

SCC VOICE

Thoughts and ideas from The Systems Consulting Consortium

Supply Chain Management Software - An Update and Lessons Learned

Supply Chain Management (SCM) software is certainly one of the "Killer Apps" which evolved in the late 1990's and continues today across multiple industries. It has been touted as having significant cost reduction potential of major proportions. As a result, large investments in software have been made in pursuit of these potential savings. A recent study by The Gartner Group states that Supply Chain Management (SCM) application software sales were \$750 million in 1997 and are projected to grow to \$2.5 billion by 2007.

By definition, SCM includes transactional execution systems such as enterprise resource planning (ERP), warehouse management system (WMS), manufacturing execution systems (MES), transportation management systems (TMS), and international trade systems (ITS). Seventy percent of executives recently interviewed identified the measurement of supplier performance in these areas as "critical" to their companies' overall operations. As further proof of the fervor in the SCM arena, there are forty-four application software packages available to support one or more of the functional subsets of SCM mentioned above.

In several instances, the SCM efforts have not been successful. The reasons for these failures seem to fall into three general categories:

1. Inadequate Business Processes coupled with poor utilization of the newly implemented systems.
2. Lack of good supplier performance measurement tools; sixty percent of companies questioned were less than satisfied with their ability to manage supplier performance.
3. Slowness of adopting standards to facilitate ease of communication across the supply chain.

This issue of *SCC Voice*, focuses on the first category.

The problem is frequently not the software, which is one of the "usual suspects", but gaps in the various business processes that support the transactional systems such as the ERP. SCM typically covers several broad business process functions such as "planning", "sourcing", "making", and "delivering". If these business processes are not clearly defined, or if the personnel using the software are not adequately trained, then no amount of sophisticated software is going to make the SCM function smooth or effective.

In a recent study, a typical "Purchasing" business process from "Create P.O." to "Track Ship Date" was analyzed under two scenarios. One scenario applied traditional manual methods to perform the purchasing process; the second used a SCM system. Under the first scenario, the buying organization had to perform 13 manual steps for the purchasing function. The second, using the SCM system, required only 4.

Productivity gains, like the one described above, can only be realized when there are well-defined business processes with SCM systems supporting them. In addition, inadequate business process definitions amplify the problem of aggregating costs associated with the Supply Chain, making it very difficult to measure performance.

It has been our experience that even after real-time systems are implemented in a company, an emphasis on change management and repetitive education is required. Unfortunately, this does not always happen to the degree necessary. If this is omitted, the tendency is for staff personnel to continue (or revert back to) the routines that are most familiar to them.

In summary, it is difficult to blame poor Supply Chain results on the software, the network, or other organizations in the chain, if your basic business practices are not being strictly adhered to.

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