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PROACTIVE FROM THE MIDDLE—INITIATING STRONGER LINKS AMONG SUPPLY CHAIN PARTNERS

This paper suggests that companies focus on:

- **Building trust with customers and vendors**
- **Being open and proactive**
- **Providing connectivity to customers and vendors**

Part I takes a look at some key factors that hinder midmarket companies from increasing their agility in a supply chain.

Part II attempts to tackle these concerns. By offering points of advice from companies and experts, it shows that mid-size companies will improve their responsiveness and agility in supply chains by initiating open communication with dominant partners. Two approaches are discussed:

- **Traditional partner relationship management that establishes trust and understanding; and**
- **Modern business management solutions that increase information visibility within a company and to its selected partners—thereby improving efficiency in the whole supply chain.**

PROACTIVE FROM THE MIDDLE

This white paper offers advice to mid-size manufacturers and distributors that wish to increase their responsiveness and agility in a supply chain or feel out of control and overburdened by dominant supply chain partners. It also addresses the challenges involved in sharing information to achieve increased visibility and the problems inherent in installing new technology.

PART I **CHALLENGES FACING THE MIDMARKET IN SUPPLY CHAINS**

What happened to the “good old days” when supply chains were so much simpler? Before, as many people would like to remember it, each company in the supply chain simply focused on their own job—making a product, delivering a load or ordering materials from a sub-supplier to meet the next order. But then “progress” came along and complicated things.

Focus on core competence

Just ask Thuka a/s, a Danish furniture producer that began as a wood materials manufacturer in 1949. “Everything’s been changing all the time,” says Thuka’s Managing Director, Thue Thuesen, who adds that the speed of change has been particularly rapid in the last 15 years. “We started focusing on our core business and more efficient ways of doing things in the late ’80s,” he says. At that time, Thuka decided to specialize in producing pinewood children’s furniture. Today, Thuka has just two main suppliers, a number of very large customers and thousands of small customers. “From the mid-’90s, we entered the UK market, working with bigger and bigger single customers in narrower and narrower cooperation. It forced us to turn our attention to a more efficient supply chain,” adds Thuesen.

Fast response to changing demands

Change has also come quickly at Herzog GmbH of Germany, a just-in-time manufacturer of precision machine parts that was founded in 1958. As recently as 1990, the company didn’t have a PC network. “Customers started wanting to know more about our production and wanted to see our production control and quality control,” says IT Manager Joachim Baum.

Just over a decade and many technology and quality system improvements later, Herzog collaborates very closely as main supplier with big customers like Siemens, Bosch, Hilti, Festo, Tooltechnic and Black & Decker. “Customers come to us because they know that we can meet their demands at short notice. We can help with design, and we can deliver one item or a million items,” says Baum. This has partly been achieved by a major implementation of computers and a business management system. But that was only the technical side of the company’s drive to improve their customer relationships. “This is still our biggest concern,” says Baum.

Speed is the key

Thuka and Herzog have reacted to a changing supply chain environment that most companies in the midmarket know all too well. Customers are increasingly taking low cost and higher quality for granted and are demanding product availability as soon as the need arises. Thus, time has become today’s competitive factor. “In order to survive,” says supply chain expert Dr. Richard Wilding of the Cranfield School of Management in the United Kingdom, “companies need to provide more value for less cost in less time.”

Competitors add to the challenge by cutting prices and increasing operational efficiency. All in all, supply chains need to become more agile. They must be able to respond quickly, adapting their products and processes to changes in market demand.¹

None of this is new. Some companies have heard it all before. And it does not end here.

Economic woes

Just staying afloat is the greatest concern of midmarket companies today, according to Yvonne Genovese of the Gartner Group. The crash of the dot-coms, September 11 and the following recession have, with combined effect, given companies good reason to worry. “They wonder, ‘How can we continue to invest as economic pressures build on us and our suppliers and our suppliers’ suppliers?’” she says.

For that reason, Genovese says, it has become more important than ever for mid-size companies to focus on building up strategic partnerships in the supply chain with the specific goal of learning how to meet the requirements of the end customer. This is where **supply chain collaboration** comes in.

Working closely with customers and vendors is a requirement for mid-size companies to stay competitive; they must be able to collaborate and share information in a dynamic network of partners. This involves the use of new technology to enable a fast and efficient flow of goods and information. In theory, supply chain collaboration makes perfect sense, but mid-size

¹ Interview, plus excerpts from “The role of time compression and emotional intelligence in agile supply chains,” Supply Chain Practice, Vol. 1., No. 4, 1999, pp. 14-15.

manufacturers and distributors share **three main concerns** that prevent them from moving forward:

- Many companies in the midmarket are struggling to keep up with the demands of their dominant supply chain partners. They are exhausted from dealing with these supply chain masters, who can pressure them into playing by their own rules and align to their own systems;
- Many are reluctant to offer suppliers and customers a clear view into internal processes such as order status, inventory levels or capacities. And even if they should agree to provide this information, they don't have a simple means to access it on demand;
- Many are overwhelmed by the task of finding the right new technology that will help them to create better internal visibility or to reliably collaborate electronically with their customers and suppliers.

This report passes on advice from five diverse businesses that have found a way through one or more of these problems. One message stands out: **Be proactive**. Initiate a stronger relationship and a better technological solution, and you will see results.

PART II

BE PROACTIVE—ADVICE FOR IMPROVED AGILITY

Experience shows that mid-size companies will improve their responsiveness and agility in a supply chain by initiating open communication with dominant partners. Two approaches will help:

- Traditional partner relationship management—to build up trust and understanding;
- Modern business management solutions—to increase information visibility within a company and to its selected partners, thereby improving efficiency in the whole supply chain.

For both of these approaches, the following points of advice are meant to be used as tools for companies in the midmarket that wish to increase their agility in a supply chain.

1) Build the relationship

Supply chain collaboration requires two-way dialogue and information flow. A business that initiates a partnership of planning for strategy will improve its responsiveness by default. “When you’re engaged in a partnership, you understand better what is coming. You understand what the requirements are going to be and have the capability of meeting the requirements by being engaged with your partner,” says the Gartner Group’s Yvonne Genovese.

Initiate frequent dialogue

For Herzog GmbH, it’s not enough to initiate a dialogue once with dominant partners. “We initiate the dialogue daily,” says Joachim Baum, IT Manager of Herzog. “We’ve found out over time that this is very necessary. It’s much better to have more correspondence and more feedback. It’s better to talk about the products before beginning any manufacturing activity—to take an active role in their planning. It’s the personal contact and a good dialogue which determine a quality relationship between the customer and supplier.”

Seek the customer’s requirements

A partnership of strategic planning with a supply chain “master” or dominant partner must begin with an understanding of the master’s requirements and long-term business plans. “Usually a supplier has little or no visibility of the real customer requirements,” Genovese says. For example, a manufacturer of automobile brakes often does not know the end consumer’s demand

requirements for a new car. The brake company is only given the requirements for the item or sub-component that it is responsible for making. An understanding of “the big picture” from the supplier’s side leads to new ways to bring efficiency into the supply chain.

Know who keeps you in business—and keep them happy and close

Teamdress, a German work-wear clothing manufacturer, keeps day-to-day contact with its customers. “Up to 95% of our business is from existing customers,” says Volker Kamm, managing director of Teamdress. “We get daily or weekly orders from them. They keep their stocks low, and then place small orders continuously.” This gives Teamdress consistency in its forecasting. It has built up figures over time from its big customers and can predict demand very accurately.

Get visible!

As Bruce Bond of the Gartner Group says, a plant can no longer be a “black box” with no view into production status. Organizations must be willing to share views with their customers and suppliers into factors like production status, stocks and schedules. And they must begin by making information visible (or “transparent”) in their own company.

“Volker Kamm at Teamdress adds, “We are very open. Our customers know everything about our quality standard. They are specialists in work wear, and we have to play with open cards. We can’t cheat them, or they would see it immediately.”

For an idea of how one company made its processes more transparent, see the box on page 5.

Finding transparency—a layer at a time

Dutch company Budelpack acts as the production department of other companies in the fast-moving consumer goods industry. In its customers' supply chains, Budelpack acts as a manufacturer instead of a normal sub-supplier, which means it also has contact to a customer's suppliers and sometimes retailers.

"The supply chain is more complex," says Egge Haak of Involvation, a consultancy that assists with Budelpack's supply chain management. "There are all kinds of triangular relationships, which are difficult to manage. An understanding of transparency has thus become important to Budelpack." To find transparency, Budelpack began on projects already underway. It looked at four layers:

First layer: Flow of goods

This deals with inventory points; capacity; what batches flow together; and what are the properties of the flow.

Second layer: Control

How is the supply chain controlled? Which companies are in charge of what? Divide the responsibility as logically as possible. Sometimes the customer is controlling processes that are not very logical. "For instance," Haak says, "Kellogg's [Budelpack's customer] was controlling some of the suppliers which deliver to Budelpack. Budelpack was making changes that Kellogg's was not completely aware of, and Budelpack was not completely aware of control from suppliers. Here it was much easier to control the suppliers from Budelpack."

Third layer: Information exchange

What information is logical to exchange for control? Know who is in charge of what and what information is important to exchange in order to keep control.

Here is one example: Forecasts from customer. How often? How detailed, and at what level of production—by the article or by the group? How do you define the forecast? "The difficulty is that there is a lot of information to exchange to a lot of different parties at a high frequency," says Haak. "It makes for a complex flow."

Fourth layer: Interaction of the physical flow of goods

This is all about how simple or difficult is it to receive and ship goods. Is the right equipment in place to handle the flow? For instance, Budelpack was receiving goods in big bags, but Budelpack had machines that could better handle big boxes. Simply identifying this need and asking the supplier to ship in boxes instead of bags saved a lot of time, effort and money.

Gain trust by showing trust

Gaining trust is one of the most important and difficult tasks in a collaborative relationship. “You can gain trust by exchanging information about the status of all things in the supply chain, so all parties can have a feeling they know what is happening,” says Egge Haak. “Budelpack exchanges information with Proctor & Gamble that is irrelevant to Proctor & Gamble—such as stocks, or production plans, production rates. Proctor & Gamble has nothing to do with this data, but Budelpack provides the visibility to gain a higher level of trust.”

Ask for a challenge

In Denmark, children’s furniture maker Thuka welcomes customers with problems. “We always accept customers who will potentially give us lots of communication problems to set up or solve in the beginning. Because if we can solve the problems, then we have an advantage over our competitors,” says Managing Director Thue Thuesen. He adds that Thuka welcomes initiatives from its big customers to optimize their situation—whether it means shortening lead times or changing the way orders are treated. “You must have a closer connection to the customer than simply serving them,” he says.

Work towards becoming a main supplier

Proactive partners can gain more than just the attention of their dominant customers. “If you’re proactive in starting to design the strategy with your partners, you will understand the importance of what they need most,” says Gartner’s Yvonne Genovese. “Then you can set up business arrangements with them—to be lead supplier for a specific product, for example.” This will naturally bring the two companies into a closer relationship, she adds, and will force the supplier to make its processes more visible, which in turn will help improve the efficiency in the whole supply chain.

Invest in new equipment

Herzog makes high investments in machinery to help its customers get off the ground with new products. “When we get new products, we buy new machines—this is the first step. We don’t try to produce with older machines to save money,” says Herzog’s Joachim Baum. “We can be very dynamic in changing production immediately. We always want to have very good machines and measuring instruments.”

Keep the information flowing

Adjusting to the market is Thuka’s biggest challenge, and it copes by taking a proactive approach to information flow. “You have to be out there to pick up information all the time,” says Thue Thuesen. “We simply require a constant flow of information. And it comes in different forms. We have access to one of our customer’s computer systems via its home page, so we can inform ourselves about sales in areas over time and over products. Other customers send us spreadsheets once a week, which we can then integrate into our own planning background, such as forecasts, order performance and supply performance. It all helps us to deliver the right products at the right price.” Thuesen stresses that it is often difficult to convince a customer to provide new categories of information but says that, “We work with them over a long period of time and try to get more and more details slowly—a slow build-up of information.”

Be willing to specialize at a very small batch level

Teamdress takes special orders—no matter what the volume—in order to tie themselves in as a main supplier for their customers. “We’ve learned that if you make special models for the customer, they won’t be tempted to look for new suppliers,” says Volker Kamm. “It’s difficult for them to go to a new supplier to ask for only 100 pieces of a specialized model when the average start-up size is usually 500. So we keep them loyal to our company through good treatment—it’s one of our assets and it makes our business very stable.”

Talk to your collaborative partners at the right level

Budelpack’s Information Manager, Jan Kees Hage, says the main difficulty of being the collaborative initiator is going to the right people in the partner company. “Logistics people from our company need to talk to logistics people from the customer’s or supplier’s side. You mainly just see purchasing people talking to sales people. They don’t understand enough about supply chain collaboration and what benefits you could get out of this kind of platform.”

Consultant Egge Haak adds: “The management personnel at the appropriate level of your customer have to understand what you’re doing: that you’re not just talking about production and cost, but also about flexibility, trust and credibility.”

Don't wait for your dominant partners to take the initiative

In most sectors, supply chain “masters” are slow to improve collaboration in a supply chain. The automotive manufacturing sector is the exception, with big companies such as Volkswagen, Ford and Nissan creating electronic marketplaces for tighter integration of their suppliers. Among the five diverse companies interviewed for this white paper, only one of them, Dutch Budelpack, has a big customer that is being proactive. In this case, Unilever has been working on establishing e-business collaboration with its suppliers that will facilitate automatic and electronic data exchange about production planning, forecasting and inventories with Budelpack and other suppliers. “It’s taking Unilever a very long time,” says Egge Haak. “There is a lot of talking with lots of its suppliers.”

In general, midmarket companies are not expected to see this type of action coming, so taking the initiative will give them an advantage up-front and get them prepared for when and if collaboration is indeed initiated by a supply chain master.

Start simple

Budelpack’s supply chain collaboration initiative began with awareness sessions for upper and middle management, and then the company launched a pilot project to practice it. “They did it with one of their projects that was already running and had a lot of potential for improvement,” says Egge Haak. It showed good results, so other supply chain collaboration projects soon followed.

Remember that it takes time to change

Volker Kamm of Teamdress says that a switch to new software and a new way of working cannot happen overnight. “We have some departments that are still thinking in the old way and say, ‘We’ve been doing it this way for the last ten years, why should we change?’

“You need time to change,” Kamm continues. “You have to take the time and explain things, but daily business doesn’t allow much time for big and fast adjustments, especially in a tough market.”

2) Get the technology

Modern business management software increases information visibility within a company as well as outside, to selected partners, thereby improving

efficiency in the whole supply chain. “Technology is the enabler,” says the Gartner Group’s Yvonne Genovese. “It feeds the relationship.”

Thus, companies that want to build up trust with supply chain partners can do so, not only through traditional partner relationship management, but also via technology. “Getting the technology today is getting the connectivity in place,” Genovese says. “Go be the technology enabler!”

But with what and how? Many companies are overwhelmed by the job of finding the best new technology to help them create better internal visibility or collaborate electronically with customers and suppliers.

Experience shows that the implementation of a new business management solution focused on simplicity and adaptability can help mid-size companies live up to these tasks. To illustrate, here are several problems that midmarket companies face, followed by explanations of how a new technology has helped to solve each problem.

Problem: Inaccurate view of own stocks

Solution benefit: Better visibility all the time, automatically, and the ability to retrieve specialized information

“We are more accurate, we are more flexible and we are faster,” says Volker Kamm of Teamdress, two years after the company installed their new business management solution. Teamdress has experienced that having direct access to accurate information is critical in managing the company efficiently and meeting customers’ needs. “Today, we can quickly see all the information from the reports about how much we have in stock, stock movements over time—how was the movement in the last three, six or twelve months? Have stocks been increasing or decreasing? Before, we could only print out very long standard, fixed lists, and you had to manually take out the figures you needed. Now I can ask about certain articles alone, in combinations, or in certain periods. This is very important for management—not to use standard reports, but to be able to get specialized reports, and to be able to get this information from the system. This has cut our administration time and costs in half. And it has increased our accuracy. So far, we have reduced our stocks by about 25%, and we expect to go even further.”

Problem: The old system couldn't provide visibility of internal processes

Solution benefit: Higher productivity

Delivering products just-in-time, directly to the production lines of customers like Siemens, Bosch and Black & Decker, requires full control of your processes. Herzog has gained the necessary control over its different processes in the fulfillment cycle through full visibility of internal processes.

For instance, as orders make their way through the various production processes, they are accompanied by a printed production plan that includes bar codes. "By scanning these bar codes with a pen, workers can see all the information they need," says Joachim Baum. "They can see the product drawing, all the quality control material, and so on. They know what processes have happened before and what's coming next. This has given us a 2% increase in quality—equivalent to 900,000 Euros in 2001."

"We can see what we have in-house, on consignment, on credit, delivered, invoiced, paid, unpaid, everything," he continues. "Everything is traceable. Customers get what they want, when and where they want it."

After implementing their business management solution, Herzog saw productivity increase by 15-20% and lead times reduced by up to 5%.

Problem: Customers want personalized service

Solution benefits: Adapt easily to your partners' different systems

Large customers want to be served as if they were your only customer. They expect tailor-made service. Therefore, Herzog needed software that could be easily adapted for connecting to its different customers. "To do this required an ability to adjust our business system in the way of invoicing, delivering orders, and so on," says the company's Joachim Baum. Future plans for Herzog include even tighter integration to their business partners. Having an adaptable business management solution allows Herzog to be prepared for the next way customers want to interact. "Very soon our partners will want closer collaboration, but we'll be ready," says Baum.

Problem: Customers have different standards for electronic data interchange (EDI)

Solution benefit: Efficient communication to multiple customers via flexible EDI

If communication to different customers can ever be done using the same standards, it won't be in the near future. This is particularly true for Thuka's customers, who all have different connection requirements for electronic data interchange (EDI). "Everybody has their own way of using EDI," says Thue Thuesen. Before the implementation of their new business management solution, the setup of an EDI connection was a costly task that had to be repeated for each of their customers. Today, Thuka can connect to any partners at low cost via a flexible EDI solution that is an integrated part of their business management solution. "We can adjust to each external partner. Our customers are satisfied with us because we understand their language. They don't know how we are receiving their information or translating their EDI. It's not their problem, and we don't want it to be their problem," says Thue Thuesen. "And with our next upgrade we will have even more practical and efficient tools and there will be less work involved in taking in new customers with different setups."

Problem: Difficult to retrieve data from your own systems

Solution benefit: Flexible, automatic data retrieval for visibility

Sharing information is key to becoming your customers' preferred and trusted partner. But, in order to share information, you must first be able to get the data out of your own systems. Budelpack had difficulties accessing its own data in its old warehouse management software. "It's very difficult to get data out of the database—not only for suppliers, but especially for customers," says Egge Haak. "It's very important for Budelpack to report their inventories on a regular basis, but they weren't readily able to access that data with their previous system."

As Teamdress discovered, the implementation of a new business management solution not only helps to retrieve data simply, but it allows for flexibility within the system. For example, Volker Kamm explains that the shipping process for Teamdress export products has been greatly aided by the new software. "We can retrieve the original data and send it to another system that automatically processes the customs papers. Two

years ago we had six people in our customs office doing this manually—today we need only three people.”

CONCLUSION

This report shows how five mid-size companies from five different industries have managed to build trust and provide connectivity with customers and vendors, while operating as open and proactive businesses. These companies are all using Microsoft® Business Solutions–Navision® as the basis for running their businesses.

Visit www.microsoft.com/BusinessSolutions to learn more about how you can provide faster and closer collaboration with customers and vendors in today's most competitive marketplaces.

About Microsoft Business Solutions

Microsoft Business Solutions, a division of Microsoft, offers a wide range of integrated, end-to-end business applications and services designed to help small, midmarket and corporate businesses become more connected with customers, employees, partners and

suppliers. Microsoft Business Solutions' applications optimize strategic business processes across financial management, analytics, human resources management, project management, customer relationship management, field service management, supply chain management, e-commerce, manufacturing and retail management. The applications are designed to provide insight to help customers achieve business success. More information about Microsoft Business Solutions can be found at www.microsoft.com/BusinessSolutions.

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