

WHAT ARE THE **Top Supply Chain Issues** OF 2006?

Editor's note: New to Actionline is a department called "Executive Forum." Each issue, we will pose an industry question to a group of executives and print their responses. If you would like to suggest a question or volunteer to serve on the Executive Forum panel, please contact Carla Kalogeridis, editor in chief, Actionline, at reachcarla@comcast.net.



**TradeBeam's Duncan Jackson,
vice president of business development:**

I would put realizing expectations from outsourcing and working with global suppliers at the top of the list of challenges for 2006. While many people have strong and divided opinions about globalization and outsourcing products and services, everyone will agree that these modes of business are here to stay. Nearly 30 percent of the world's gross domestic product currently crosses borders, yet exporters and importers continue to struggle to coordinate old-fashioned, international freight, financial and regulatory processes.

Many may see the rationale for sourcing goods from far-flung locations with cheaper labor and costs, but few realize the intricacies and costs associated with such trading activities — a cost that often may negate the initial benefits of cheaper, nominal prices of imported items. Although many enterprises have made progress in improving aspects of their financial supply chains by implementing ERP or financial applications such as accounts receivable (AR), general ledger (GL), and accounts payable (AP), global trade requires a number of additional, crucial functions that are frequently

absent from domestic trade, including letters of credit (LC) management, global trade financing, country and party risk assessment, and transaction reconciliation (settlement), to name a few.

A second challenge will be the convergence of two parallel and interrelated supply chains involved in global trade: the physical and the financial. The management of the physical supply chain has evolved from an emphasis on individual logistics functions like transportation and tracking shipments through delivery to a unified approach. In doing so, corporations have realized benefits such as shorter time to market, reduced production costs and lower inventory costs. Solutions for managing financial data and services across the supply chain have been missing from enterprise processes to date.

Finally, managing the compliance requirements placed on international supply chain practices will be a big issue this year. All of the nearly 200 countries in the world have individual governmental requirements for importing and exporting goods, where one has to account for factors like tariffs and duties, country-to-country preferences, and anti-dumping laws, with the danger of incurring hidden costs at every step. If that is not complex enough, the events of Sept. 11, 2001, have increased the scrutiny countries place on global trade, which also impacts costs adversely. Stringent new documentation and homeland security requirements are placing serious legal and financial consequences on importers and exporters for violating these constantly changing trade regulations. The burden is on the importer/exporter to know exactly what the regulations are and how to comply with them.



**ArvinMeritor Light Vehicle Systems'
Deborah deBoer Henderson,
vice president of quality, engineering
and technology:**

First, the shift in component sourcing strategies to Asia-Pacific and Eastern Europe will require an intensive investment in supplier development. Suppliers in these regions are motivated and eager to perform, but their limited exposure and experience with automotive quality requirements and standards impact execution. With steep learning curves in front of us, we need to quickly develop the local, dedicated resources into a

capable supply chain that will help us to reduce the risks.

Second, as we strive for the right balance in satisfying our customers' high-quality expectations with shareholder and customer demands for cost control, we drive more change into the value stream. In 2006, we will continue to generate more change — and risk — as the economic pressures from steel and oil pricing and availability remain a major concern.

Lastly, communication across cultures in the supplier value stream will be another challenge. A simple statement may be interpreted one way by an American, and differently by an Indian, Chinese or Hungarian supplier. Intensive follow-up and improved management review will provide insight into communication disconnects.



**Proficiency, Inc.'s John Alpine,
chief technology officer:**

As the industry continues its global reach, the biggest challenge for U.S. manufacturers will be adjusting to cultural differences. For example, in the U.S. supply chain, more often than not, the cheapest wins. The Japanese have a more collaborative supply chain — who

the best possible supplier will be over time.

Granted, both the United States and Japan have their share of recall issues, but the problem here is much higher because we're selecting suppliers on price. Most recalls can be traced to a part from a supplier. It's not a far leap to link warranty issues to relationship problems with suppliers.

A U.S. manufacturer might say, "Here's how I want all my data and I don't care that you deal with three other OEMs — I want it my way." A Japanese manufacturer says just the opposite: "What's your current process environment that keeps you efficient?" On the other hand, suppliers have to be more upfront communicating costs of changing their processes to the OEM's environment. They need to say, "Yes, I can do it your way, but it's going to cost you." It's hard to say something like that in an environment where suppliers try

to make it invisible that they even have multiple OEM customers.

The U.S. manufacturers are beginning to recognize the value of their supply chains. The supply chain should be the first place they turn when looking for improvement — not lean manufacturing, Six Sigma or some other approach, just because those are easier to deal with. The tougher problem is to fix problems in the supply chain — few want to take that on.

A recently published document on supply chains by the Harvard Business School states that once a company has established a competitive advantage through its supply chain, it is nearly impossible to duplicate that. In other words, you can benchmark how a company actually makes its products, but you can't just decide that starting tomorrow, you'll have solid, effective supply-chain relationships because your competitor does. That just can't be easily duplicated.

AIAG can make an impact on these issues because it is a neutral organization with members from all over the globe — yet, it speaks with one voice. AIAG can speak the truth about interoperability; in fact, we've made headway on a problem that is costing the industry more than \$22 billion a year.

After collaboration issues, I'd put lean manufacturing and quality/warranty costs at the top of the list for 2006. ▶

