

EXECUTIVE SUMMARY

Why Are Your Supplier Inventory Costs So High?

If you're like most large manufacturers, the management of supplier goods is a complex process with multiple stakeholders. You have *Planning* that drives forecast and production scheduling, and *Procurement* that purchases materials from vendors based on those demand forecasts. *Operations* oversees the flow of incoming goods in the production line, and then *Warehouse Management* receives inbound shipments and moves them into inventory until ready for use. While the titles and roles may vary among organizations, the basic supplier workflow is generally the same.

Where it gets messy—and where you are likely to experience significant costs in time and money—is the physical handoff from your supplier. Essentially, when the box hits the dock.

All too often we see a reliance on the Advanced Shipping Notice (ASN) in which the supplier alerts you of pending deliveries at the header level. You may see a product name, a PO#, and select dates, but the ASN does not contain many of the details that receiving or warehouse management needs, such as pallet breakdown. Then there are the labels themselves on the pallets and boxes, which were created by the supplier with no certainty that they are correct or aligned with your downstream process and data.



EXECUTIVE SUMMARY [cont.]

There is a Better Way

CONSIDER THE LABEL. Think about it—the label connects the supplier's intent to your ERP and, equally important, to the part itself. What if you could control the labeling outside your four walls so that shipments from suppliers and other trading partners were labeled with the information you required? Your data, your barcodes, your instructions, your process?

Thanks to new advancements in browser-based enterprise labeling, you can make this a reality. By using data directly from your ERP and merging it with supplier actions, you ensure that inbound materials are labeled and formatted the right way—your way, securely. In addition, you can track goods with unprecedented visibility to respond faster and smarter to fluctuations in supply and demand.

Read on and discover how enterprise labeling significantly improves your supplier transactions. Using a simple formula, you can calculate potential savings when you eliminate the relabeling process and reduce costly inventory. You may be surprised at the results when you plug in some of your own numbers. Take a look and share with other members of your supply chain team.

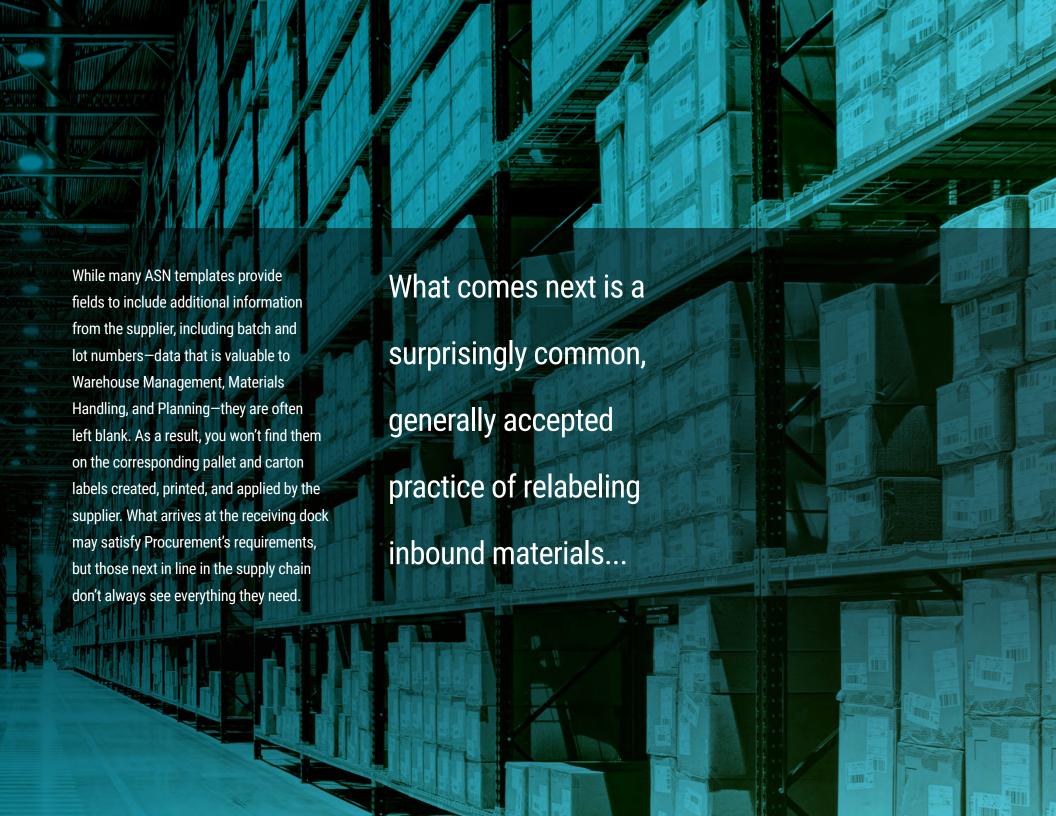


The Disconnect

Today's manufacturing and supply chain operations are so complex and so intertwined that the lines of communication can become blurred, especially when working with trusted partners outside your organization. There are so many more people involved with transactions leading to more chances of error—unless the label is right. Nowhere is this more evident than in the ordering and subsequent receiving of goods and materials from suppliers.

Typically, the supplier will receive an electronic notification of the order along with a set of shipment build instructions that dictate the labeling requirement. Labeling instructions may also come via a separate SOP. Order terms and a delivery date are then negotiated between supplier and Procurement. An Advanced Shipping Notice (ASN), via EDI or XML format, will come from the supplier notifying the manufacturer of impending deliveries, including shipping date, quantities, physical characteristics, and a PO number.

Unless specified ahead of time by
Procurement in collaboration with other
stakeholders—again, Procurement is often
the primary conduit with the supplier—the
ASN becomes more of a financial document
where it can be received by the company's
ERP to initiate and complete payment.



SUPPLIER LABELS

The Good...the Bad...

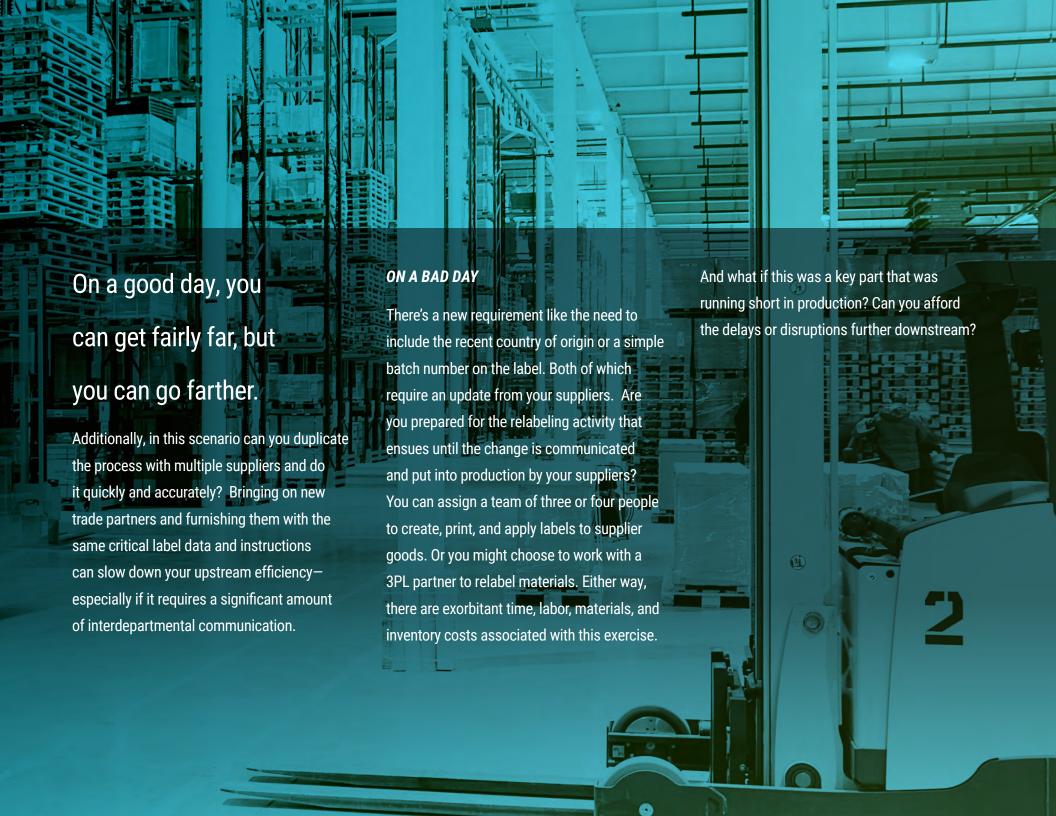
You can always count on inbound materials to be labeled. Unfortunately, the accuracy and usefulness of that label is often in the hand of the supplier with direction from the manufacturer. Depending on the manufacturer and its procurement model, what's on the label can determine how fast and how efficient the next department will process the materials. For example, Marketing may require logos, Regulatory may require graphics or warnings, and Materials Handling could really use a good product ID barcoded. All of these requirements could be in guidelines that were never communicated to the supplier or the supplier is "working on it."

That's why at so many manufacturers' receiving docks, regardless of industry, you'll see pallets of inbound materials waiting to be inspected, identified, and relabeled before they can move to the production line or be put away.

Factoring in a number of variables, let's see how the receiving process may unfold.

ON A GOOD DAY

Strong labeling standards will have already been established with manufacturers sharing label guidelines in the form of a PDF with the right formatting that suppliers can replicate. This, of course, assumes suppliers are using the most recent template and have access to all of the relevant information from the manufacturer. However, is this enough? Does the supplier, for example, know if the part being shipped is short on the production line? Do they have your part number or your preferred put away location?



SUPPLIER LABELS [cont.]

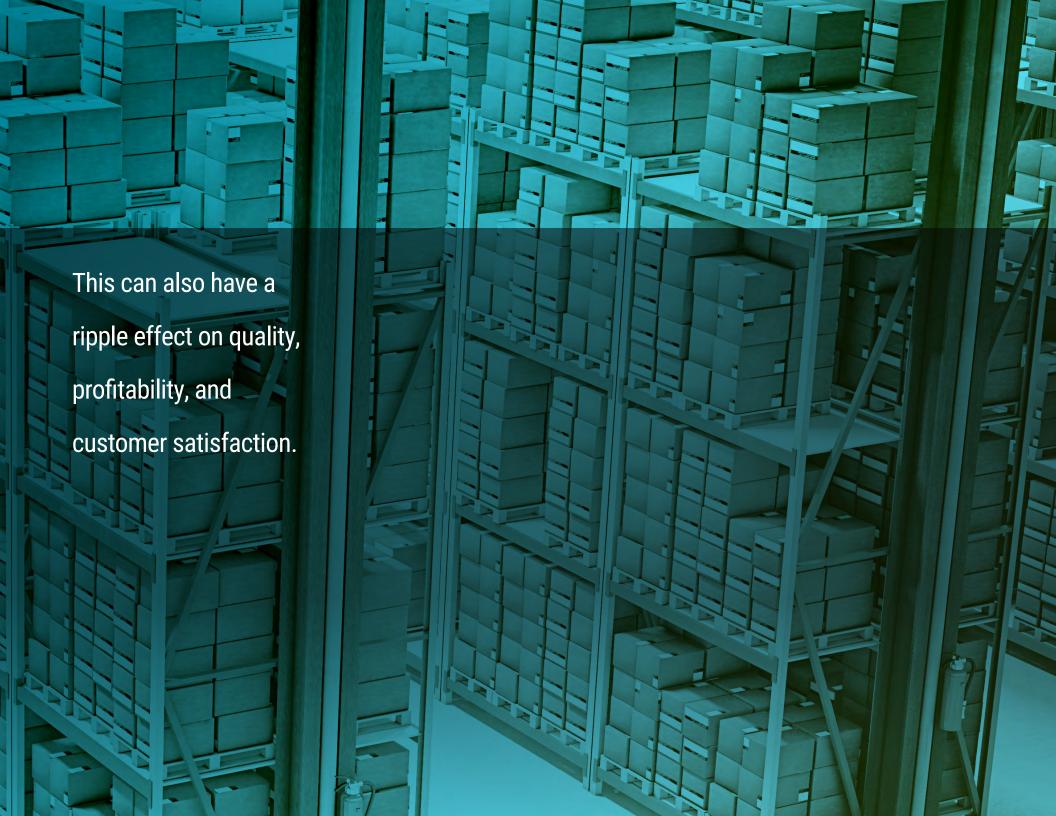
...AND the Ugly

ON AN UGLY DAY

A mistake happens because a label is missing data that's been required for months. Materials are received to the wrong PO, or worse, received under the wrong part number.

Chaos ensues as now your inventory positions are wrong for two parts, and Planning needs to scramble to expedite the "right" materials. At the same time, warehouse and receiving managers are looking to resolve the issue through time-consuming cycle counts, and stepped up inspections of inbound shipments. Accounts Payable has to correct the invoice to PO once the problem has been identified. And let's not forget the finger pointing.

In this scenario, your business suffers in many ways: lead times increase to cover for this problem in the future, production could be shut down, inventory costs skyrocket, and time to market can be delayed. Not a good situation, and yet one that many manufacturers have to deal with all too frequently.



COST IDENTIFICATION

What's Relabeling Costing You?

Some supply chain practices are so commonplace that companies don't always consider the impact to their bottom line. Especially if it's something like the relabeling of supplier goods that's so entrenched in the "way things are done" that it goes unnoticed. But there is a method to calculate the hard, tangible dollars spent on relabeling, and it's a formula that has worked for other manufacturers. And when you do the math, it really is eye opening.

If you perform relabeling in-house, you simply take the number of full-time employees (FTEs) dedicated to relabeling, multiply that by their salary or the per-hour cost spent on relabeling, and times that figure by the number of plants that relabel inbound materials (assuming the same number of employees take about the same amount of time to relabel). Then you enter the number of labels that need to be printed and multiply that by the cost per label. That's your total material costs.

A customer in the electronics industry calculated that they spent \$2.1M just on relabeling of supplier materials.

CUSTOMER EXAMPLE

5 FTES X \$ 30K/YEAR X 10 PLANTS = 1.5M LABOR COSTS

30M LABELS X \$ 0.2M /LABEL = 600K IN MATERIALS

CALCULATING RELABELING COSTS

___FTES X \$___/YEAR X ____PLANTS = LABOR COSTS
___LABELS X \$___/LABEL = MATERIAL COSTS





ALTERNATIVES

Where Current Approaches Fall Short

With mandates from the top to reduce costs, more manufacturers are becoming aware of inefficiencies in the supplier handoff and are looking for solutions.

Here are the three most common approaches:

SENDING LABELING GUIDELINES TO THE SUPPLIER

With this approach, manufacturers will create a PDF with detailed instructions on how they want suppliers to format labels on inbound shipments. Guides often include required data fields, special handling language, and even sample labels for the supplier to follow. The problem here is the dependency on the supplier to actually adopt and implement the guidelines. Many are slow to get up to speed with such stipulations, and it is hard to enforce. Are you really going to refuse shipment of a much-needed part if the box is labeled incorrectly? And if you ever change guidelines—which happens frequently like with the recent country of origin requirement-it's difficult to get the supplier to comply in a timely fashion.

PROVIDING PRE-PRINTED LABELS TO SUPPLIERS

A good number of manufacturers try to make it easier on their supplier and furnish them with the labels they want on materials. But isn't this another form of relabeling, just putting the burden on your team earlier in the process? There is also risk with this approach as you're leaving it up to the supplier to store labels in a secure place. And what's the guarantee that they will be applied correctly to the right shipments? Again, the dependency on the supplier to consistently meet your requirements is too great to fully embrace this alternative. Also, bulk purchases of labels can become obsolete with the next change from Marketing or an updated regulation. These excess labels become unusable and have cost associated with disposal.



A BETTER APPROACH

Extend Enterprise Labeling to Suppliers

Thousands of manufacturers across multiple industries are already relying on enterprise labeling to drive measurable gains within their "four walls." The tight integration with existing enterprise applications like ERP, PLM, WMS, and other systems ensures that the data on the label is the most current and enables companies to automate the labeling process within these applications. By standardizing and centralizing on a single labeling platform, companies can share templates among internal teams to simplify the approval workflow, reduce the number of templates to manage, and keep up with changing requirements without duplicating efforts.

Now imagine simply extending your labeling process to include your trading partners such as suppliers and 3PLs. Thanks to breakthrough, browser-based technology, you can allow suppliers to securely access, update, and print your labels locally with the exact information and data your downstream process requires. And because the data is coming directly from your ERP and other sources of truth, you can be confident that the label will capture the latest information, branding, etc. in real time.

Importantly, from an implementation and execution phase, there's minimal effort required of your suppliers. They have to create and print pallet and carton labels anyway; now they simply print your labels in your format. In addition, this new approach to supplier labeling complements and greatly enhances the existing ASN/EDI process they're currently using by sharing valuable data that can be cross-referenced on the ASN. They can even leverage the label data to help create the ASN, if they wish.

The short- and long-term benefits of this approach are many.



A BETTER APPROACH [cont.]

Extend Enterprise Labeling to Suppliers

KNOW WHEN SUPPLIES ARE COMING EARLIER, PLAN ACCORDINGLY

From a planning and receiving perspective, you now have visibility into when labels are printed by the supplier to better estimate arrival of goods—even before the ASN.

As you gain insight into supplier behavior based on how and when they use your templates, you can revise safety stock calculations to reduce inventory even more.

Visibility=confidence=reduced stocking levels.

RESPOND FASTER TO COURSE CORRECTIONS IN MANUFACTURING

As needs change in operations, you can actually push and pull supplier orders to adjust the delivery schedule. Say, for example, you have a sudden shortage of a certain part as reflected in the ERP, and you notice that the supplier hasn't printed labels yet. You can alert them, add to the order if needed, and even put special instructions on the label for receiving to rush the parts to production. Calls to the suppliers can be more precise allowing execution to begin sooner.

PRIORITIZE ORDERS, KEEP SUPPLIERS IN CHECK

With enterprise labeling, you can start injecting control over how the supplier is managing transactions. Set up rules that enable a supplier to only print labels tied to a particular time fence. This helps prevent a supplier from dumping inventory at the end of the year. You can also FIFO the POs. No more "cherry picking" POs by suppliers.



