



INTEGRATED NETWORK BUSINESS STRATEGY

THE ROADWAY TO OPTIMIZED PROCESSING AND PROFITABLE REVENUE GROWTH

A contemporary business model is evolving, grounded in the principles of advanced supply chain management, augmented with lean techniques, quality assurance, and selective outsourcing. The result can be a move toward optimizing the end-to-end processes in a business network. Combining the advantages of the improvements with customer intelligence and a sensible customer relationship management effort also results in increased revenues. It is a formula for improving the bottom line through cost reduction and the top line through new sales. The effort starts with a serious view toward creating a value managed network, supported with an integrated network business strategy.

During the past two decades, businesses around the world have brought a focus to supply chain management, in an effort to find the best operating conditions that lead to lowest possible costs, often adding three to five points of new profit as a result of the efforts. Wal-Mart stands out as an example of this group, using a focus on end-to-end supply chain costs to create a profit advantage in the retail market. A few companies have used the results of their improvements to have supply always ready at the point of need, better satisfying key customers and thereby generating new revenues. Nike exemplifies the second group, using its visibly superior supply chain system to build a significant lead in revenues against strong competitors in the athletic and recreational foot ware business. From another perspective, SYSCO, the large food distributor, has positioned

itself toward the front of that industry by taking advantage of its newly designed and superior supply chain distribution network.

A larger number of businesses have gained some ground toward these exemplary results, but tend to reach a point of diminishing returns with their efforts, or bog down in their progress and start treading water. What is appearing on the business horizon for these stalled activists and the wannabes still trying to find the basic supply chain improvements is a contemporary business model, which has been in the formation stages for some time. Portions of the model have already been applied by many firms to achieve greater earnings and return on invested capital. Drawing on proven supply chain management principles, and adding ingredients from lean manufacturing, a quality discipline to assure high

performance and sustain the benefits gained, careful outsourcing of processes to trusted business allies, and the sharing of customer intelligence, this model brings a strong focus to both bottom line (costs) and top line (revenue) improvement. The essence of this new business approach is grounded in the creation of a ***value managed enterprise***, supported by an ***integrated network business strategy***.

Extended Enterprise Collaboration and Technology Deployment Become Key Ingredients

Such a strategy demands a unified approach, led by the central partner in the enterprise and its key suppliers, distributors, and customers, to the design, implementation and active management of a business network, which is technology enabled and eventually focused on satisfaction of the end business customer or consumer. This strategy links the business allies together, with full process visibility and sharing of important knowledge to enable a single view of demand and supply – from primary materials and services to consumption and satisfaction of the customer, including handling of any returns in the system. The result can be an optimized flow of materials, knowledge and cash throughout the network, resulting in shortened lead

times and performance cycles, and lowest total cost. Advantages gained through such an effort can be used by the business network, moreover, to secure new and profitable revenues. From results documented by CSC Consulting for Fortune 500 companies, firms can add a total of five to eight points of new profit for their efforts. These new earnings come from increased sales, superior inventory management and material handling, better asset utilization, values added by the supply base, more efficient manufacturing, lower transportation and warehousing costs, and less general, sales, and administrative costs.

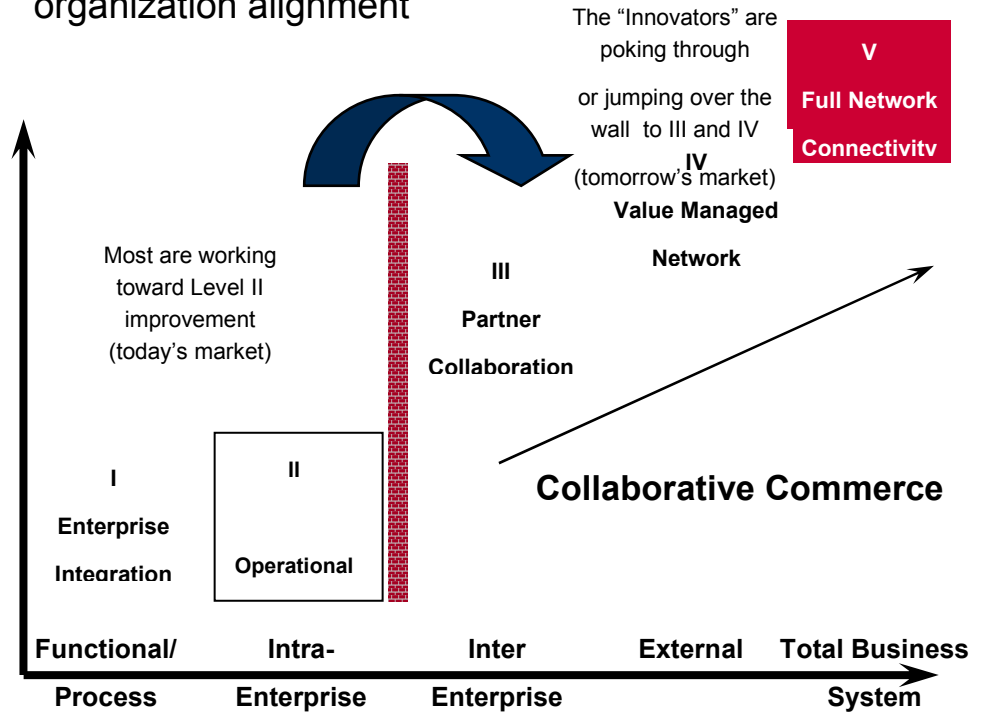
Finding these higher level savings, beyond what has already been achieved, and sustaining them into the future is the new business challenge, one requiring a shift in the traditional business model from heavy-handed leveraging of supply chain partners, stove-pipe thinking restricting internal collaboration, and an internal-only focus on process improvement; to a more collaborative approach based on finding and sharing additional and often hidden savings through process improvements. It requires the business partners to continually assess the dynamics of the enterprise and to adjust network designs, business processes and operations, and move forward with the

help of carefully selected business allies following a compelling business strategy.

As supply chains have progressed from loosely linked linear relationships connecting supply with demand, to collaborative networks that could contain a host of material and parts suppliers, contract manufacturers and design partners, and another host of distributors and business customers, today's business managers are faced with how to operate under such complexity and more importantly, how to optimize what happens across such an extended enterprise. The answer is emerging as a formula for creating a business model that is based on getting each internal house in order and then adding value at each step in the processing, yielding something for everyone in the effort. Such a model must have a compelling vision and an integrated network business strategy to drive its implementation. This strategy should guide the decision making throughout the network and the processing that takes place, as even small changes to any key driver can have significant impacts on the costs and service capabilities of the entire business system.

Leaders are creating such value managed networks and actively pursuing an end-to-end focus on customer satisfaction and efficiency – reaching optimized conditions. Following the framework of the familiar supply chain maturity model, depicted below, to calibrate and substantiate positions gained, these leaders continue to progress to higher levels of sophistication and share the improved characteristics so network advantages are derived. Laggards do not collaborate, even on an internal basis, as they focus on point solutions for independent business units and functions, and receive but never share improved practices even with critical supply partners. They tend to accept current performance as best possible with existing capital investment. Leaders operate consistently, and continually move best practices across the enterprise, as they assess activities and adjust network designs, business processes and operating techniques to sustain an edge over competing networks. It becomes a matter of having a superior strategy with optimized tactics.

- Evolution to value managed enterprises and collaborative business networks is inhibited by a lack of compelling strategy and organization alignment



A Roadmap to the Contemporary Business Model

To leave the Level 2 position that typifies most stalled organizations, and reach the higher levels of the evolution, companies find themselves as part of one or more value managed networks, with a

focus on a dual theme; sharing of best operating practices to reach optimized processes, and then using the advantages gained to differentiate the network in the eyes of the most important customers to build new revenues – the essence of the contemporary business model. Accomplishing those objectives is achieved by accepting and implementing a strategy in two parts, as show in the following exhibit.

A Strategic Framework for the Future

COSTS

- Lean Manufacturing plus
- Selective Outsourcing plus
- Quality,
 - Six Sigma
 - ISO Capability, plus
- Advanced Supply Chain Management
- Yields Total Enterprise Optimization (TEO)
- With Business Process Management (BPM) as the technology catalyst

Inherent in this framework is the necessity to find the route to a best total cost or enterprise optimized state, by finding and sharing the best combination of the ingredients shown in the exhibit. That cannot be done without collaboration and technology; and the transfer of helpful knowledge between members of the value managed enterprise. Historically, such information transfer was difficult as the participants had different software

REVENUES

- Advanced Supply Chain Management plus
- Customer Relationship Management plus
- Technology Collaboration yields
- Customer Intelligence, which becomes the heart of
- The Intelligent Value Network
- With Business Process Management as the business catalyst

applications, with the knowledge residing in disparate databases. There was also a general reluctance to transfer data in what might be considered an insecure environment. Just gaining access to what could be useful information to improve or enhance supply chain processing was very elusive. Now such knowledge can be transferred quickly, securely and inexpensively via a business process management (BPM) system. With so

much information residing in so many different databases, only a BPM system can extract what is needed and transfer it safely to the intended enterprise partners.

In essence, the members of a value managed enterprise selectively pick and choose the information to be shared, and using a specially designed business language (BPML), transfer that knowledge to carefully chosen business allies. Details on how this system works are contained in *The Networked Enterprise* by Poirier et al, and in *BPM Applied* by Poirier and Walker. Basically, a BPM system (BPMS) is selected by the participants as they agree on what data can be or cannot be shared across the network. The BPMS then establishes the means to extract what can be useful for the participants – to enhance the processing across the end-to-end supply chain. One feature of such a system is that firms of any size can participate without an exorbitant entry fee or high processing costs.

When the network gains the potential advantages from pursuing what becomes best network practices, the emphasis shifts to the right hand side of the strategy, where the advantages of TEO are brought to bear on the marketing and sales efforts. Now

the shortened cycle times, full visibility into the network processes, and superior matching of supply with demand have a positive impact on revenues. Customer intelligence, which is the acquisition, management, and integration of customer knowledge in order to create a differentiating value proposition, is used to transfer information, interpret trends and needs, and determine appropriate future direction and responses. In a business to business environment, that intelligence deals with customers and end users, with the true value being derived from improving products and services across both stakeholders.

The resultant agile and responsive network provides what is needed at the point of need at the right time in the right quantities, without excess inventory. The necessary knowledge transfer in this area can be accomplished through a variety of technologies, but once again BPM becomes an easy and economical means to transfer the information among business partners. With easy access to what the partners are willing to share, the participants can co-analyze such knowledge, make joint decisions, and track the actual processing. Essentially, the BPMS becomes the conduit for quick transfer of customer

intelligence so the collaborating business partners can optimize the top and bottom lines of their financial statements.

A series of improved conditions results, based on the important drivers behind the enterprise effort:

- Technological drivers – The need to connect business allies and share vital information is accomplished by virtue of the connectivity created through joint sponsorship and deployment of BPM systems. Optimized solutions, based on gaining internal efficiency and sharing best practices to satisfy key customers becomes a hallmark of this sharing. Radio Frequency Identification (RFID) mandates are met and that technology used to gain a reasonable ROI for investing, as one example.
- Competitive drivers – The joint ventures and partnerships created by the collaboration result in greater cost effectiveness. Asset utilization becomes one of these joint ventures, as the network members work to gain the greatest advantage from capital, not necessarily being the owner of the capital equipment. Market effectiveness reaches new highs and competing networks cannot match the differentiating characteristics – lead times, cycles of performance, flexibility and responsiveness – gained through the collaboration and knowledge sharing.
- Growth drivers – The time to move new products and innovations to successful market acceptance is dramatically reduced and product offerings are matched to what the customers really want, as old and tired SKUs and offerings are eliminated with network approval. Geographic expansion is calculated in terms of network advantage and mergers and acquisitions are completed to augment the core strategy.
- Channel drivers – The changing channel economics are evaluated as a network opportunity and alterations made to the supply network to take greatest advantage of costs and delivery. The roles and status of key players change as the best constituent takes the responsibility for each process step in the delivery system.

- Customer drivers – Through consideration of the customers’ and end users’ actual needs from the value chain, expanded offerings, process capabilities, and unprecedented response now distinguish the network. Increased visibility into what the customers want is matched with what is available or capable of being promised. Now there is ready access to what truly needs to flow through the network with increased presence of the most demanded products and services, without excess safety stocks or inventory. Customer satisfaction ratings reach new highs as the responses and values added exceed the expectations of the most demanding customers.

CSC’s Integrated Network Advantage Solution

Applying the strategy results in a holistic approach to the design, implementation and active management of a value managed enterprise. CSC works with its clients, beginning with an assessment of current position on the maturity model and an explanation of the gaps between as-is conditions and the enhanced could-be state, along with the values to be gained by closing those gaps. The effort then moves to discovering the advantages of being part of an enterprise that links the customers, distributors, and suppliers to a nucleus firm together with optimized end-to-end supply chain processes, enhanced by a single view of demand and supply. The flow of materials, information

and cash throughout the network is optimized to reduce lead times, cycles of performance, and total costs. A hallmark of the effort is the combining of the disciplines of advanced supply chain management across the contemporary business model including forecasting, planning, inventory management, transportation and warehousing, to provide breakthrough results – for the supply chain network members and the most important customers.

Based on actual client results, substantial benefits can be confirmed from following the strategy across the full value managed network. Collaborative cross-enterprise business efforts have proven they can increase revenues by 5 percent, create order management and inventory savings of 40 percent, while reducing

inventories by 15 percent. Inbound freight costs can be reduced by 4 to 8 percent, with overall transportation costs going down 10.5 percent. Some clients have also seen backorders reduced by 70 percent with service commitments met at a 99 percent level. If you need substantiation of these claims, consider this quotation by AMR Research:

“Supply Chain leaders deliver better with lower inventory and costs ...

- Deliver 5% to 10% more perfect orders
- Hold one-third less days of supply
- Have 60 % to 66% of the cash-to-cash cycle time
- Save 7% to 8% of revenue in total supply chain costs.

These leaders actively pursue the integrated business network strategy and consistently present a unified view across business and channels of supply. They achieve operational excellence throughout the network, as they carefully outsource non-core functions and processes, collaborate effectively with customers, distributors, and suppliers. In short, they optimize network processing, not just point

efforts, individual channel operations, and nodes of attention. To learn more about creating a value managed enterprise and how to support such an effort with an integrated network business strategy, contact cpoirier@csc.com, or call one of the referenced CSC offices.