



L.I.T. Toolkit

By Merrill Douglas

**SUPPLIER
RELATIONSHIP
MANAGEMENT
SOLUTION
PROMISES
CLOSER, MORE
PROFITABLE
TIES WITH
VENDORS**

Supply Side Suite

What's good for your customers might be good for your vendors as well.

Using customer relationship management (CRM) software, companies capture data from business transactions and mine it for insights to help them please customers and gain greater profits. They should do the same with suppliers, says Jeff Herrmann, CEO of SupplyWorks, Bedford, Mass.

Herrmann's company looked to CRM as a model when it developed its procurement management system, SupplyWorks MAX. "We saw the relationship with the suppliers having the same kinds of characteristics," he says. Business-to-business (B2B) technology should not simply automate transactions. "It's really about managing the relationship from soup to nuts."

SupplyWorks is not the only software developer to call its product a supplier relationship management (SRM) solution. But the company says its "soup to nuts" approach differentiates it from other players. SupplyWorks MAX addresses three major aspects of B2B commerce: it streamlines day-to-day purchasing, it allows buyers and vendors to collaborate on supply chain planning, and it helps companies make strategic decisions about their supplier networks.

SupplyWorks manages the purchase of direct materials by discrete manufacturers — companies that make individual items, such as modems, shirts, or pickup trucks, rather than bulk commodities that might include wood pulp or paint. Customers using the web-based software include BorgWarner MorseTEC, High Voltage Engineering Corp., Plasti-Line, and The 21st Supplier, a division of Ingersoll-Rand (IR).

Wiping Out Evil

The procurement execution features of SupplyWorks MAX aim to eliminate manual processes. If purchasing staff no longer need to fill out purchase orders, transcribe data from faxes, or work the phones, theoretically they can spend time negotiating with more of their vendors on pricing and service. "In most organizations today, they're so busy fire fighting on a day-to-day basis, doing all these clerical activities, that they don't have significant time to negotiate the best deal," Herrmann says.

"I'm a big advocate of eliminating purchase orders. I think they're evil," says Bill Lindquist, business unit leader at The 21st Supplier in Torrington, Conn., which will use SupplyWorks MAX to manage supplier

relationships for other IR divisions and for external customers.

SupplyWorks MAX cuts out many routine procedures by supporting automated inventory replenishment. Rather than generating a purchase order each time a manufacturer needs new materials, the buyer negotiates a blanket contract. When data from legacy systems shows that inventory is low, SupplyWorks MAX signals the supplier to send more. If an expected shipment doesn't arrive, or something else goes awry, the system alerts the buyer. Instead of executing every purchase, the buyer merely supervises the automated process, Herrmann says.

Many SRM vendors accommodate automated replenishment, but SupplyWorks' alerts are valuable for making sure buyers keep on top of the process, Lindquist says. "You can't just flip a switch and expect this thing to run by itself," he observes.

Collaboration Counts

SupplyWorks' second level of functionality — collaborative planning — was a top priority for The 21st Supplier. Within IR, "every time we've been able to share planning data with suppliers, we've gotten improved performance," Lindquist says. "Being able to give suppliers any kind of view into our forecast planning or our history has given them a much better chance to do their own forecasts and capacity planning." That often yields lower prices, and "in every case it has resulted in better planning and better inventory management," he says.

So when The 21st Supplier started shopping for an SRM system, its criteria included support for true collaboration. It didn't want "just a next-generation EDI [electronic data interchange]," Lindquist says. The company wanted software that "allowed the two parties to talk to each other and actually do planning over the Internet."

In planning mode, SupplyWorks MAX uses data drawn from a manufacturing resource planning (MRP) or enterprise resource planning (ERP) sys-

tem to generate a requirements plan. The purchaser shares the plan, entirely or in part, with a supplier through the web interface. Using real-time messaging, e-mails, or the phone, the buyer and seller can suggest changes to the plan until they reach an agreement on shipments to satisfy the buyer's needs. Then, with one mouse click, they lock in that agreement, Herrmann says.

The system records the deal, providing an audit trail. "You know your order has been generated, the supplier has committed to it. You can automate the receipt of the advanced shipping notice from the supplier, saying

The Long-range View

The long-range planning function in SupplyWorks MAX includes the ability to generate reports that help buyers evaluate vendor performance over time, so they can make better strategic sourcing decisions. "Any data that gets into the system can be put into a report format," Lindquist says.

Historically, vendor analysis and sourcing decisions have been "incredibly fragmented," Herrmann points out. Procurement professionals must gather data, stored in different formats, from multiple sources, such as ERP systems, proprietary systems,

SupplyWorks' Three Functional Levels



SupplyWorks' "soup to nuts" approach to supplier relationship management ensures greater collaboration among supply chain partners on down the line.

the supplier has shipped, then actually track the shipment before it shows up," says Herrmann.

Without this kind of collaboration, buyers simply expect vendors to deliver on demand, Herrmann says. For safety's sake, suppliers maintain extra inventory, and that drives up prices. "If the supplier has more visibility into the buyer's requirements and changes in those requirements, it makes it easier for the supplier to manage its business more efficiently, which translates into lower costs," he says.

spreadsheets, and fax pages. At the end of a quarter or a year, "somebody digs and tries to pull up some data and throw it in a spreadsheet, so they can do some analysis," Herrmann continues. "It's not there in real time, it's not there uniformly," and often the company has collected such data only for its largest vendors, he says.

Soon, SupplyWorks will also offer links from its system to web-based bidding sites, reverse auctions, and catalogs, to help buyers explore a wide range of potential suppliers. At

The 21st Supplier, Lindquist looks forward to an upcoming "buyer's aid" that will offer links to information on pricing and supply. Buyers will use this information to prepare for negotiations.

"Before the calls come in from suppliers, buyers get a report on the commodity so they know what the market's doing," he says. "They are ready for those calls when they come in, and can be proactive, instead of reactive, about the management."

Debut at Hussmann

The 21st Supplier is currently implementing SupplyWorks for its first client, IR's Bridgeton, Mo.-based Hussmann division, a major manufacturer of industrial and commercial refrigeration systems. In April, the company expects to start using SupplyWorks MAX at a 1.6-million-square-foot Hussmann manufacturing plant.

The 21st Supplier plans to take on the management of smaller suppliers for Fortune 1000 companies. It was

founded on the notion that a firm should try to concentrate 80 percent of its purchasing dollars with as few as 20 vendors. In such a company, the IR division proposes to serve as Supplier Number 21. The client will no longer deal with the myriad smaller vendors that receive the last 20 percent of its purchasing budget — still a significant sum in a large firm.

Eight of Hussmann's vendors will participate in the system when it first goes live, Lindquist says. That number will increase to 40 within 60 days. Because The 21st Supplier will handle transportation for the purchases it manages, its implementation of SupplyWorks MAX includes a link to its logistics partner, the Worldwide Logistics Solutions division of Roberson Transportation in Champaign, Ill.

"Suppliers will be able to see what's going on in terms of getting their product ready for shipment," Lindquist says. "Our 3PL can communicate with them using the

SupplyWorks site, then set up the shipments." SupplyWorks MAX will also provide a window into the 3PLs shipment tracking system.

Suppliers participate in relationships with buyers through SupplyWorks MAX in three ways. For vendors with little technical savvy, the system can automatically send product orders via fax. Suppliers connected to the web can access the system with a password, using a browser. The third level of participation is direct integration between SupplyWorks MAX and the supplier's ERP system.

The buying organization can host the web-based system itself or allow SupplyWorks to host the software on its behalf, as the 21st Supplier is doing. Either way, "we license it as a piece of software with an ROI [return on investment]" rather than charging per-transaction or monthly subscription fees, Herrmann says. "Our general model is that the customer should be able to receive three times their up-front investment in the first 12 months." ■