



Supply Chain 2.0: Meeting the Challenges of Globalization

Globalization presents new prospects, but also new challenges for companies looking to identify lower-cost resources and expand their markets. The fact is, previous business models and processes no longer provide a competitive advantage in the new global economy. It is time to change strategies, and leading companies are moving to adopt a new model for managing their global operations.

This new model, called Supply Chain 2.0, involves the virtual integration of the financial and physical supply chains using new technologies. Supply Chain 2.0 addresses the challenges created by globalization and turns them into opportunities to gain competitive advantage by enabling better, faster and smarter supply chains.

The Challenges of Globalization

The key challenges created by globalization's impact on supply chain performance include:

1. Increased lead times. As supply chain networks are extended globally, the number of blind spots and lead times increases. Longer lead times directly affect inventory in transit and at distribution centers/hubs, as well as supply risk, financial risk and total cost of goods. Blind spots and poor visibility make it difficult, if not impossible, for companies to address issues before it is too late.
2. Inventory management. Extending an existing supply chain to meet globalization's requirements adds supply chain nodes and touch points, each of which involves yet another inventory location. New manufacturing locations, supplier sources and consumer markets added to the supply network require enterprises to re-engineer their networks.
3. Increasing total cost. Supply chain business models can range from an enterprise owning the entire process to managing only the brand and outsourcing the rest of the business functions (design, manufacturing and delivery) to third parties. The trend with globalization is to outsource more while owning fewer processes.

This requires a total cost approach to managing the bottom line.

Better, Faster, Smarter Supply Chain 2.0

Supply Chain 2.0 is the virtual integration of the financial and physical supply chains to create a value chain delivering economic benefit to end users, which include customers, employees of an enterprise, service providers and suppliers. Supply Chain 2.0 functionality can be classified into three distinct categories:

- Financial – making supply chains better. The financial supply chain manages the pricing/cost and settlement of all financial transactions across all the trading partners involved in the supply chain.
- Physical – making supply chains faster. The physical supply chain ensures the sourcing and supply of the components and services to manufacture/assemble, package, ship and deliver the goods on time.
- Information – making supply chains smarter. The information supply chain keeps the financial and physical supply chains in sync by providing the data that users and applications need to operate and make decisions.

Making Supply Chains Better

Supply Chain 2.0 makes financial supply chains better with a fresh approach to managing cost. This approach combines innovative technology, systemic process change and user-centric application design to proactively manage “what shouldbe” in addition to having full visibility to “what was.” One critical component of Supply Chain 2.0 is the ability to compute “Shouldbe Cost®.”

Integration of cross-functional sources of cost information to automatically compute “Shouldbe Cost®” accurately creates new competitive advantages for the enterprise. These include:

- Faster responses to cost increases or decreases. The agility of an enterprise is a measure of how fast the

financial, physical and information supply chains can proactively sense and respond to cost fluctuations across different geographies. For example, in a Supply Chain 2.0-enabled enterprise, a cost increase in one geographic region can be offset elsewhere if the International Procurement Office (IPO) can act faster than competitors to change sourcing decisions. The ability to compute “Shouldbe Cost®” and understand the quantitative impact of decisions allows decision makers to make and implement their choices faster and with greater confidence while reducing financial risk.

- Demand-shaping capabilities. As globalization forces price competition, commoditization and shorter product lifecycles, the ability to shape demand will be critical to increasing sales and maximizing profits. For example, when a supplier wishes to unload excess inventory at a discounted cost to an existing buyer, the buyer can use the computed total “Shouldbe Cost®” to determine the potential additional profit margin on the inventory and promote sales of the inventory to downstream customers, capturing and fulfilling orders before the competition knows what happened. Using Supply Chain 2.0, the entire cost management process can be accomplished in less than two hours instead of taking 30 to 180 days.
- Continuous cost takedowns. “Shouldbe

Cost®” computation proactively identifies savings opportunities at each cost item level an enterprise wishes to manage. In global logistics, for example, “hidden” costs can exceed 10-15 percent of direct material spend, while savings in the millions can be realized from better utilization and packaging optimization without increasing supply risk. This is accomplished in Supply Chain 2.0 with visibility to the computed “Shouldbe Cost®” and the ability to do “what if” analysis in real-time to optimize and manage the hidden costs.

Making Supply Chains Faster

Visibility has been the most elusive and difficult factor in the management of supply chains. Supply Chain 2.0 technologies deliver a higher level of visibility, so that instead of trying to answer the question, “Where is my stuff?”, companies can gain forward-looking visibility into where their “stuff” will not be on time, allowing them to proactively take steps to fulfill customer orders on time, every time.

The key steps to making supply chains faster are:

1. Enabling end-to-end visibility of the supply chain — Exposes the blind spots in the supply chain for action to be taken.
2. Measuring the lead times — Quantifies the impact on the lead times for planning a strategy to reduce the time.
3. Knowing where the inventory is at

all times — Allows decision makers to proactively direct the inventory to where it should be before it is too late.

Making Supply Chains Smarter

Supply Chain 2.0 information supply chains make financial and physical supply chains smarter by synchronizing them with real-time data, automating processes, replacing paper documents with accurate electronic transactions and intelligence to detect variations and prevent problems before occur.

New technologies used in Supply Chain 2.0 Information Supply Chains such as RFID and GPS devices eliminate supply chain blind spots and enable automated data capture to provide real time visibility 24/7 on a global basis. Technology driven intelligence delivers ‘command center’ like capabilities to build smarter supply chains capable of sensing and responding proactively.

Aankhen – Enabling Supply Chain 2.0

Aankhen provides comprehensive Supply Chain 2.0 solutions, consulting and development services spanning financial, physical and information supply chains backed by best-in-class practitioners with hands-on world-class experience in supply chain management and operations. We enable Supply Chain 2.0 so that you can make your supply chain better, faster and smarter.



Subhash Chowdary
CEO of Aankhen Inc.

Chowdary, CEO of Aankhen Inc., provider of a global procurement and logistics cost management software platform, brings to the table firsthand experience managing manufacturing operations at large multinational enterprises. At Apple Computer he coauthored key technologies that enable the smooth operation of supply chains, and today he is promoting “Supply Chain 2.0,” a transformation of the supply chain driven by what he has dubbed “Shouldbe Cost” for the management of financial supply chains and “one truth” visibility for the supply chain.