SCM requires a good organisational structure and IT "tools", but cannot exclude strategic processes, purchase- and cooperation strategies, warehouse framework, warehouse tasks and functions, inter-enterprise coordination and human contribution. Here we see SCM from a logistics perspective that is really an organisational challenge.

The SCM and Logistics Challenge

SCM organisational challenge in retail industry.

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«…here we see SCM from a logistics perspective…»

SCM organisational challenge in retail industry
(more than just a system!)

Introduction

"Supply Chain Management" (SCM) is a concept that is constantly expanding in the corporate life. Even if we deal with different business segments (i.d. chemical companies as opposed to machine tools industries, retail vs. oil, etc…), there are always common features. These common features bring us to study and treat SCM as "one" place, where retail companies, suppliers, logistics providers and customer meet each other.

Therefore, SCM is more than just an IT system or a «good» logistics provider: SCM requires an effective organisational structure and IT "tools", but cannot exclude strategic processes, purchase- and cooperation strategies, warehouse framework, warehouse tasks and functions, inter-enterprise coordination and human contribution. Here we see SCM from a logistics perspective that is really an organisational challenge.

Goals and requirements assessment (mission)

Logistics structure is Amazons (*US on-line book trader*) strong point: the system works fine because Wilmington logistics centre in Delaware delivers the right goods on time. Their CRM tool is perhaps "user friendly, but it is not the main reason for Amazons popularity. "I order and get my stuff on time", says the customer: that's the main reason. Consequently, an effective logistics is needed to deliver what the customer wants ASAP. Meanwhile, we need to properly assess our goals and detailed requirements (our mission) in order to develop a logistics system that "works". We do not have a project without a mission. That could be a problem in the retail industry. Retail organisations are getting bigger and bigger due to globalisation challenges and often logistics is outsourced to specialised logistics providers such as CEVA Logistics, Deutsche Post or Christian Salvesen.

Here we find a structure where:

- Customer places an order to the retail company
- Retail company outsources warehouse and shipping procedures to a logistics provider
- Logistics provider manages warehouse stocks and ships goods to customer.

The customer wants to get the goods immediately, the retail company wants to sell more and more, while the logistics provider needs to answer the "*how many*" question to properly manage warehouse and shipment. What is for the retail company a "customer satisfaction" problem, becomes for the logistics provider a "dimensional" problem:

- "How many product lines on a daily basis?"
- "How many on a weekly basis?"
- "Can we figure out average figures?"

With no exceptions there is only one answer to this "how many" question: goals and requirements assessment (mission)!

SCM - risks

There are many risks which may stem from a wrong goals assessment. We could describe them as follows:

- *Financial risks*: too much money invested in the logistics start-up, too many goods in the warehouse, too high restructuring costs to correct project errors (*again goals assessment*!) and too many compensations to be paid for goods that were not delivered on time
- *Chaos risks:* a mix of overreacting, unnecessary reactions and wrong information can damage the whole SCM system
- *Decisional risks*: we cannot decide without proper information. That would trigger errors and increasingly damage the logistics operational structure
- *Market risks*: the customer would not be happy of a logistics that does not work. The customer would just say: "…something wrong with them, I did not get the goods I was waiting for…I'm not going to buy from them anymore…». Therefore, the retail company may lose a market.

There is only a way to reduce risks: right assessment of logistics requirements (order cycles, delivery data, material physical features, warehouse stock management / planning, etc…), good implementation plan, proper evaluation of human resources, good IT system design and effective transport organisation.

Situation assessment

How should we react to a SCM crisis situation? The question is important: overreacting brings failure. Companies who have logistics problems (i.d. customers do not get goods on time or get the wrong goods) will always ask to the logistics provider "why did you miss it?". Retail companies and logistics providers should avoid "myopic fixes". Some examples are shown in the table below:

Example: SCM problem	Myopic fixes	Possible unexpected consequence
Order backlog: goods are not getting delivered on time.	Upgrade priorities of critical orders for important clients.	Production and delivery damage: delay of other orders that will create other critical situations.
High material costs (i.d. packaging).	Purchase of cheaper packaging materials while goods are not packed anymore with PE-film.	Good damages increase. That causes further dissatisfaction, more complaints and complaint reconciliation costs.
Low quality of incoming goods.	More goods (buffering)	More complex warehouse management: goods becomes old and warehouse costs increases.

The situation must be evaluated: inaccurate feelings would not help. Overreacting would push us into a even more difficult situation, just like a MD once said: "I thought I was right, but now costs are skyrocketing…". We need Supply Chain Performance Management instead.

Supply Chain Performance Management (SCPM)

We should:
- Evaluate a set of systems (which also means a group of logistics providers), as soon as goals and requirements are set up and a solution is to be chosen
- Monitor the SCM system we have implemented and control system performances.

If we bump into problems, we should evaluate the situation and the potential solutions. A couple of examples:

- Warehouse procedures to update incoming stocks are too slow: is the warehouse layout not dimensioned to incoming goods flow or is there something wrong with the purchasing strategy? Can we transform purchasing into a tool to bring strategic and logistics advantages and in the same time solve a layout dimensional problem? These are all important questions: we need investments to solve the problem. Therefore, we cannot afford to invest on a wrong track
- A retail company complains about delivery figures (product lines per day) reported by the logistics provider. They say: "our objective was 8,000 product lines per day: you have just done 5,000 up till now." Which are the real average figures?

Date	Customer No.	Customer Descr.	Goods type	Code	Item Descr.	QTY	Price
15/04/2013	114984	K. Bever A.S.	Computer	CDR178700W2004	CD-R 700MB	10	£0.20

Example of a product line

How many lines can be really be delivered daily, given the existing stock? How many of these lines are being sent to the logistics provider as "lines to be delivered"? What does the requirement documents say: 8,000 lines on average or 8,000 lines per day? How you would probably see in the table below, there is in reality no big difference between the 2 average figures.

Day	Lines sent to be delivered	Delivered lines
Monday	11,000	7,500
Tuesday	9,000	9,800
Wednesday	8,600	9,800
Thursday	6,500	7,900
Friday	5,000	5,000
Average	**8,020**	**8,000**
Total	40,100	40,000

We can well understand why the retail company executives complain: they think that the logistics provider can make 8,000 per day, but the logistics provider thinks in terms of average figures. He needs to do that in order not to have a surplus of resources each day for the purpose of doing 8,000 lines per day. The provider delivered only 68% on Monday, but succeeded in recuperating the backlog in the coming days: 109% on Tuesday, 114% on Wednesday and 122% on Thursday. So, the difference between planned product lines and actually delivered lines is not bad. They did deliver 8,000 lines on average. In the following example, we see a peak on Thursday (6,080 lines send to the logistics provider).
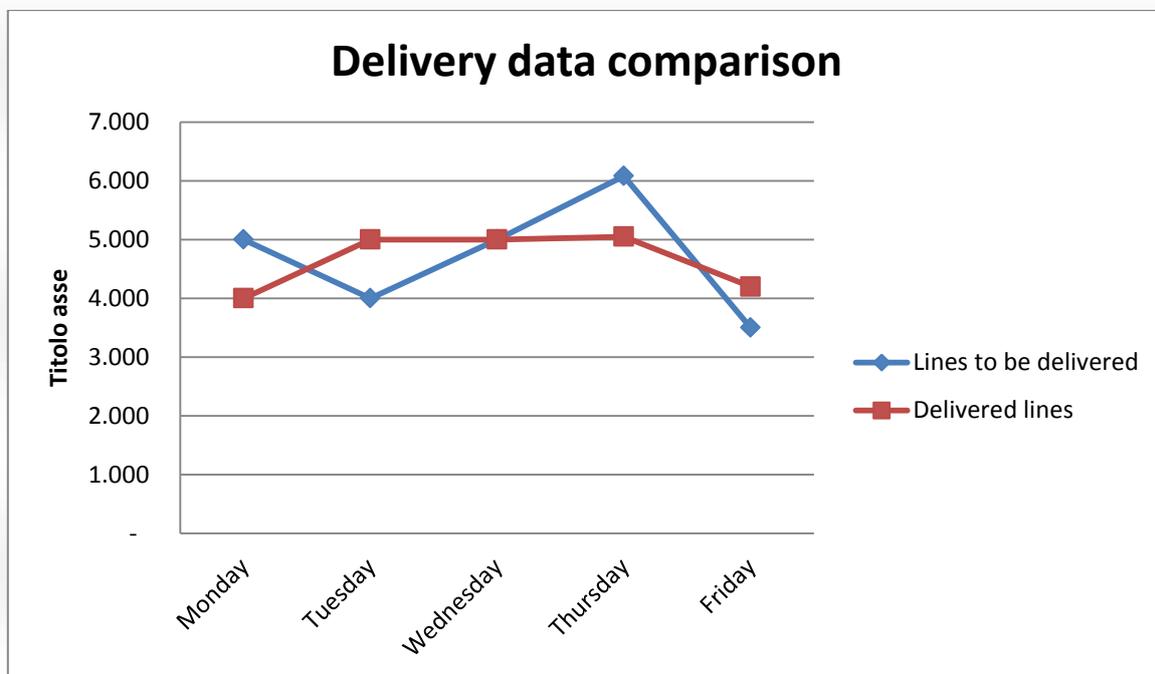
Delivery data comparison

The retail company sees things under the following perspective:

Day	Lines to be delivered	Delivered lines	Difference
Thursday	6,080	5,050	83%

It looks like: "**They did just 83% on Thursday**". In reality, results were not so bad.

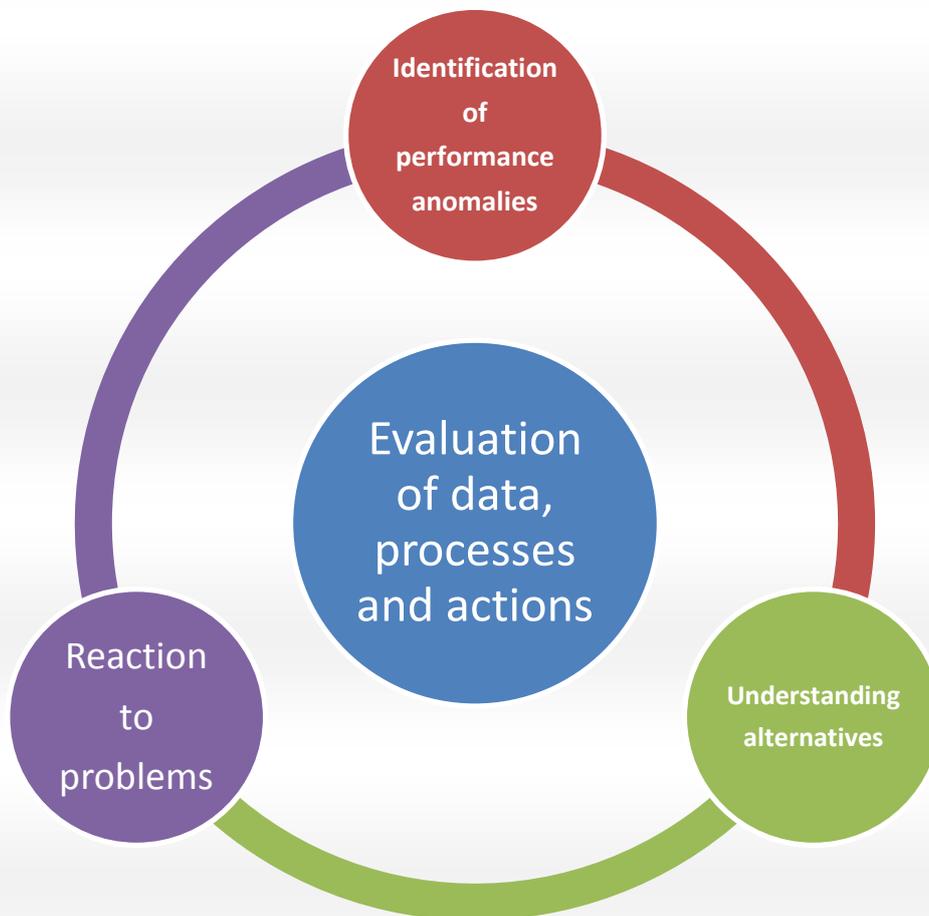| Day	Lines to be delivered	Delivered lines	Difference
Monday	5,000	4,000	80%
Tuesday	4,000	5,000	125%
Wednesday	5,000	5,000	100%
Thursday	6,080	5,050	83%
Friday	3,500	4,200	120%
Average	**4,716**	**4,650**	99%
Total	23,580	23,250	

Just 1% lower on average (that can be also optimised), but trend lines would probably cross each other. Never overreact (you can also see that only 3,500 lines were sent to be delivered on Friday), always analyse.

Conclusions:
There are questions that need to be answered in the requirement assessment phase. Consultants should extensively analyse existing links among organisation, strategy, leadership and inter-enterprise relationships: we can here identify both internal and external added-value processes that we can manage. Meanwhile, we can monitor the system and we have to check performances as soon as the system has been made fully operational. Consequently, we would have the following areas of evaluation:

- Human contribution
- Corporate processes
- Logistics system.

They have to work together and we need a SCPM to do that.