

Global Supply Visibility and Performance: A Key to Outsourcing Success

Key Finding

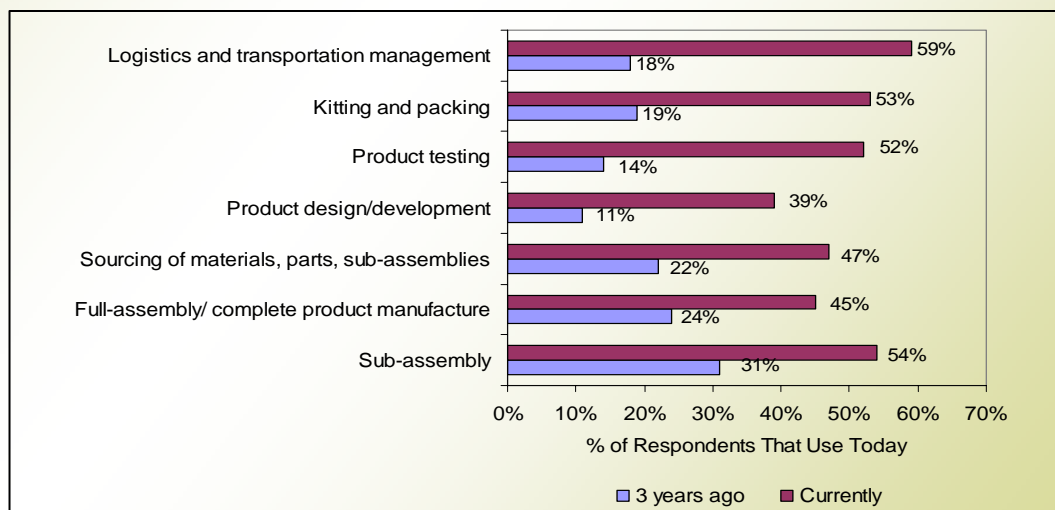
The extended supply chain has brought on the promise of reduced costs – both labor and cost of goods. In the extended supply chain, materials may be acquired from distant suppliers or entire products are acquired from distant suppliers. While the material cost advantages may seem clear, issues such as transportation costs and international taxes may cause unanticipated costs and erode or eliminate margins. In fact, **transportation charges** were cited by **67%** of the respondents of a recent Aberdeen survey, and **raw material costs** were cited by **39%** of the respondents.

Aberdeen's June 2006 *Global Supply Chain* benchmark revealed that Supply Chain Visibility, Supplier Collaboration and Supply Chain Costing are high-priority technology investments over the next two years to manage the challenges. Aberdeen's upcoming *Global Supplier Visibility and Performance Benchmark Report* will provide insight into how to manage these issues.

Research Results and Recommendations

Shifting supply chain activities to outside providers has been gaining momentum. Figure 1, taken from Aberdeen's *The Direct Materials Sourcing Benchmark Report*, shows dramatic increases in outsourcing across a wide variety of supply-chain functions. On average, three years ago, almost 20% of all companies surveyed outsource some activities; now almost 50% outsource - a 150% increase over the three-year period.

Figure 1: Three Year Trend in Outsourcing Supply Chain Functions



Source: AberdeenGroup, June 2006

Challenges

Limited supply or supplier visibility is the largest challenge brought on by outsourcing. Key milestones which occur in the manufacturing process, such as machine delays and raw material delays are events from which an enterprise needs immediate knowledge and adjust their plans as necessary. Prior to an outsourcing arrangement, such events would occur within the enterprise itself; after outsourcing, these events occur within another enterprise, in another city, or another country.

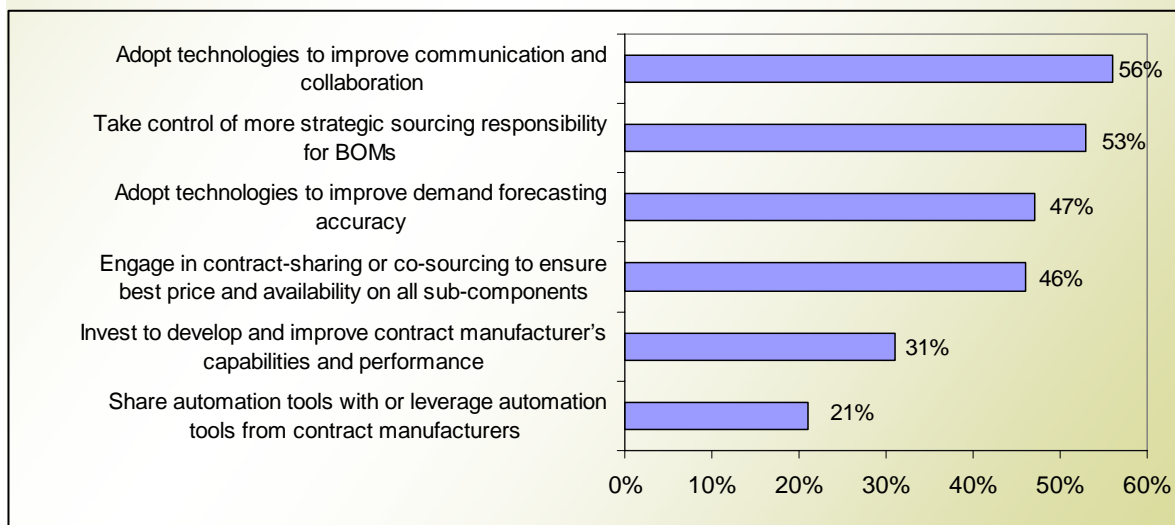
Understanding cost structures will become more difficult now that another organization is negotiating or procuring raw materials on behalf of the enterprise. Is the outsourcing organization getting a good price on the goods? Could the enterprise achieve better cost savings by performing the negotiations? A lack of visibility within the outsourcing organizations cost structure leaves these as questions. A common practice within large enterprises is to negotiate specific commodities and, based on the supplier's costs, the supplier can either purchase the commodities from either its own contract, or the contract as negotiated by the enterprise.

Measuring and improving supplier capabilities is a practice that all enterprises must embrace, if some of the burden of manufacturing and/or distribution is place on the supply base. Such a practice must be a sustainable and repeatable process, requirement constant measurement and feedback to the supplier for improvement. Aberdeen has seen a best-practice whereby automated triggers are sent to suppliers when a defective part is identified – the suppliers have 24 to 48 hours to respond, depending on the nature of the part and defect.

Addressing the Challenges

To address the challenges, enterprises are performing undertaking a series of strategies as listed in Figure 2. These strategies are focused on supplier visibility and performance processes and the technology solutions that enable them.

Figure 2: Strategies to Overcome Outsourcing Challenges



Source: [AberdeenGroup](#), June 2006

Such solutions allow for better cooperation between an enterprise and its suppliers by helping with:

- Raw-materials sourcing and raw materials transit
- Strategies for determining alternate suppliers

- Gaining actionable knowledge with Work-in-Progress and Finished-Goods inventory
- Aiding in the replenishment process
- Gauging supplier performance and measuring/tracking supplier improvement

These solutions are enabled by deep integration into ERP; not just a presentation layer and supplier portals. Aberdeen has segmented the marketplace into four application areas and two technology areas to address the challenges of successful outsourcing

Supplier Visibility: This provides the enterprise with detailed knowledge of the status of manufacturing, distribution, transportation and even the sourcing of the materials performed by the supplier.

Supplier Performance: This allows the enterprise the ability to measure and track improvement of key performance indicators of suppliers such as on-time delivery, quality and order accuracy.

Supplier Costing: Provides the enterprise an understanding of all the costs associated with a product, including transportation, warehousing, packaging and raw materials costs.

Supplier Collaboration: This enables a two-way sharing of information between enterprise and supplier; either person-to-person or ERP-to-ERP. The information could be very sophisticated, such as forecasts and replenishment signals.

The two technology areas:

Supplier Enablement: Each of the above business process areas require suppliers to send information to the enterprise utilizing as much automation and technology. Phone/Fax/Email may not be sufficient.

Supplier Portals: The web-based interface for manual and/or automated interaction between an enterprise and its suppliers.

Summary

Gaining visibility into activities within an enterprise's supply-chain has become more difficult, as more of these activities are taking place outside of the enterprise – by a contract manufacturer, an outsourcing organization, or a third-party logistics company. As suppliers face issues, the enterprise must have as much advance notice as possible in order to act, re-act and adjust plans as necessary.

Table 1: Partial List of Vendors

	Supplier Visibility	Supplier Performance	Supplier Costing	Supplier Collaboration	Supplier Enablement	Supplier Portal
Apexon		•				
Aravo					•	
Ariba	•	•		•	•	
Austin Tetra		•				
cc-Hubwoo	•	•		•	•	•
Covisinit	•	•	•	•	•	•
Decideware		•		•		
ec Vision	•		•	•	•	•
Emptoris		•				
ePlus		•	•	•	•	•
Eqos	•	•	•	•		•
Global Eprocure	•			•		
GT Nexus	•	•	•			•
i2	•					
IBM	•					•
IBXnordic	•	•	•	•		•
Microsoft	•	•	•	•		•
NuView			•			
Open Ratings		•				
Oracle	•			•		•
Perfect Commerce	•	•		•	•	•
SAP	•	•				
Tradecard	•	•	•		•	
TradeStone	•	•	•	•		
Verticalnet		•		•	•	•

Related Research

[The Direct Materials Sourcing Benchmark Report](#)

March, 2006

[The Global Supply Chain Benchmark Report](#)

June, 2006

[The Supplier Enablement Benchmark Report;](#)

March, 2006

Author: Sudy Bharadwaj, Vice President, Global Supply Management (sudy@aberdeen.com)

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