

Supply Chain Process and Technology Review

*A Client Case Study
November, 2005*

Presented by:



Energy. Knowledge. Results.

Case Study -

Supply Chain Process and Technology Review

Scope and Approach

- Rich Consulting was retained to conduct a brief assessment of current supply chain processes and systems and to develop recommendations for a future state that would reflect current industry trends, as well as best practices in supply chain management. This effort was designed to provide the client with a vision of an achievable future state, and a suggested plan for moving forward.

Challenge

- The existing systems were limiting the ability of the Purchasing department to create value for its business unit customers. This limitation represented a multi-million dollar opportunity cost:
 - Basic activities – such as the generation of purchase orders and the processing of invoices – were cumbersome, requiring multiple inputs, many manual interventions, and extensive paper handling. This resulted in the Purchasing and Accounts Payable organizations being consumed by routine tactical functions, many of which could have been automated.
 - In addition, the legacy systems were not designed to facilitate strategic analyses by or for the business units. Spending, usage, and supplier information was not easily accessible, making it difficult to optimize sourcing and payment arrangements, manage key commodity and service categories most effectively, and drive continuous performance improvements.

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Scope and Approach

- The scope of our effort encompassed the Purchasing, Materials Management, and Accounts Payable functional areas. The intent was to establish an understanding of current operations across a broad range of supply chain activities, and gauge overall performance levels.
- In parallel, we conducted a brief survey of trends in the industry and current best practices in supply chain management.
- These three elements – our understanding of the current state, our view of trends in the industry, and best practices in supply chain management – were combined to develop a future state vision for our client.

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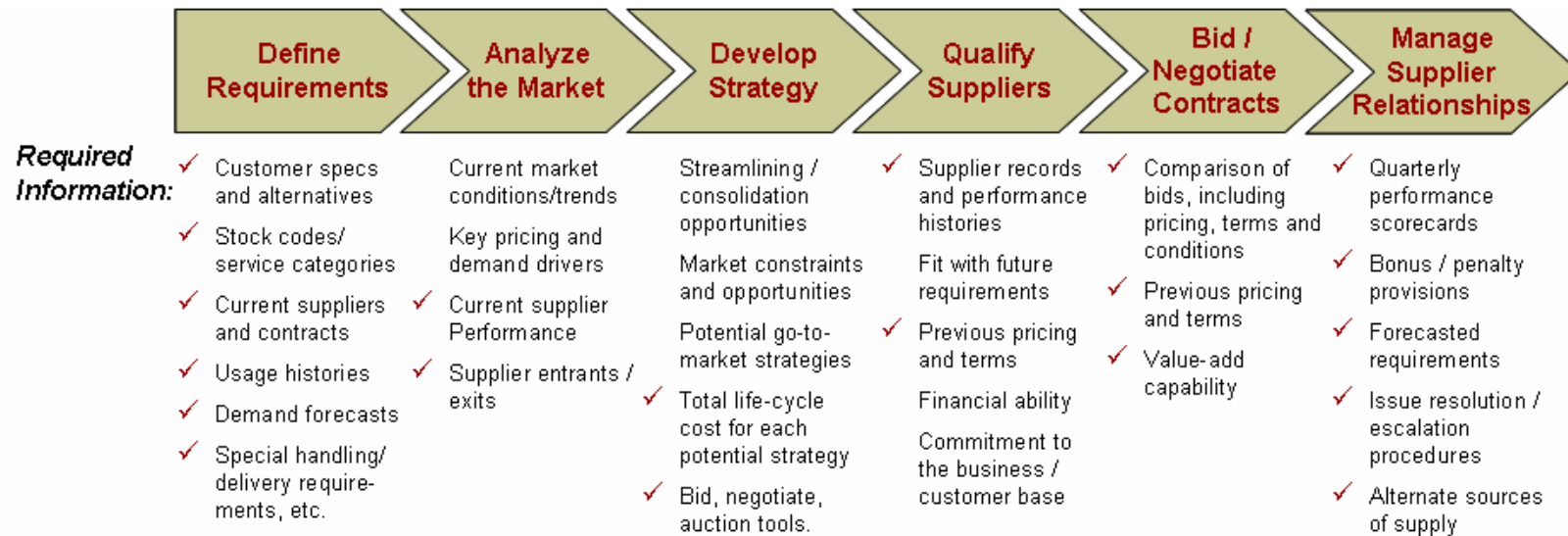
Recommendations

- Since an outdated infrastructure can not be the basis for efficient supply chain operations, our primary recommendation was to analyze the available technology alternatives and chart a course of action for substantially upgrading current system capabilities. The recommended evaluation of alternatives included:
 - Development of a comprehensive ‘Request for Information’ (RFI) which would be issued to leading supply chain system providers. The intent was to identify options to either replace or modify the existing systems.
 - Comparison of the ‘Replace vs. Modify’ alternatives through a detailed analysis of functionality, process improvement, business benefits, and risks associated with each alternative.
 - Development of a detailed business case for the highest ranked alternative, and a corresponding multi-year implementation plan.

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Recommendations (cont'd)

- In addition to the long-term system improvements, a number of short-term process improvements were also recommended:
 - The supplier management process, currently being used for construction contractors, should be extended to other service providers.
 - Strategic Sourcing initiatives should be launched to optimize sourcing arrangements for high volume contracting areas. A typical strategic sourcing process is shown below, along with information required to execute each step.



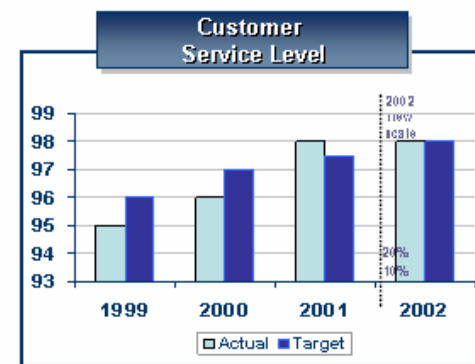
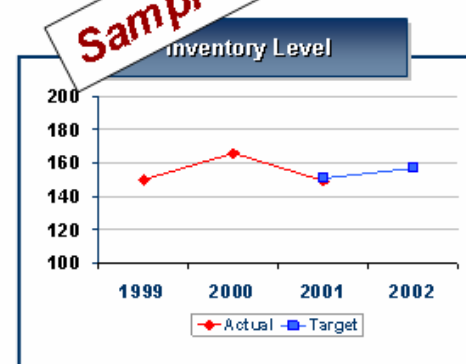
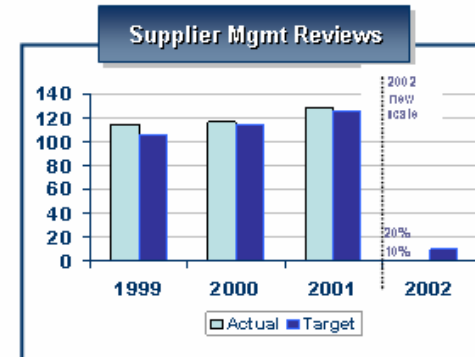
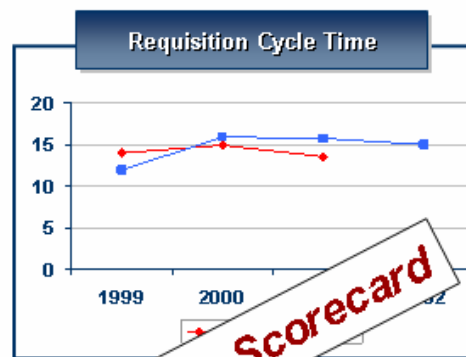
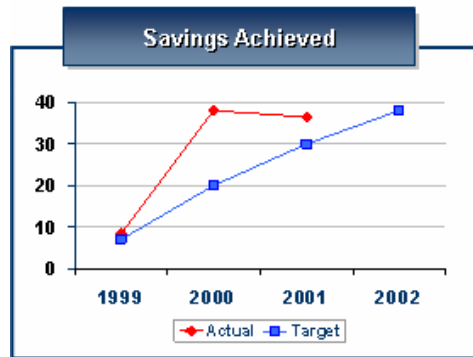
✓ Available from a fully functional supply chain management system

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Recommendations (cont'd)

- An additional short-term process improvement included the development of a scorecard process to capture and report key performance measures. The results would be reviewed in regular quarterly meetings with business unit customers.

Creating the Right Scorecard Drives Continuous Improvement



Sample Scorecard

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Recommendations (cont'd)

- Additional short-term process improvements included:
 - Incorporation of annual business unit planning discussions, focusing on key business objectives for the upcoming year and the role Purchasing can play in achieving these objectives.
 - Extension of EDI transaction processing requirements to all materials vendors, to eliminate manual processing for a large number of invoices.
 - Joint development by Purchasing and A/P of templates for services contracts to standardize billing formats and streamline the invoice reconciliation process.

Conclusion

- As is often the case, the effective resolution of this client challenge involved both short-term process improvements as well as longer-term system enhancements to achieve targeted performance levels.



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