

## Evolution of Supply Chain Management – Roadmap to Excel Business Efficiency

### What is SCM

Supply Chain Management (SCM) is a business strategy, whereby the trading partners within the supply chain commit to work in tandem to bring maximum value to the consumers and/or their customers for the least possible total supply chain cost and time.

The process involves an integrated flow of physical goods, information, funds and knowledge amongst suppliers, manufacturers, wholesalers, logistics and financial providers, retailers and the end consumer. Through the advocacy of the 3 Cs, ie. Collaboration, Consumer driven supply chain, and Cost reduction, non-value added processes in the supply chain are eliminated and overall operational efficiency is also enhanced.

### Working in Tandem with Your Business Partners

#### Scope of SCM

While you may have been working closely with other companies in some way or the other, a true SCM however involves planning and working strategically with trading partners in four focus areas:

- **Demand Management** – emphasises joint effort among traders in communicating and planning the variations in consumer demand that will influence the mix and volume of products flowing through each stage of the supply chain.
- **Supply Management** - focuses on the supply side with the use of an integrated set of four improvement concepts each of which addresses a different aspect of the need for rapid and efficient replenishment of products in the overall supply chain.
- **Enablers** – stresses the development of product identification, data management and processing capabilities, in order to facilitate effective communications, as well as accurate and timely registration of goods flow between trading partners.
- **Integrators** – deals with the integration of different areas. Two concepts have been identified so far. The first one is Collaborative Planning Forecasting and Replenishment, which is the ultimate Responsive Replenishment facilitator starting with specific partners. A second concept is B2B e-Business which explores new ways of doing business with B2B e-Commerce and using public standard-based networks.

### The Time is Now

In the 21<sup>st</sup> century, business is becoming too complex for any company to do it alone. As demand from consumers become more dynamic and the pace of globalisation accelerates, enterprises must forge a closer alliance with its trading partners if it is to retain customers and maintain the leading edge in the increasingly competitive market. SCM has been working its way onto the agenda of a growing number of visionary entrepreneurs. Hesitate in embracing this emerging business strategy, you risk losing both your business partners and valuable customers.

### The Way Ahead

#### **Hong Kong As a Logistics Hub and Supply Chain Base**

From an entreport, to a manufacturing base to an international trade centre, Hong Kong's role in the global supply chain has been kept evolving over the years. With the emergence of a more globalised economy after China's accession into the WTO, the territory's role in the integrated supply chain will undergo change in the coming decade.

Logistics being an indispensable part of the supply chain is crucial to the enterprises' operational efficiency and the future of Hong Kong. With its comparative advantages including traditional bond with

the mainland market, a well-developed telecommunication and transportation networks, and a sophisticated financial system, the SAR Government is determined to develop the territory into a preferred logistics hub and supply chain base. The establishment of the Logistics Development Council (LOGSCOUNCIL) in the late 2001 represented a major step forward in realising this vision. Liaison is now conducted with our mainland counterpart for a strategic integration of Hong Kong with the Pearl River Delta. It is anticipated that connectivity of the local logistics infrastructure and other facilities with the cargo hinterland will further reinforce in the years to come.

### **From Service Provision to Supply Chain Integration**

Also undergoes radical changes in recent years are the pattern for overseas buyers to source products. With European consumers increasingly demand for greater convenience and more variety of products, orders received nowadays tend to be short noticed and require frequent replenishment. This in turn leads to a more condensed supply chain characterised by efficient communication and product movement, speed sourcing, and replenishment sourcing. Amidst this refined supply chain are traditional trading entities whose roles have kept evolving.

- **Manufacturers** -- Local manufacturers will see a shift in the focus, from being cost-cautious to the awareness of providing quality services and integrating with customers' supply chains. In term, the roles of manufacturers are also extending and developing from being a provider of labour, machines and manufacturing capabilities, to include sourcing management. Eventually, manufacturers will be required to act as a supply chain partner to retailers and other service providers.
- **Buying Offices/Agents** – Propelled by the prevalence of speed and global sourcing, the role of the buying offices/agents in Hong Kong as a middleman has been evolving to become providers of value-added services. Aside from the traditional duties of locating factories, negotiating prices, and conducting quality control, buying offices/agents will be required to take up more and more value-added responsibilities such as suppliers' management and development, training upgrading, monitoring and collaborating with suppliers in providing SCM services.
- **Logistics Service Providers** – Logistics service providers are moving away from "commodity" services, to become an "extended arm" of their customers' logistics operation. In the process, roles of industry players also evolve in stages, from the provision of sole shipping and freight forwarding consolidation services, to offering point-to-point delivery, information tracking, bulk packing and documentation management. The final outcome will be the emergence of total logistics service integrators who undertake all the outsourcing operations including product inspection, packaging, distribution centre management, inventory for its customers.
- **SMEs** –As outsourcing becomes a common practice for leading industry players to trim down cost and enhance flexibility, leading players' reliance on SMEs elevates. Instead of being just an OEM sub-contractor, SMEs are increasingly perceived as the strategic supply chain partners for major players. Instead of the traditional mode of cooperation which is transaction-based and dictated by cost, the emerging customer-supplier relationship will be built on collaboration, co-operation, and joint efforts in planning, forecasting, product development and product replenishment.

### **Moving Towards e-SCM**

Electronic Commerce (e-commerce) is the new order of the day. Conducting business communications through electronic means can link many steps in the supply chain in a cost effective and efficient way, thereby multiplying the power of SCM. This gives rise to the new concept of e-SCM.

e-SCM requires supply chain partners to maintain and share the same pool of data for a seamless flow of information, which in turn will facilitate a smoother physical flow of goods and funds along the supply chain. Through saving the valuable time in managing the information and improving data quality, benefits brought by the implementation of other best practices can be optimised.

At the heart of e-SCM development are standards to ensure integrity in data identification, interface procedures, and communications among traders. Devised by EAN International and its sister organisation

the United Code Council (UCC), the EAN.UCC System provides a set of standards that uniquely identify and communicate trade items, locations, shipping units and assets to improve supply chain management and other business processes. It facilitates electronic commerce processes including tracking and traceability. Currently, there are over 900,000 companies in 128 countries/economies, which build their e-SCM foundation with the EAN.UCC system. A growing number of enterprises are deploying this system in their e-SCM development.

### **Setting Off in Your e-SCM Expedition**

To keep abreast of the changes in the macro-environment, and to take advantage of the potential business benefits, enterprises must move fast in setting off in their SCM expedition. The route to excellence is direct and well-developed.

#### **1. Identify Area of Improvement**

The successful and effective implementation of SCM begins with a thorough understanding of the maturity gaps relative to the industry as well as its trading partners. A value chain readiness analysis and benchmarking enables company to understand its supply chain cost structure, key areas of improvement, and the potential benefits of implement specific SCM concepts in defined areas. It helps company to identify its limitations and begin the internal capability building stage. Only when the company realises the necessity and long-term benefits, serious commitment to SCM can follow.

#### **2. Implementation of Enabling Technologies**

In implementing e-SCM, quite a lot of enterprises jump into collaboration with partners from the onset without even examining their internal capability. Problems soon arise when it comes to system integration for information sharing.

A pragmatic and logical approach for e-SCM implementation however begins with data management. This is the cornerstone for an unambiguous identification of trade items for the sharing of information. With these building blocks and other appropriate enabling technologies in place, efficient and error-proof data communication can be achieved.

#### **3. Business Process Improvement**

The major savings of supply chain lie in operational efficiency and the elimination of inefficient and non-value-added business processes. Therefore, aside from re-engineering IT infrastructures, enterprises must conduct an internal audit of their working structures and business processes.

In contrast to traditional business relations where trading partner's contact is confined to the sales and purchasing department, modern e-SCM encourages direct communication between functional counterparts of trading partners for closer collaboration. This multi-facets interface model usually involves the re-design of organisational structure and formalisation of business processes for the introduction of SCM best in class practices.

#### **4. Business Collaboration**

The power of SCM can never be felt thoroughly without addressing the issue of engagement with trading partners. Collaboration between trading partners under modern SCM generally takes place in joint planning, forecasting, product development and product replenishment. All of these areas deal with the reduction in interface-linked cost and increasing flexibility in handling customer's demand.