

Building A Stronger Supply Chain

Having good financial and physical supply chain infrastructure can mean the difference between competitive advantage and faster available cash versus reactive management and stops and bottlenecks in accounts receivable.

Understanding what is happening across the financial and physical supply chain is critical in order to remain competitive. Those without a complete overview of the supply chain do not catch incongruities or interruptions in a timely manner and often do not see the full impact of adverse events. As a result, they are forced to make an overly reactive response to every disruption, which leads to inaccurate inventory management and affects the time to market as well as manufacturing and delivery costs. In addition, they react slowly to bottlenecks in the financial supply chain, leading to poor accounts receivable management and extended days sales outstanding (DSO).

Many companies are now looking at the financial and physical supply chain in a holistic way, bringing together the whole picture to create the most value



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—JARI TAVI, BASWARE

for clients and for themselves. With the use of good physical and financial supply chain management technology, companies can improve automation in payments and information exchange between themselves and all members of their supply chain—from counterparties to financial institutions. In addition, visibility and workflows can be improved, creating greater opportunities for access to financing from financial institutions for members of the supply chain.

Perhaps most important, companies can use real-time information from across the entire supply chain—including customers, suppliers, logistics providers, distribution networks and offshore operations—to provide a competitive advantage, allowing improved reactions to an ever-changing market environment.

“Good supply chain infrastructure makes the difference between companies that are running processes that are

‘almost OK’ versus ‘real winners,’” says Jari Tavi, chief technology officer at solutions supplier BasWare. “The value that it provides is greater than savings. It includes predictability, safety, value for money and mutual understanding of business priorities.”

By improving the physical supply chain—with strong policies in place and by investing in good technology—planning processes are enhanced as executives have a clearer view of their own supply chains and, with greater integration across partner systems, superior visibility into the processes of partners. The benefit of this is felt particularly when it comes to managing exceptions and errors. With early detection of exceptions, it allows for faster, more efficient response, reducing the likelihood of overreacting. And by automating data flow invoice modifications, change orders and inventory adjustments are updated as they happen, which offers executives the opportunity for better-informed decision-making.

On the financial side, having technology that better enables receivables management can have innumerable benefits. C.J. Wimley, chief operating officer of SunGard AvantGard Receivables, says that the ultimate goal when it comes to effective management of trade receivables is to lower DSO, mitigate credit risk and drive efficiency across the financial supply chain. “The key components are control of receivables and visibility to cash flow and risk. One of the big aspects in improving the financial supply chain is really dispute management,” he says.

Dispute management is critical, as many buyers can view suppliers as simply another financing vehicle. Buyers look to increase days payable outstand-



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—TIMOTHY HOUSE, WACHOVIA

ing (DPO), while suppliers are trying to reduce their own DSO. As a result, buyers may try to log disputes with vendors in order to stretch out payment times, but a good supply chain management solution can improve dispute resolution by processing items more quickly so outstanding amounts are not open longer than they need to be.

“This improves service to the buyers while helping to lower DSO,” says Wimley. “Systematic logging and tracking of disputes often uncover an underlying root cause that may exist within the supply chain. Then it is a matter of applying that cash to the proper invoices. An integrated approach using an end-to-end solution helps close out those receivables sooner and facilitates good customer service,” he adds.

New technology within the financial supply chain space can also enable a broader range of supply chain financing products, such as open account solutions. Wachovia, for example, recently launched its TradeXchange portal to enable such trade finance offerings. “We take the purchase order [PO] or amendments and distribute to the vendor base via email,” says Timothy House, a trade services director at Wachovia. Clients can also use a link back into TradeXchange, where they can acknowledge that PO. Michael Schmittlein, a manag-

ing director at Wachovia, adds: “We thus enable suppliers to more efficiently present an accurate set of documentation to ourselves or to our partner banks to indicate it is ready for payment.” Once that PO detail is lodged in the system, another function allows vendors not only to view and acknowledge that data but also to make financing requests.

Data Headaches

While there are clearly many benefits to investing in new technology for the physical and financial supply chains, the process of building that in across an organization is no mean feat. Automated systems are only as good as the information that goes into them, which highlights some key challenges faced by executives in efforts to automate the supply chain.

Companies often use various supply chain software solutions and inventory management suites, which can have incompatible data formats and dissimilar data fields for the same information. They often provide varying levels of detail, and they may record information in dissimilar ways. Also, on the physical supply chain side, solution providers in the past did not focus as heavily on integration with other systems, so there is the headache of handling interfaces with disparate systems across the supply chain.

There is also the need to manage data

tracking as products move across the supply chain and to ensure that tracking and invoice information flows across the various steps of the process. Finally, there is the likelihood that many companies within the supply chain may not have advanced systems in use and may provide little or no data in the first place.

Even with interface between systems, the resulting data can be sketchy and outdated, with unknown flaws that can be harmful when it comes to decision-making and planning. However, some system providers are creating solutions that bring together data from across the supply chain in real time in a single format that can be fed into in-house systems. The resulting data can provide much-needed deep detail and offer customizable reporting capabilities—and it can be fed back into partners' systems across the supply chain.

“The ability of the solution to aggregate data allows companies to more effectively manage credit risk by gaining visibility to exposure and driving routine reviews to ensure that credit limits and terms are appropriately set,” says Wimley. “Then with all of this information in one place, companies can also perform more accurate forecasting using the intelligence gathered, such as paying habits and dispute volume.”

It sounds like a near-impossible goal, but with advances in integrative systems software and using an open, flexible framework, such solutions now exist. As with advances across other parts of the working capital management continuum, it is not simply a matter of buying a system and plugging it in. Rather, it takes time, resources and often some process re-engineering. In addition, it is critical to have buy-in and understanding of the benefits from partners both internally and externally across the supply chain.



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Such a solution, however, should be able to function without requiring the company and its trading partners to move all supply chain activities to completely new systems. Using direct connect functions, a utility to normalize data, service-oriented architecture (SOA) software, open standards-based design and web solutions, it is possible to work with the existing supply chain framework and act as an integrative overlay, interfacing with existing systems to pull out data, collate it and present it in a format that best suits the user. And all of this should happen in real time.

Because it does not replace existing systems, such a solution can be rolled out slowly as and when it makes sense, and it either can continue to sit on top of existing systems or can be used as a means of rolling out new software underneath without losing process visibility or disrupting supply chain management in the meantime. This is exactly where many new solutions providers are heading: enabling process change without the headache of a complete overhaul of supply chain technology.

Sharing Information

When it comes to supply chain partners, one of the most important aspects of this is to ensure that all partners have a clear understanding of what it will mean, what they will be required to do

and the information they will be required to supply. It is critical to have pre-arranged agreements set up that outline the responsibilities and access levels of each member in data sharing and detail, and security policies for confidential partner information.

BasWare's Tavi notes that the supplier-buyer relationship is becoming more than just negotiating about dynamic discounts. “Good supply chain infrastructure creates a value-based model in multiple dimensions, including parameters such as the strategic value of sourcing, number of sources in the market, transaction volumes and values.” According to Tavi, the future of the market lies in real-time collaboration and analytics as well as the much-hyped value networks.

As opposed to management of the linear value chain, the concept of a value network takes into account all of the factors that affect how a firm identifies and responds to customers' needs, solves problems, procures input, reacts to competitors and strives for profit, including existing relationships to consumers, suppliers and the internal organizational structure of firms. “A successful supply chain infrastructure considers multiple dimensions of the business, what creates the most value, and how decisions will impact the business—the strategic value of what you are sourcing,” says Tavi. ■

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