



THE SUPPLY CHAIN MANAGEMENT BPM ECOSYSTEM

Strategies to develop successful SCM BPM operations

Abstract

Outsourcing of production and logistics has become a firmly established model for growth and cost competitiveness in global markets. Can outsourcing of supply chain management (SCM) processes be far behind?

The BPM industry has been exploring next gen services that utilize specialized skills and promise benefits far beyond labour arbitrage. SCM BPM is emerging as the domain which will define the future of the BPM industry. This article will explore the SCM ecosystem, starting with the service providers, the processes that are currently being outsourced and finally understanding the right strategies to be put in place to operate a successful SCM BPM ecosystem.

Introduction

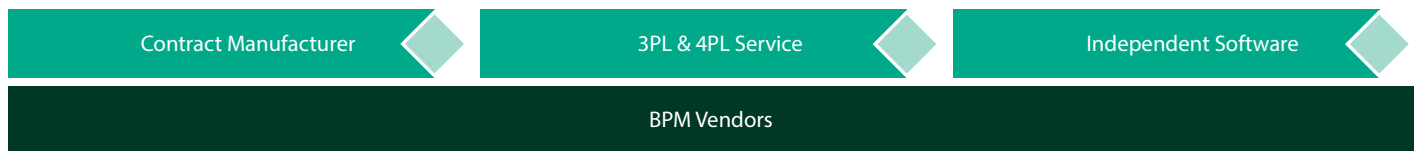
Supply chain management is often seen as a core function within organizations and seldom do supply chain executives feel that these could or should be outsourced. However, the slow morphing of most manufacturing companies to becoming design and marketing organizations with the actual production being taken over by contract manufacturers in low cost countries contradicts this view.

The BPM industry has achieved considerable maturity in delivering transactional processes in service lines such as finance and accounting, customer service, and travel and expense. This learning curve has helped the industry to scale up and perfect its delivery models. The next wave of services will be in delivering value added services where knowledge/skill and improved business outcome is the promise rather than the earlier focus on labour arbitrage. SCM and analytics will play an important role in the future of the BPM industry and its sustainability over the long run. To understand the scope and potential of SCM BPM we will need to first understand:

1. The service providers in this space
2. The processes that clients are looking at being delivered from a shared service center
3. The operating strategy for successful SCM operations



The SCM Ecosystem – the Service Providers



Contract manufacturers:

Most manufacturing companies today retain R&D, design, local assembly, and marketing, while production is outsourced to contract manufacturers. These manufacturers in low cost locations like China utilize the same levers of BPM such

as labour arbitrage and economies of scale to deliver cost benefits to the client. Contract manufacturers may operate under a license or under full control of the outsourcing organization with pre-agreed rates and margins for services delivered.

internal teams with resources, tools and processes that can be 'plugged in' to drive and deliver strategic sourcing, category management, contract management, supplier panel management, and analytical support as needed

Logistics service providers (LSPs):

Movement of goods, information and cash is provided by third party logistics (3PL)'s which would include management of warehouses, freight and payment channels. The physical movement of materials is accomplished with an asset heavy structure by a few organisations. – Fourth party logistics (4PL)'s are taking

time to get established in this market but in principal will be able to manage a set of 3PLs using an asset light model. This can be achieved by providing services such as selection, evaluation and management of 3PLs, freight auditing and billing, route optimization, inventory management and vendor negotiations. It is in this space that

3PL's have begun to offer traditional BPM services and offer stiff competition to BPM vendors. However, the BPM component of services offered by LSPs is typically small, and focused on a narrow set of processes such as logistics helpdesk and freight billing.

Independent Software Vendors (ISV):

Supply Chain application and ERP modules provided by ISVs are an important component of the logistics value chain. Besides standard packages in SCM and CRM from major market players, niche offerings are available from IT vendors.

These ISVs also provide cloud based services or SaaS (Software-as-a-Service) in a multi-tenant model to reduce the CapEx for their clients and to make their services more affordable. These managed services on the cloud are in close competition to

BPM vendors. However, these managed services are typically restricted to the software associated with the iSV and rarely does it encompass service delivered on a competing platform or a technology agnostic service

BPM Vendors:

SCM BPM has now moved beyond the F&A domain (S2P and OtC) and currently offers a series of services that encompass technology, consulting and deep domain knowledge. These services typically seek to optimize the supply chain and less on labour arbitrage. These may range from

optimizing processes such as S&OP or demand forecasting to services which are currently not available with the client such as SCM analytics. However, it is clear that BPM vendors will need to span the SCM ecosystem and integrate with all SC partners to deliver an optimized supply






chain. Hence an aggregator model with strategic alliances to cover contract manufacturers, LSPs and iSVs is imperative – this will be key in positioning SCM BPM as a differentiator and provider of end-to-end supply chain services.

BPM Service Offerings

Outsourcing production through contract manufacturers in local or offshore locations has been an accepted part of supply chain strategy and has developed its own systems and practices to become a mature operating model. SCM BPM on the other hand is very much in infancy and defining its scope and potential will be an ongoing process. A key to identifying SCM BPM processes is to understand that

SCM BPM will be a specialized BPM vis-à-vis traditional BPM in terms of its value proposition, commercial models, enabling technologies and skill sets required. SCM processes will offer a value proposition beyond labour arbitrage, commercial models will be focused more on outcomes than fixed fee and skills required will be very domain specific. The SCM BPM provider will also operate on his own set

of specialized technologies or platforms and function in a complex network of alliances and partnerships to provide end to end services. Moreover, some SCM BPM offerings will be one-time project based services such as analytics as opposed to traditional annuity based services. Service offerings that have seen traction in the market can be grouped into the SCOR model as below:

PLAN 	SOURCE 	MAKE 	DELIVER 	RETURN 
Demand Planning	Direct/Indirect Material Sourcing	Production Scheduling	Order Management	Reverse Logistics
Demand Forecasting	PO Management Services	Plant Layout Planning	Freight forwarding	Warranty and Claims Management
SCM Analytics	Vendor Management	MRP	Customs Processing	Service Parts Management
Inventory planning and optimization	E-auctions	S&OP	Logistics Coordination (4PL Services)	Compliance services for returns/repairs
Price and promotions management	VMI/Consignment Stock Management	Green SCM	Network optimization	Install Base Management

Companies have been most active in the 'plan' set of activities in the form of outsourcing short term projects which are based on SCM Consulting expertise. The movement to extend these consulting projects into extended managed services are well underway. The retail

and CPG industry has for instance been early adopters of extending inventory optimization consulting services into a longer term managed service by setting by CIOGs (central inventory optimization groups) which monitor the inventory patterns and take corrective actions in

real time to ensure the supply chain is continually optimized. However, we see that SCM BPM certainly requires a shift in mindset to execute and deliver successful operations. Some imperatives will remain whereas other new capabilities will have to be built up.

Strategies for successful SCM BPM Operations

Organizations planning on SCM BPM need to first recognize the fact that unlike traditional BPM, SCM BPM is more about reducing COGs and improving operational efficiencies and NOT about reducing supply chain headcounts. Keeping this in focus, a roadmap for successful SCM BPM operations should include the following factors/strategies:

- Focus more on outcomes and less on operating costs – i.e. structure contracts around savings in direct material costs, reduction in inventories, improvement in COGS in addition to more traditional

SGA costs such as FTE costs, however labour arbitrage remains an incentive to some

- Choose service providers who can provide end-to-end supply chain services by seamlessly integrating with downstream and upstream supply chain partners
- Develop specific industry expertise in the supply chain – for e.g. the automotive industry would require a specific skillset in managing the supply chain vis-à-vis the CPG or healthcare industries

- Conduct assessments or diagnostics to arrive at potential gains from SCM BPM before launching full-fledged services – for e.g. an assessment of inventory and potential gains in terms of DSO, working capital etc. will help decide whether a fully operational CiOG Managed Service (Centralized inventory Optimization Group) is justified
- Utilize Centers of Excellence (CoEs) to conduct diagnostics, standardize and transition processes as well as provide quick ramp up capabilities

Conclusion

The starting point for SCM BPM will be in analyzing the SCM landscape, identifying processes which provide the maximum promise from outsourcing and finally prioritizing the processes in a well-defined roadmap. Integrating this with strong supply chain consulting services and governing it with business outcomes will be the way forward in building successful SCM BPM operations.



About the authors



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Simon has over 20 years of Supply Chain industry experience including a number of “C” level positions in the UK, and Australia in retail, wholesale, automotive and pharmaceutical. In addition, Simon has 6 years consulting leadership experience responsible for delivering over 100 projects across a broad range of industries in Australia, Asia and the Middle East covering strategy development, network optimisation, warehousing, inventory management, freight, procurement and systems integration.



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Shyam has over 17 years of professional experience in supply chain, inventory optimization and after sales operations. He is responsible for conceptualizing and implementing shared service and outsourcing solutions and has led several solutions and consulting efforts for clients across the supply chain and sales operations domains. Prior to Infosys, Shyam worked in the procurement and supply chain functions in the hi-tech manufacturing and financial services industries. Shyam is an alumnus of the London School of Economics.

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