



Centre of Excellence  
For  
Supply Chain Management



## Centre of Excellence | Newsletter

### Scion: Thought Leadership in Supply Chain Management August 2011

*“Excellence is what we repeatedly do. It is not an act, but a habit”- Aristotle*



#### **Editorial Note:**

We are delighted to connect with you through our Newsletters periodically to encourage a healthy knowledge sharing channel and keep you informed of Thought Leadership programs, Management Development programs and other events. The newsletter for this quarter covers Inventory Planning and Optimization. With the rising complexity of supply chains, inventory control has turned out to be decisive to supply chain excellence.

Today's tough competition, demand unpredictability, short product life cycles, and increased outsourcing, create more challenges to manage inventory and make a choice where exactly to hold how much inventory. Too much inventory results in huge cost and on the other hand inventory which is inadequately placed can result in poor service level. Most of the firms facing inventory control problems because they fail to have proper inventory policies. Inventory Optimization policy is having the right amount of inventory, in right place, to meet customer service and revenue objectives in right time. While formulating the right Inventory Optimization strategy the company must take into account the supply, demand, and its variability across entire supply chain.

Successfully managing inventories requires appropriate practice, people and technology. It means integrated management of the supply chain right from the original suppliers' till final customer. The right approach to inventory management can produce outstanding results in achieving supply chain excellence, no matter how complex the network is.

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**Thought Leadership Session on Logistics&Supply Chain Management -Challenges & Opportunities in UAE**

TAKE Solutions Ltd and LIBA Centre of Excellence in Logistics and SCM organized a Thought Leadership session on “An Overview of Logistics & Supply Chain Management in UAE” on 1<sup>st</sup> August 2011 at LIBA, Loyola College, Chennai.

Mr. P. J. Mathews, Chartered Member of Logistics & Transport International, Professional Development Advisor, CILT, UAE was the chief guest and speaker of the session. The event was an opportunity to understand the attractive emerging markets for logistics Companies in Middle East countries like Saudi Arabia, United Arab Emirates (UAE), Oman, and Qatar.

Distinguished leaders from the field of Supply Chain, Transportation and Distribution Channel Management facilitated the Thought Leadership session and it was well attended and very well received by students, faculties and corporate community.

## Event Highlights'



**Prof.M. Ramasubramaniam** welcomed the gathering of about 77 people from logistics and supply chain management domain working in and around Chennai. Prof. Ramasubramaniam spoke about the relevance of the session and how UAE's policies tend to focus on diversification strategies and steer the economy away from oil to other economic activities.



**Mr.Venky Sivaraman**, Executive Vice President – SCM, TAKE Solutions Ltd spoke on the importance of Supply chain management (SCM). Mr.Venky Sivaraman mentioned that poor compliance and control, inability to deliver quality customer service, inefficient demand planning pose challenges to the supply chain network. He highlighted the role of IT in managing such challenges. He also spoke on the major trends driving innovation in SCM.



**Mr. P. J Mathews** threw some light on the history of the magnificent infrastructure, created by Sheikh Al Makthoum and his forefathers. He stressed on the strategic initiatives adopted in Dubai by means of consolidation and multi-modal transportation especially the Sea-Air logistics which is by far considered to be the best in the world. Mr. Mathew also spoke that India had immense power to create an equally competent logistics hub.



Followed by the open house discussion, **Mr.G.Ramesh** Vice President, TAKE Solutions Ltd enlightened the audience by sharing his experience. He spoke on logistics challenges and its significance.



**Dr.N.Chandrasekaran**, VP Corporate Affairs, TAKE Solutions Ltd., thanked the speakers and audience for their time and attention. Dr.N.Chandrasekaran highlighted the Centre's activities in providing weekend education to professionals, research and consulting. He mentioned that "Supply chain management is moving beyond traditional functionality to strategic perspective. The growth for the supply chain professionals is enormous compared to other professions as it plays a key influential role in managing business. As top management positions are increasing for this function, students and corporate community must increase their domain knowledge in tune with the trend in management education and other professional certifications like CPIM and CSCP which are offered by American Production and Inventory Control Society. As only very few people across globe possess this certification, the future scope for this certification is vast and gives competitive edge to individuals".

## **Inventory in Reverse supply chain**

Reverse supply chain play an important role in collection and transportation of used products so that significant value can be recovered through reprocessing and remanufacturing. Kodak adopts reverse supply chain to collect used single use cameras from the labs and again they are remanufactured as new products for the market. These products can be categorized as innovative products with shorter product lifecycle. In order to recover the highest value from remanufactured products, the collection rates, return timings, and reusability rates should be matched with the active market demand and supply. The active demand period is the time in which the current product is in larger demand and returned products can be used to remanufacture new products and market them in that period. The timing and quantity of returns determines the cost of remanufacturing, inventory cost and transportation costs. This means the time value of returns decrease when it spends more in the supply chain.

Used products inventory exists at different nodes in reverse supply chain. It spend sometime with collection center as well as with customer before returned to concerned next stage in the supply chain. The time it spends in these places have lot of impact on speed of reverse logistics system and remanufacturing efficiency. For innovative products, it is not always easy to predict the volume of returns and its availability so that one can plan remanufacturing with less uncertainty. Forecasting returns is a major challenge in this type of industries. It is always better to have a flexible faster supply chain to collect innovative product returns so that maximum value can recovered. It is advisable to hold minimum inventory at each node and return products then and there to the next stage for innovative products.

In paper recycling industry, the situation is different. The waste paper collection system is totally unorganized one and Paper mills which recycle waste papers normally maintain large inventory so that production planning and operation are smooth. It is a commodity product and it can be categorized as functional product. The time value of returned products is not deteriorating as much as some innovative products like mobile phones and the holding of inventory does not cost much. The reverse supply chain for paper recycling industry is highly fragmented and at each stage there is huge amount of inventory maintained. The active demand period for recycled or remanufactured products is always exists and hence less uncertainty. It is advisable to have efficient reverse network with enough inventory for these kinds of products.

-Prof.P.CHANDIRAN, LIBA

## **Health care inventory management**

Gone are the days when hospital executives viewed supply chain management as purely a back office cost center. Not only is the supply chain a target for significant cost reduction, but improvements in supply chain performance also are a central strategy for overall hospital sustainability. Hospitals maintain an inventory of tens of thousands of supplies—from bandages and syringes to drugs, surgical instruments and medical devices. The average hospital carries 6,000 to 8,000 stock keeping units (SKUs) of in-house inventory at any one time, but it may “own” as many as 35,000 SKUs end to end. Supply chain costs consume as much as 40 percent of total operating budget, the second-largest expense for hospitals after labor. There are many advantages of a well managed inventory control system in a healthcare organization, even small improvements in inventory reduction leads to huge savings.

## **Five Ways to Optimize 3PL Relationship**

All relationships have their challenges, and those between logistics outsourcers of logistics functions/activities and their contracted 3PLs are no exception. 3PL relationships characterized by transparency, accessibility and continuous productive communication deliver consistently superior levels of service, accelerated payback and heightened customer satisfaction. Not surprisingly, there’s no magic formula for creating and sustaining a successful relationship between a shipper (manufacturer, retailer, distributor) and 3PL. However, effective partnerships that meet and exceed expectations generally incorporate five key elements.

1. Fit. The partners must be well-matched. Shippers should select a 3PL with deep and extensively demonstrated vertical domain expertise, capable of growing with the company and skilled at introducing best practices based on vertical-specific key performance indicators (KPIs) to manage the relationship well. As part of its commitment to optimizing performance over the long run, the 3PL should also utilize a continuous improvement approach such as Lean Six Sigma. Outsourcers and 3PLs must mutually define manageable goals and build solidly from that common shared foundation. A 3PL partner that focuses on understanding what’s expected and doing it well – avoiding the pitfalls of over-commitment and associated under-performance – prudently establishes credibility with the development of a phased value identification, execution, realization and yield measurement approach.
2. Quarterly Business Reviews. Quarterly Business Reviews (QBRs) should be conducted on an established schedule to keep both the shipper and 3PL aligned on short-, medium- and long-term goals. The most effective QBRs are comprised of three components: reviewing the recent past, evaluating the present and preparing for the future. Measure how well the 3PL has performed against defined goals and identify any gaps that require immediate attention. Then, discuss KPIs and progress in addressing priorities or initiatives identified in the previous QBR. Finally, engage in frank, open-ended conversation about customer expectations as well as anticipated challenges and opportunities within their supply chain.

3. Control. The third element in an effective partnership is ensuring that the shipper retains ultimate control of their supply chain. Although the roles and responsibilities of each partner must be clearly defined and agreed to from day one, too much delegation can be a source of confusion and possible conflict that negatively affects the relationship and the 3PL's ability to achieve if not exceed the desired results. For instance, even if order management, transportation and fulfillment are highly segmented and outsourced, the customer needs to strategically coordinate the supply chain so that the 3PL can operate with maximum efficiency. A customer saddled with limited forecasting accuracy, vastly fluctuating demand and highly irregular processes can make any of these function's costs much more difficult to control in isolation.
4. Configuration. The fourth element in successful relationships is the 3PL's ability to support business rules for the outsourcer as part of the on-boarding and configuration processes, as well as being able to continuously refine them as the relationship evolves. A highly disciplined 3PL with a depth of talent and industry-centric knowledge is well-equipped to manage and adapt responsively to a full spectrum of situations from low-margin, cost-focused to high-margin, service performance-sensitive focused – and everything in between. In fact, in today's increasingly complex, multi-echelon global supply chain environments, it is more critical than ever for both partners to remain nimble and agile, willing and able to reengineer their configurations and operating processes/practices in rapid fashion.
5. Continuous Improvement. Finally, the fifth factor in a model partnership involves integrating Lean Six Sigma or another widely accepted continuous improvement approach as part of a multi-year commercial relationship. Although the particular flavor doesn't matter, continuous improvement itself is a non-negotiable competency for a leading 3PL partner. The 3PL must utilize a comprehensive diagnostic approach to analyze transactions and the processes around them, identifying outliers and inefficiencies which can be eliminated to reduce costs and improve service performance levels. Continuous improvement efforts consistently deliver win-win outcomes for both the 3PL and the outsourcer.

**Test your knowledge:**

The phenomenon of magnification of demand variability from the customer to the producer in the supply-chain is called-----?

## Original Sources:

1. An Exploratory Study on Reverse Supply Chain in Paper Recycling Industry-The ICFAI Journal of Supply Chain Management, Vol.1, No.3, June 2004, pp. 49-58
2. Lot Sizing *for* Optimal Collection *and Use of* Remanufacturable Returns over a Finite Life-Cycle- Atalay Atasu, Sila Cetinkaya. Production and Operations Management. Muncie: Winter 2006. Vol. 15, Iss. 4; pg. 473
3. <http://www.supplychainbrain.com/content/logisticstransportation/transportation-distribution/single-article-page/article/five-ways-to-optimize-your-3pl-relationship-and-your-results/>
4. <http://www.pwc.com/us/en/health-industries/assets/pdf/not-your-fathers-supply-chain.pdf>

## News&Events

### Professional Certification in Supply Chain Management:

The significance of supply chain management in global business has prompted the organizations to address the need for higher levels of skill and expertise. One of the best ways to expertise is to acquire a professional certification.

For more info: <http://www.apics.org/default.htm>  
<http://www.imrmi.com/>

### Efficient & Effective Warehouse Management workshop

- ❖ **Event Description:** This workshop will include warehouse space management, cost control, outsource & labour management, process & system automation, performance measurement and many more exciting topics that will elevate your warehouse productivity.
- ❖ **When:** 5-6 September 2011
- ❖ **Where:** Mumbai, India

For more info: <http://www.marcusevans.com/marcusevans-conferences-event-details>

### 5th Express, Logistics & Supply Chain Conclave

- ❖ **Event Description:** The 5th Express, Logistics & Supply Chain Conclave – will reveal how you can adapt your business to meet the requirements of the new economic era, drive renewed growth and gain market share. Learn how the world's most prominent LSPs & 3PLs are positioning themselves in a time of growth, change, and fierce competition.
- ❖ **When:** 21,22 September 2011
- ❖ **Where:** Mumbai, INDIA

## **9th International Railway Conference**

- ❖ **Event Description:** The Confederation of Indian Industry (CII), in association with the Ministry of Railways, Government of India, is organizing the International Railway Conference coinciding with the International Railway Exhibition.
- ❖ **When:** 28 September 2011
- ❖ **Where:** Pragati Maidan, Delhi

For more info: <http://www.ciionline.org/EventsDetails.aspx>

## **Inventory Optimization Summit**

- ❖ **Event Description:** This summit will focus on the solutions offered by innovative financial planning and business forecasting, Inventory Optimization, Budget.
- ❖ **When:** 1<sup>st</sup> October 2011
- ❖ **Where:** Dallas, TX, USA

For more info: <http://www.supplychainbrain.com/content/events-calendar/>

## **TAKE-LIBA Centre of Excellence:**

TAKE-LIBA COE is a coming together of the collective intelligence of Industry thought leaders, academicians, domain experts and technology partners to create a global knowledge pool on supply chain management. The COE is a platform to encourage dialogue enhances collaboration and enables people to share ideas, best practices in the SCM arena. Moreover the proposed Center of Excellence Labs will act as the fulcrum from which future innovations and ideas will emerge that will transform supply chain in to valuable networks

## **Reader Feedback**

We welcome your views on the articles in the Newsletter. Feel free to write to us [rammyaa.scmcoe@takesolutions.com](mailto:rammyaa.scmcoe@takesolutions.com)