhere from 24 hours to several days old – making the data somewhat unreliable at best. Netfira's ability to provide real data in real time is appealing.

How to Improve Your Supply Chain Management

We have defined why Supply Chain Management is important and given a few examples, but the next step is for you is to really determine how to best implement the process in your business. The best place to begin is not by ordering software! First, it is very important to insure you and your employees understand the flow of services and products through your business. Begin with a process flow map showing the manufacturing, distribution, service or product development process. Once your maps are complete, integrate outside resources such as vendors, suppliers, and so forth into your process flow. Include times such as build times, hold times, shipping information, travel days and so forth. No Supply Chain Management system, as with inventory and accounting, will have value unless the data is entered and is accurate. So discipline entering and updating your information is absolutely required.

Once you know your requirements, then it is time to look for software to assist you. In many cases, Supply Chain Management may not be obvious. As with the example above, the functionality is included inside of the purchasing module, manufacturing resource planning (MRP) module, or as with the Accpac SalesLogix example, may be implemented inside of CRM.

Remember that Supply Chain Management is a process. It is something you evolve in your business to manage workflow and facilitate lower cost of ownership over product, supplies and people. Now it's time for you to begin thinking about saving more and improving your profit margins.

Randy Johnston and Dr. Bob Spencer consult internationally on technology and business issues and solutions. They may be reached at www.NMGI.com.