

INSIDE-OUT SUPPLY CHAIN VERSUS OUTSIDE-IN SUPPLY CHAIN

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Inside-Out **versus** Outside-In Supply Chain

Bridging the Gap for Success

The movement of information, products and materials is becoming more widely distributed and complex and this creates a big challenge for manufacturers. Adding to the difficulty are increased competitive pressures, reduced supply and demand predictability, and more widely dispersed assets. These challenges result in increased volatility and risk with decreased visibility and predictability.

The consequences of this reality are significant. Examples include losing sales to competitors because a manufacturer didn't properly anticipate demand or paying extra inventory costs because too much material was purchased before a time of falling prices. These hurt your ability to price competitively in the market.

Inside-Out (An Enterprise Focused Approach) = Standardization & Efficiency

Where has the investment been to overcome today's supply chain challenges? Billions have been invested in automating internal operations through ERP systems, and they do a good job for what they were designed to do. These systems were designed around standardized enterprise processes of 'Procure to Pay' and 'Order to Cash'. However, they are a one size fits all approach and are poor when flexibility is needed to meet the diverse and variable needs of the customer.

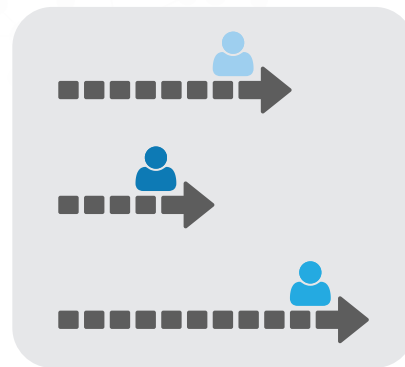
Shortcomings of an Enterprise Focused Approach limit you to only being able to automate a small percentage of your supply chain. You can't expect the outside world to accommodate specific needs of your ERP, especially when you consider the sheer amount of trading partners you have and regions in which you operate and sell.

Intra-Company Benefits:

- Enforces Corporate Requirements
- Standardizes Internal Processes
- Correlates Multiple Processes Across Departments

Inter-Company Shortcomings:

- Partners have their own ways
- May Not Accept your Demands
- Varying Capabilities and Technology Resources



What you gain through your Enterprise in the Inside-Out Supply Chain is Standardization & Efficiency. But this single approach will not get you to a world class, fully integrated, supply chain.



Outside-In (A Customer Focused Approach) = Flexibility & Speed

Where will the investment be going forward? Significant investments will be made to make supply chains more capable of responding directly to customers. Customer focused supply chains need to be designed around the needs of the customer and be interdependent on the operating demands of others. An Outside-In approach emphasizes sensing, shaping, and driving intelligent, fast responses.

Intra-Company Benefits:

- Increases Speed and Accuracy of Interpretation of Partner Performance
- Compresses the Planning Horizon to Reduce Risk

Inter-Company Results:

- Respond directly to customers
- Correlate multiple processes across all trading partners
- Recognize Impact of Resource Decisions on Entire Value Chain

More and more companies, to stay competitive and relevant, are learning from the best and are adapting. Samsung, Apple, Proctor & Gamble are all examples of fully integrated supply chains. These companies have taken the step beyond the enterprise approach, which is the outside-in supply chain. They are driving the design of their supply chain around the needs of their customers, suppliers and logistics providers. These guys get it! They have highly flexible supply chains and are great companies. They sense demand well and respond quickly to customer needs.

This allows you to better meet your customer's needs in a highly competitive world. For example, in logistics, when a carrier is waiting at your gate instead of getting right into your dock, they will charge you a penalty. When you maximize your trading partner's efficiency, you maximize your own.

Resolving the Tension of Competing Demands

The Enterprise Focused approach and the Customer Focused approach are not mutually exclusive. One is not better than the other; in actuality they must work in harmony. Both are needed, and equally valuable. You've invested heavily in ERP and it's the important first step. First, you need the Enterprise Approach in place and then you can build through to the Outside-In needs of the broader market. There is a gap that needs to be bridged between the two, and today we see a variety of approaches.

Currently, it's handled with people, it's handled with one off projects with varying success, it's handled with new and expensive ERP modules (these don't typically come without big consulting fees), or it's handled with a wide variety of web portals. In all reality, it's handled with a combination of all of these approaches. Unfortunately, none of these can scale efficiently enough to keep up with rapidly evolving market requirements.



How to Enable Outside-In Success

Adapting Your Supply Chain for Success

Today's environment has many challenges which results in high volatility and risk with decreased visibility and predictability across your supply chain. Your success in the marketplace is determined by how you adapt to the environment, proactively or reactively.

The consequences of this new reality are significant. Examples include: losing sales to competitors because a manufacturer didn't properly anticipate demand or paying extra inventory costs because too much material was purchased before a time of falling prices. These hurt your ability to price competitively in the market leading to decreased market share and supply chain inefficiencies.

Two Powerful Forces

The Customer Focused Approach is enabled when you integrate across as many trading partners as possible. As critical mass is reached, you can execute the Outside-In supply chain with most all of your trading partners, not just a few or a select group of them.

A customer focused approach takes two things...

- 1) Flexible, adaptable business process applications
- 2) A supply chain ecosystem

Applications in and of themselves are nothing without the ecosystem. Combining those applications with a real supply chain network is the key because the applications are able to work with the outside world.

Some supply chain solution providers are able offer supply chain applications, yet lack a Network to build those applications upon, severely limiting their power.

For example, you may have an application to swipe credit cards to make a sale, but without the network, you're unable to immediately capture an authorization from the bank. Or, more specifically in our world, what good is a logistics application if it can't send a load tender motor message to a carrier, or what good is a VMI solution if you are not getting continual inventory and forecast feeds from your customers?

While other solution providers offer a Network, they lack the ability to extract data from the business documents on their Network in order to build real powerful supply chain business applications.



To implement and operate a fully integrated supply chain, choose a solution that offers both powerful forces, Supply Chain Applications and a Supply Chain Ecosystem. Look for:

Fast & easy partner on-boarding with...

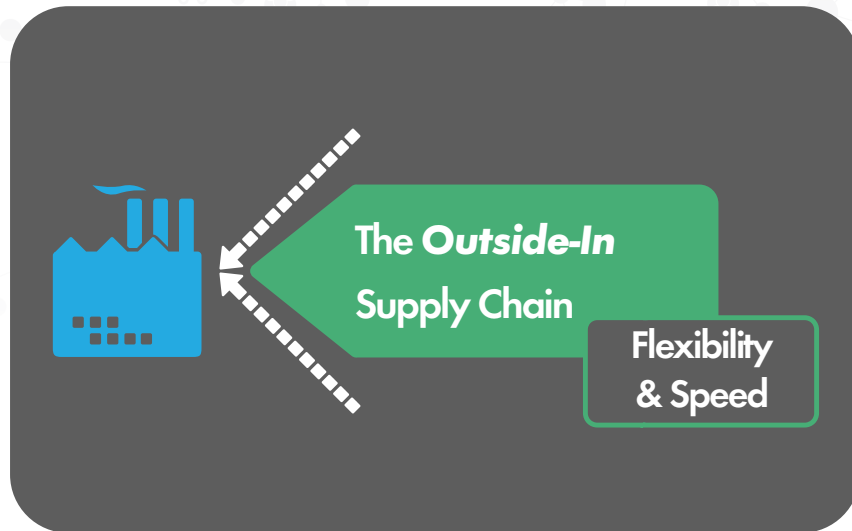
Integration tools to minimize barriers to on-boarding & Self service testing

Clean and actionable data giving you the ability to...

Enforce business rules before data gets to your ERP & Manage master data online

Clear visibility into business issues with...

Proactive alerts & notifications & a Transaction dashboard



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Inter-Company Results:

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Recognize Impact of Resource Decisions on Entire Value Chain



Taking the Next Step

So, what's needed? Manufacturers - with all their trading partners - must collectively sense and properly respond to demand and supply changes in the market. You can address the Inside-Out supply chain. However, you need additional resources to bridge the gap to really meeting customer needs. Those are...

1. **Automation of Customer Driven Processes** - The outside-in supply chain cannot be successful if the bridge between your Enterprise and the Customer continues to be manual and costly. Automation in the Enterprise must be extended out through to the customer's processes.
2. **Broad and Deep Trading Partner Integration** - Automation programs should be across the entire supply chain, and with as many trading partners as possible. And that integration must be industrial strength.
3. **And finally, Real Visibility** - This includes, understanding where you have product, understanding where you have materials to make product, understanding delays in shipments, and understanding market demand.





Global Headquarters | Wayne, Pennsylvania

550 E Swedesford Road
Suite 310
Wayne, PA 19087 USA
Phone: +1 610 786 1200
Fax: +1 610 786 1240

Elemica | Frankfurt, Germany

5th Floor
Herriotsstrasse 1
60528 Frankfurt am Main, Germany
Phone: +49 69 66123 0
Fax: +49 69 66123 200

Elemica | Tokyo, Japan

KY Kojimachi Building 1F
5-4 Kojimachi Chiyoda-ku
Tokyo, Japan 102-0083
Phone: +81 3 3238 5721

Elemica | Atlanta, Georgia

780 Johnson Ferry Road
Suite 400
Atlanta, GA 30342 USA
Phone: +1 678 514 3700

Elemica | London, United Kingdom

180 Piccadilly
London, UK
W1J9HF
Phone: +44 20 7917 2816

Elemica | Singapore

9 Battery Road
#11-01, Straits Trading Building
Singapore 049910
Republic of Singapore
Phone: +65 6597 0964

Elemica | Amsterdam, The Netherlands

Building Officia I
De Boelelaan 7, 7th Floor
1083 HJ Amsterdam, The Netherlands
Phone: +31 20 504 1500
Fax: +31 20 504 1501

Elemica | Seoul, Korea

Floor 10, Jarim Building, Suite #1015
566 Dohwa-dong
Mapo-gu, Seoul 121-815
Korea
Phone: +82 2 561 0825

