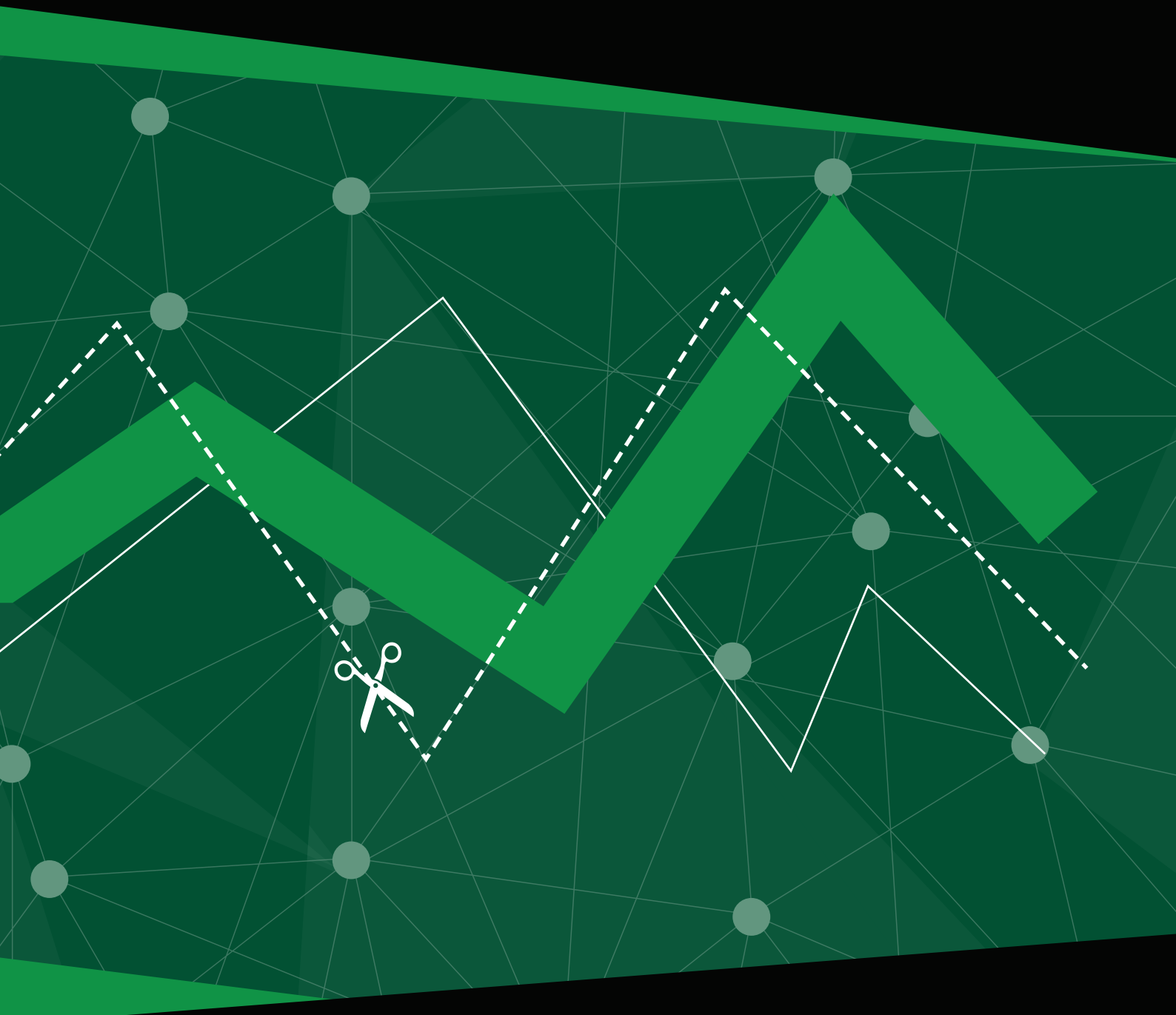


VISAGIO



Fast Response:
Winning Through Reduced
Order Cycle Times

Fast Response: Winning Through Reduced Order Cycle Times

BY LEONARDO UEHARA & MIRIANA BOSCARDIN

THE WELL-OILED MACHINE

Today, customers expect companies to provide fast fulfilment of orders, and this puts greater emphasis on reducing order cycle times from weeks to days, from days to hours. Get it right and customer satisfaction increases, with a matched reduction in working capital.

To achieve that reduction in order cycle time, the best companies integrate processes, people and technology, with each component fully coordinated and the whole system running like a well-oiled machine. Many aspire to this state but most struggle to achieve better harmony in their key activities within their supply chain.

A COMMON SITUATION

Nowadays, next day or 48 hour delivery is expected of many in the retail and, increasingly, wholesale industries as a standard. Those companies that manage to achieve those delivery promises consistently have a competitive edge in the eyes of the customer.

Whether you are a manufacturer, a wholesaler, a distributor or a retailer, compressing the time to respond to orders is a major key differentiator to achieve success. The objective is to increase the velocity of information and products through the system, creating a competitive edge through faster delivery. The benefits of this are expressed as increased customer engagement and reduced working capital.

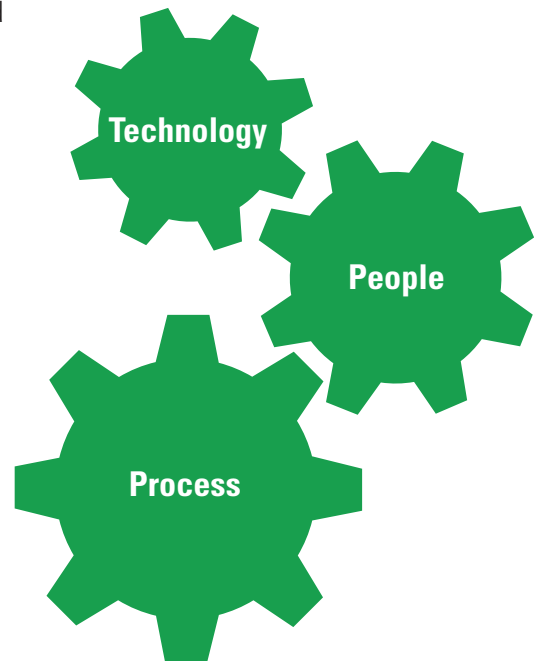
The speed of processing orders has long been considered to be one of the core competencies of supply chain — and business — success. There are numerous important cycle time metrics and one of the most important is the order-to-ship cycle time (O2SCT), the time taken from the receipt of order through to shipment to the customer.

BARRIERS TO SUCCESS

Achieving a reduced cycle time has become tougher than ever, and all too often, companies face similar hurdles.

Inaccurate, incomplete or misleading data

In order to understand how good order cycle time is, it is necessary to have a good measurement of current processing times, identifying what steps or stages are slower than they could be. However, the poor quality of master data and transaction records often makes data on processing time and bottlenecks incomplete and unreliable. On top of that, lax and inefficient procurement processes lead to failure to track information, with duplication and omissions in order processing. The result of this is that bad master data management frequently drags processing time.



Cleansing existing data, ensuring that the actions and the time taken to execute them are tracked, and using that data to paint the picture of the true O2SCT process is the first step to identifying where areas for improvement lie.

Lack of integration between key functional departments

Having well integrated functional departments is a common feature of the leading companies.

Typically, the main departments involved in the order cycle are:

- Sourcing and Procurement
- Finance
- Sales and Operations
- Inventory Management

All too often, though, sharing of data and information between the key internal departments is a problem, stemming from the inefficient processes or systems in use. Compounding that, key individuals' limited understanding of the forces at play in each of the functions results in delays. When the client is operating in a mature market, or across neighbouring countries with varying languages, these departments will have different approaches, and objectives.

Clarifying those processes and individuals' roles and responsibilities in executing those ensures all know their and their colleague's part in the order cycle chain. Improving the direct and indirect communication between these players is one of the main areas of opportunity, helping to align and streamline different agendas and performance objectives.

Vendor issues

The best firms make efficient use of a streamlined set of suppliers, keeping the number of suppliers to the minimum necessary to mitigate supplier risk, and ensuring alignment of product data and pricing. However, many companies find themselves using multiple suppliers for sourcing the same products, often with different pricing, lead times and support levels. This diversity of supply results in slowness in the time to source and procure key elements of O2SCT.

Companies should ensure a strategic approach to sourcing, understanding their supply base and the terms of contracts with each supplier. With this knowledge, sourcing can then look to refine the supply base, reducing it to the right levels and with the right terms to ensure speed in executing procurement.

Inventory inefficiencies

While it would be all too easy to maintain high levels of stock, thereby ensuring that products and parts are always available, leading companies go beyond managing inventory to optimising it, releasing working capital and improving EBITDA.

While inventory optimisation is not a new approach, achieving it often proves very difficult: erratic and unplanned demand, cluttered and conflicting data, overstocking, stock-outs and obsolescence all conspire to fail the realisation of optimisation goals. The impacts of this failure can be in the form of stock-outs, arising from poor inventory management and lack of demand forecasting, or overstocking, due to outdated processes, bad data, and holding safety stock. Many other-wise efficient companies do not have a formal replenishment system in place, and ad hoc purchasing merely exacerbates the situation.

Beginning with collating and cleaning inventory data, these inventory inefficiencies can then be analysed, with minimum and maximum levels set, and inventory systems linked to procurement to accelerate the order fulfilment process.

TACKLING THE ISSUES

The exact, underlying problems affecting O2SCT become evident when looking critically at the full order management process, from order entry to final shipping, and examining each component individually and sequentially. Mapping each sub-process in detail can uncover areas of inefficiency, which can then be addressed individually.

As with all business process redesign, when making changes to processes and systems, it is important to take into account the voice of the employees, listening to their suggestions, communicating these to management, and identifying and allaying their concerns about change.

Case Study



Image from <http://www.seru.de/>

The Dach region

Visagio was engaged by a major IT equipment company to help reduce its O2SCT. The client is based in the USA, and sells personal computers, consumer electronics and industrial products and components through multiple distributors.

The client’s EMEA Technology Group services customers through multi-channel selling platforms and the business sells thousands of branded IT and related category products from the major manufacturers in the industry.

Our client found that, in Germany, Austria and Switzerland (DACH) region, it needed to support sales growth by reducing long and variable lead times, contributing to a reversal in diminishing turnover. Faced with difficult economics and a competitive industry, the client recognised a need to reduce working capital and transform the speed of inventory replenishment. Internal analyses also found that collaboration between sales and operations staff was highly unstructured.

THE CHALLENGE

Initially, it was found that:

1. In the DACH Region, the client operated in a complex environment, with over 2,000 active SKUs and 35,000 B2B delivery addresses across several countries.
2. Orders were received in multiple ways: via on-line customer entry, incoming telephone call or manual input from customer sales departments.
3. Over 35% of orders were shipped from their warehouse, a facility run and managed by an outsourced service provider. A large percentage of the orders were drop-shipped to customers directly from vendors, and the balance of the orders required some additional value-add service from the shipper resulting long lead times.
4. Relationships between sales, operations and warehouse manage-

The Problem

Unsatisfactory lead-time performance (long and highly variable lead-times)
Significant turnover loss in the past year
~2000 active SKUs
More than 35,000 clients' delivery addresses

The Objective

Support Sales growth by reducing lead-time

The Solution



The client's main objective was to reduce order-to-ship cycle time to support sales growth

ment were not ideal and suffered from lack of collaboration and poor data.

5. Orders passed through a credit verification process and were subject to client management approval before release.

6. There was no formal replenishment system, some items were overstocked, and stock-outs were regular due to poor planning.

ACCELERATING THE ORDER CYCLE TIME

Over 10 weeks, the Visagio team, working alongside the client's own teams, concentrated on six main work streams:

- Documenting the 12 Order-to-Ship sub-processes, beginning with the moment that orders are received to the time that the order is shipped. This enabled the identification of bottlenecks and system inefficiencies.

- Designing and implementing an automated system of product replenishment with minimum and maximum stock levels, using historical data as a guide, fed into a demand-forecasting model.

- Developing an analytical framework that helped the client to define which SKUs need to be delivered via stock-orders, drop-ship and cross-dock based on margins, volumes, and order variability.

- Transforming collaboration between Sales and Operations Planning (S&OP) by setting up an integrated and robust S&OP desk to push sales of over-stocked items, to purchase items with low coverage, and to eliminate wasted days in the order-to-ship process.

- Streamlining vendor management by consolidating purchases, enabling a reduction in the number of

vendors. Performance measures then monitored and improved vendor on-time delivery. With drop-shipments becoming a more attractive option, their operations required a better integration of data and information systems, as well as transparency of order status and other supply chain data across vendors' systems.

- Establishing and running a Project Management Office (PMO) approach to manage the overall transformation project and many of the uncoordinated sub-projects that were taking place in parallel, often with little coordination.

SUSTAINABLE RESULTS

Service level before the beginning of the project: 68%

Forecast service level, according to the Visagio tool: 93%

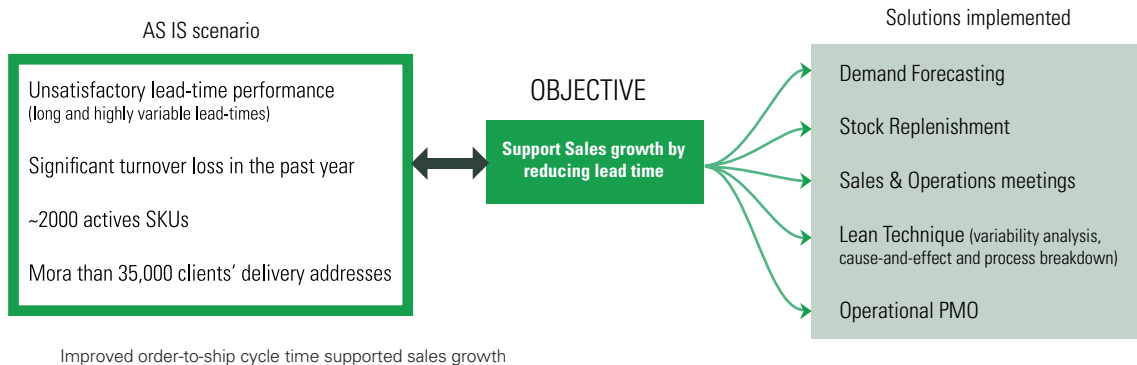
Improved order-to-ship cycle time while reducing stock levels

At the end of the 10-week project, customer satisfaction was tangibly increased, enabled by the faster delivery of ordered products: lead times were reduced by over 50%, from

an average of 6.1 days to an average of 3 days over three consecutive quarters. Moreover:

- The number of orders with O2SCTs over 7 days was reduced from 14.6% of the total to 10% in one quarter alone.
- Over one quarter, the lead-time average reduced from 4.1 days to 2.6 days while the lead time to delivery 90% of orders decreased from 10.5 days to 6.6 days.
- Variability across vendors was reduced, contributing to lower lead times. In tandem, decision-making was refocused to identifying situations where drop-shipments are appropriate, rather than taking products into stock.
- The S&OP desk continuously optimised local operations, supporting other European and regional operations with the lessons learnt from the DACH region.
- Over 30 people were trained in the new stock replenishment process, ensuring continued and sustainable understanding and execution of the new processes.

SOLUTIONS IMPLEMENTED



IDENTIFYING OPPORTUNITIES

By using Visagio's approach to reduce Order-to-Ship Cycle Time, clients can:

- Interrogate their order-to-ship process to identify bottlenecks and inefficiencies. Using a simple analytical mapping tool, Visagio then creates the optimum, achievable scenario, without the need for staff to have any technical knowledge.
- Manage vendors through relevant and informative KPIs. The approach allows for the identification of key vendors, facilitating the development of structured and strategic relationships with them.
- Implement a Sales and Operations platform, aligning S&OP staff and their expectations through collaboration,

and developing a rapport between them to then arrive at an agreed, practical, workable and sustainable solution.

- Use forecasting tool and history data to define stock replenishment levels in a meaningful manner based on evidence.
- Design the supply chain to identify which SKUs should be delivered via stock-orders, drop-ship and cross-dock to optimise your working capital while improving customers' satisfaction.

How confident are you that you have optimised your lead times?

VISAGIO is an independent, global consultancy that helps organisations realise their operational ambitions through practical, focussed and sustainable implementation. We provide advisory and management solutions, primarily in the areas of supply chain management, business process transformation, people & performance, and shared services.

Our experienced and well-qualified team brings the best methodologies, tools and services to bear, to solve our clients' most complex operational challenges, with tangible and long lasting results.

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