BUILDING A CUSTOMER-FOCUSED VALUE CHAIN

With the right solutions, a company can implement those pieces they need now and add functionality as business needs expand and grow.
INTRODUCTION

In most growing companies, the application of technology has been an evolution rather than a revolution. Companies typically start out with an off-the-shelf accounting package. Later, they may add software packages for specific functions, inventory management or bar coding, for example. As they grew, their larger customers may demand compliance with EDI and Advance Shipping Notice (ASN) capabilities. Today, however, many manufacturers in this market space are bumping into the limits imposed by this approach and are beginning to recognize the value of integrated, enterprise-wide information. Even shop floor solutions, which often result in significant bottom line savings through operational efficiencies, cannot increase the value of the enterprise or build intrinsic value into customer relationships. Nor do they enable a company to differentiate itself from competitors to grow the business.
CREATING GROWTH AND LASTING VALUE

Manufacturing leaders have begun to think of technology more strategically beyond traditional "command and control" which focuses almost exclusively on internal monitoring and control to cut costs. Cost cutting does not create top line growth. To achieve sustainable growth--companies need to focus their efforts on those who can fuel that growth--their customers. Building a value chain simply means integrating every facet of the supply chain to deliver optimum value to customers. Technology advances have brought a whole new range of enterprise-wide solutions for midsize manufacturers. Many so-called supply chain solutions tend to focus on the back-end, with functional modules such as Advanced Planning and Scheduling and Warehouse Management. What's really needed is more and better ways to interact with customers and deliver value that keeps them coming back.

THE RISE OF CUSTOMER RELATIONSHIP MANAGEMENT

In some industries, goods have become commoditized to the point where product is no longer the chief differentiator. This trend touches products ranging from consumer foods and beverages such as cereal, coffee and beer, to industrial components such as mechanical and electronic parts. With commoditization, profit margins can be squeezed beyond reason simply because manufacturers believe the only option they have is to compete on price.

As customers become more sophisticated, time-pressured and demanding, the savvy product marketer realizes that price is no longer the prime purchasing decision factor. In a highly competitive environment, customers are raising the bar on a number of fronts, including customization of products (e.g. multi-packs), speed to delivery, individualized packaging options and customized transportation choices. As a result, timely and responsive customer service has become the new differentiator.

"Putting Customers First" is the driving force behind the growing popularity of Customer Relationship Management (CRM) systems. Sometimes referred to as the "next generation" of Sales Force Automation (SFA), these systems integrate sales and marketing information with all transactional information related to getting products to customers when, where and how they want them. Rather than being internally focused, CRM focuses on front office processes with emphasis on delivering a high level of personalized customer care.
Hand in hand with growing emphasis on CRM is the electronic commerce trend, which is redefining the way companies do business. Electronic commerce has two distinct sides--business-to-business and business-to-consumer. With transactions over the Internet gaining greater acceptance globally, e-commerce is growing at an amazing rate. According to Forrester Research, e-commerce revenues will likely top $6.8 trillion in 2004.

For midmarket manufacturers, b-to-b e-commerce is not a new concept. Many firms routinely engage in EDI to transact business with their suppliers and customers. Now, however, b-to-b e-commerce applications have expanded to include the Internet and corporate intranets and extranets.

Whether traditional EDI or Internet-enabled, b-to-b e-commerce can help companies forge closer links across the entire supply chain from suppliers at one end, though internal processes, to distributors and retailers at the other. Publishing a product catalog, allowing dealers to check on inventory or order product online can greatly streamline business processes. Product configuration is another hot topic. The challenge for software developers is to build a rules-based configurator that can be integrated with Web sites, CRM and ERP systems.

The benefits of enhancing supply chain visibility and partner communications in this way often include shorter lead times, lower inventories, reduced work-in-process, more accurate forecasting, more efficient production scheduling and a higher level of customer responsiveness.

On the business-to-consumer side, the growing number of Internet-literate consumers have led hordes of companies from the largest retailers to the smallest providers of consumer goods and services to set up Web sites and sell directly to consumers via "electronic storefronts." Through their electronic storefronts, some manufacturers are building community with customers by adding value to the goods they sell. For example, Amazon.com will make recommendations on book and music selections you might enjoy, based on tracking your previous purchases. Dell Computer will help you configure a computer system that fits your needs, then take your order through a secure credit card transaction right on the spot. This kind of convenient, personalized service available 24-hours a day, seven days a week promotes customer loyalty and retention.
Does this mean that every midsize enterprise should rush to build a Web site? On the contrary, before launching an e-commerce project, whether business-to-business or an electronic storefront, much research should be done. Complex e-business initiatives can be an expensive proposition.

The first step is to research successful sites and analyze them for design, content, ease of navigation, usefulness of content and interactive functions. The next step is to determine realistically whether or not such an initiative will provide value, ROI and further the strategic objectives of the enterprise. The importance of an Internet strategy based on value to customers and value to the company cannot be overemphasized. A failed Web site, one that turns off customers and puts the company in a negative light, is far worse than none at all.

**FUNCTIONAL REQUIREMENTS OF THE VALUE CHAIN**

Today's value chain is being driven by end user preferences and demands, as well as a company's own strategic objectives. For profit-minded businesses, a customer-oriented value chain can be a viable path to sustainable growth through higher productivity and increased market share. To achieve these goals, companies are seeking to reduce operating and inventory costs, streamline production, shorten order fulfillment and time to delivery, and maximize profit margins and return on assets.

To build an effective value chain, it is essential to put process before technology and examine the issue from a purely business standpoint. Initially, the basic decision steps include:

- **Identify the Problems.** Is the company's weak point excessive inventory or work-in-process? Material or machine bottlenecks? Inefficient scheduling or poor resource utilization? Longer than average time to delivery? Whatever the problem, it must be clearly identified before it can be solved.

- **Pinpoint the Goals.** Determine specifically what operational and business improvements you want to gain, e.g. lower inventories, reduced operating costs, faster turnover and order fulfillment, higher productivity/capacity and return on assets.
• *Rethink Business Processes.* Automating bad processes doesn't pay. If certain business processes are identified as being part of the problem, you may have to reengineer these processes to bring them into alignment with industry best practices. Key processes include order entry, procurement and inventory management, logistics (i.e. transportation and shipping) management, data collection, etc.

• *Determine Where Technology Can Help.* Based on results of the first three steps, identify IT components that will automate key processes to help the company serve customers faster and better, make it more competitive, and enable it to achieve the targeted goals.

• *Evaluate Marketplace Technology Solutions.* Customer-focused functional requirements are simply "pieces" of supply chain execution systems that represent how a manufacturer brings its products to the customer. In a scalable enterprise system, these pieces can be unbundled into discrete yet integrated components that serve a specific business need.

Once a company has taken these steps, it is time to apply technology to automate the business processes that will add the most value for the customer and for the enterprise. Reducing costs by increasing production speed and efficiency and by gaining better control of materials and resources is a worthy goal that can contribute, often dramatically, to bottom line savings. However, the real value of an integrated technology solution is the top line growth created by the ability to serve new markets, gain new customers and provide existing customers with innovative new products and a high level of service.

**A COMMON SENSE APPROACH**

In applying technology to build the value chain, a common sense approach works best. To add value to the enterprise, IT must be applied intelligently and strategically to where it will do the most good. Companies should always start with the core business drivers behind the technology imperative and determine exactly what it is they want to accomplish. To do this, the myth of "all or nothing" thinking must be shattered.
With today's open architecture and communications standards, application integration and scalability is now possible. With the right solutions, a company can implement those pieces they need now and add functionality as business needs expand and grow. Integration is the key and this is typically the strength of a single vendor solution. While best-of-breed solutions may be initially attractive, they can be difficult to implement and even more difficult to interface with legacy data and other information systems. This is not to imply that a single vendor can necessarily provide all of the pieces required to solve all problems. But if the vendor selected designs software with open standards and open architecture, this will allow other third-party solutions to hook in at critical process points to integrate and automate more of the processes.

With years of experience serving the needs of midsize businesses, we have found the gradual implementation approach to be practical, affordable and highly successful. Many customers began with a set of basic financial applications and only add more sophisticated financials, along with manufacturing, distribution and supply chain functionality when growth demanded. In other words, the processes drove the technology rather than technology driving the processes.

Every business's needs are unique. Some companies may never require multi-national or multi-plant planning, but finite capacity scheduling and demand forecasting may be important to them. Companies performing simple repetitive manufacturing may require only a light manufacturing system for materials, planning and control (MPC). In other growing companies, customization and complexity may spur them to move up to a full enterprise resource planning (ERP) solution, complete with business intelligence and decision support capabilities.
CONCLUSION

SETTING THE STAGE FOR SUCCESS

Taking a business-focused approach to transforming the traditional supply chain into a customer-focused value chain, with an eye towards ROI, is a sound decision in which technology becomes the enabler it is meant to be. Intelligently applied, integrated software solutions make good processes better, slow processes faster, and make valuable information infinitely more accessible to everyone who needs it, up and down the supply chain.

In addition to improved customer service, typical results of technology solutions in midsize companies include reduced operating costs, more efficient operations, increased productivity and throughput, faster turnover, higher return on assets and better business intelligence on which to base future decisions. These benefits, in turn, become the fuel for sustainable top-line growth.

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