

Win in the flat world

“SCM is Dead, Long Live SCM!”

The need for Lead Time Optimization

– Manas Fuloria and Anil Pahwa

Abstract

Short product lifecycles, burgeoning product variety and intense trend-driven demand uncertainty typify the current business environment. However, supply chain management (SCM) practices and software, for the most part, remain anchored in the era of long lifecycle products and limited product variety. This paper presents insights from Infosys and SupplyChange on SCM based on client experiences and recommendations for supply chain leadership.



Challenges of the new business environment

The current business environment is typified by short product lifecycles, product variety and intense trend-driven demand uncertainty. This is especially true for those retailers and wholesalers that offer a vast array of products to satisfy diverse and rapidly changing consumer preferences. Yet SCM practices and software have largely remained anchored in the era of long lifecycle products and limited product variety. Experts characterize the types of products that most SCM applications cater to as “colas, detergent and paper towels” - all basic products. Today, however, even the Coca Cola/Coke brands, Tide detergent and Scott Towels are all available in several variants and packaging choices. The explosion in SKU's and product variety has been possible, in part, due to increased merchandise breadth, the introduction of more “seasons”, shorter lifecycles and planned obsolescence. Fickle trends, variety seeking customers and competition push even more product innovation.

The tendency is towards more mass-market trend-driven products resulting in pressures to innovate, quickly gauge market trends and react continuously. Demand uncertainty for many new products is over 100%. Consequently, stockouts are high and forced markdowns are routinely 1/4th or 1/3rd of sales.

The new Supply Chain Model

Strategic in nature

As consumers are faced with many products competing for their share of wallet, product freshness becomes even more critical in an over stored environment. Product freshness is a combination of “push” and “pull”. Companies occasionally ride a new trend by creating and pushing new ideas to consumers. However, sustained product freshness also requires reacting continually to expressions of consumer choice by pulling or replenishing existing products.

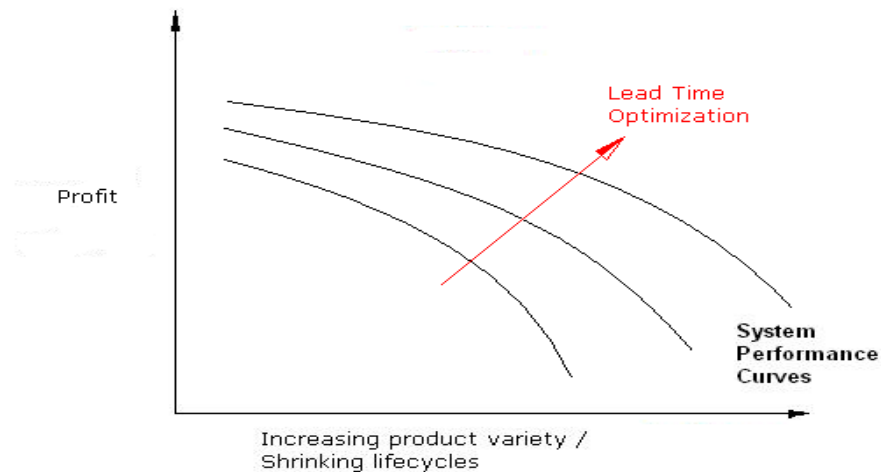
For example, the fashion industry is fairly good at “push”, while the “pull” needs to be built into their SCM model.

Increased Wall Street scrutiny of how companies manage markdowns and stock outs is an important strategic issue for regulatory reasons. The new SCM model helps address markdowns and stock outs that do not currently show up in annual reports.

Centered on profit maximization

“Lead Time Optimization” (LTO) describes the new SCM theory, practice and software that are centered on trend-driven demand uncertainty and products with short selling terms. Lead Time

Optimization is SCM geared to maximize profits for volatile and short lifecycle products, rather than simply minimizing costs. As SCM models increasingly reflect trend-driven uncertainty and the mechanics of markdowns, the value of shorter lead times becomes quantitatively apparent. Old SCM practices would never prescribe higher costs as a means of procurement. However, the new SCM model may recommend this, if it results in sufficiently lower stockouts and markdowns.



It modifies day-to-day operations

Lead Time Optimization spans the strategic to operational. It not only helps evaluate investment decisions (for example, in PLM), but also recommends day-to-day buy and production decisions on every SKU in line with an appropriate company strategy. Under Lead Time Optimization, various concepts are brought together with software and established business processes including:

- Staging of production commitments
- Building to design platforms
- Capacity commitments
- Hedging materials
- Supplier constraints
- Flexible freight decisions

Touches the entire organization

With Lead Time Optimization, SCM moves from the back room to cover the entire organization. It dissolves the vertical silo structures that characterize organizations today. Design, merchandising, sales, planning, sourcing and logistics all interact smoothly. An LTO implementation enables a merchandiser or salesperson to run an immediate query on when particular items can be brought to stores to replace others, prior to actually ordering them.

Merchandising options are increased while reducing non value added communication between planning, sourcing and production.

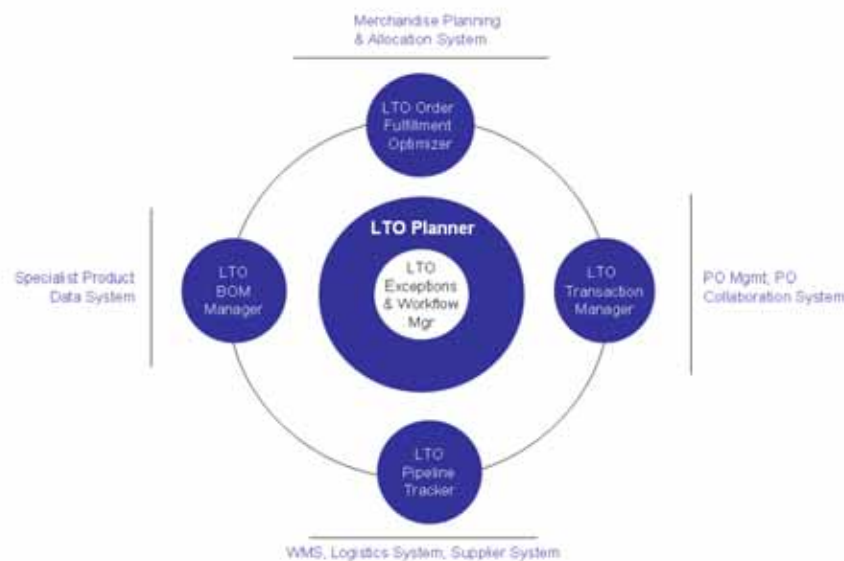
These changes in implementations in various softgoods categories have reduced finished goods lead times by 50-75% and have increased margins 30-50%.

The Infosys Approach for Supply Flexibility

In the last five years, companies have implemented several software tools to increase supply chain speed. These include:

- PDM systems to store material information
- workflow software to monitor design and development tasks
- extending PO management systems to allow collaboration
- supply chain optimization systems

This piecemeal approach ties up management, IT and consultant resources for long periods. Typically, this approach has neither a robust system of metrics to measure ROI or has contributed to the bottom line. Most importantly, a piecemeal implementation that silos different departments does not allow for a strategic view of the business.



In contrast, a Lead Time Optimization approach involves a holistic view of software and processes required in the new SCM paradigm. We recommend setting up a Lead Time Optimization task force composed of executives from each functional area and led by a senior executive. The task force should focus on quickly launching a Lead Time Optimization pilot that aids an organization's understanding and absorption of the concepts involved. Typically, a pilot

can be launched in 60 days and the benefits realized are tracked by a system of metrics. These metrics should be continuously monitored by all task force executives to facilitate a decision on enterprise-wide adoption within 6-9 months of the pilot.

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