



It's all in the name!

A B2B Collaborative Commerce Primer
Will the real meaning of Value Chain Management please stand up!

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Introduction

When two people get married the priest identifies the individuals to the congregation with the names given to them by their parents at their birth or christening. To the congregation and the parish the names are sufficient to uniquely identify the persons involved. However, in the wider world, the names may not be unique. To the federal government, for example, a unique social security number is used to ensure uniqueness of the individual with respect to the systems employed. This is true of most developed countries with national systems, such as the welfare state in the UK.

The principle here is that a person has a series of identifiers describing one to ensure that we each know whom we are concerning ourselves about. A name or serial number ensures integrity of the contact, preciseness of intention, and simply makes living in the wider world much more convenient. Without names or serial numbers, systems and society would not work. The difference here is that names and serial numbers have precise meanings and are not revised that frequently. Changing them too often would be very difficult to manage and actually undermines the very systems that employ them.

With "marketing" however, we *deliberately* revise the meaning of names, or change the meaning of established words.

About six years ago the phrase "Supply Chain Management" came into vogue. Today the hottest word is "Collaboration". The real reason behind the popularity of the term or name is "marketing", which should not be mixed up with which business processes that are in vogue. After all, what is in a name? A marketing concept concerns itself with "owning" a word or concept in the mind of the targeted prospect. Because of this kind of marketing, the very meanings of the names we are familiar with across industry have become blurred. Such names as Logistics, Supply Chain, Supply Chain Management, Enterprise Resource Planning, and so on - all have become confused and mixed up. Marketing professionals often deliberately change the meaning and use of these phrases and names for their own purposes. A little review of history will show how this confusion has been manifested with respect to the meaning of Supply Chain Management. Its meaning was lost and now has been re-launched under a new name, that of Collaboration. This paper will conclude by proposing a business model that integrates ERP, Supply Chain and several other key industry terms in a non-argumentative way.

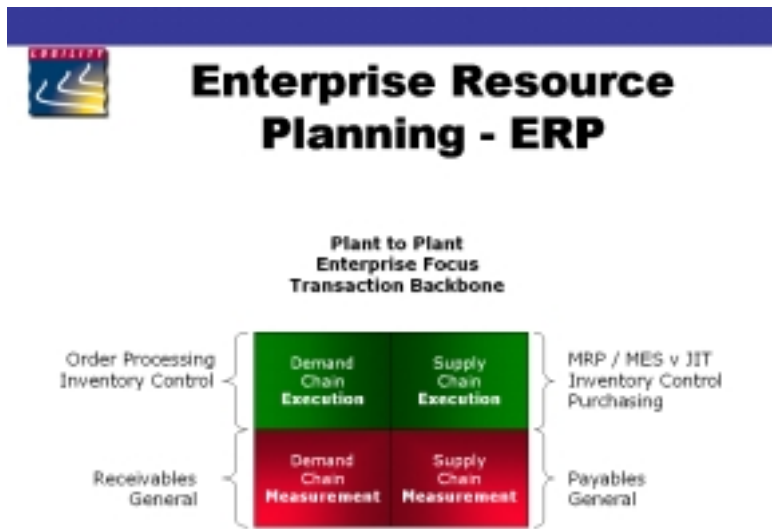
Historical Perspective

Army Supply and Logistics

During the Second World War the word or name "supply" had a specific meaning. Generally it referred to the process by which weapons, ammunition and other materials were moved from the rear areas to the front lines or intermediate "supply" points. As an army moved forward into enemy territory the "supply" process became more complex because of the distance to be covered to achieve "supply". Consequently supply is a critical process in war. When Russia's Winter offensive of 1941 and Summer offensives in 1942 and 1943 over-extended itself beyond its feasible "supply" radius, the army movement ground to a halt. The distance was just too great and the supply lines were just too strained. After a period of time the supply points and intermediate depots were replenished, so too was the "supply" process extended further into the freed Russian territory - and so the offensive could once again continue. After WW II the name "Logistics" was "marketed" to describe this supply process. The term logistics came to mean the physical side of the movement of materials. In the business world the use of logistics as a process came to represent functions such as transportation, warehousing and so on; i. e. the physical movement and management of the movement of goods from the rear (supplier) to the front line (customer).

MRP - remove the P and add an E

Back in the late sixties, with the beginning of the Material Requirements Planning (MRP) era, people began to see the need to include a better set of transaction systems in their development strategies, along with the quite common production planning and master scheduling systems. This resulted in the need, drive and final deliverance of what became known as Enterprise Resource Planning, or ERP. It was unfortunate that the word planning was part of the name since the newer tools used to "do" ERP provide very little planning. They focus on the physical movement and accounting and measurement of goods. However the business need for ERP systems was and is great. Indeed it is a multi-billion dollar worldwide market today.



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From MRP to ERP
But little "planning" to be seen

During the 1960's and 1970's the groundwork for what became known as Supply Chain Management was laid. When one looked at the logistics of an organization, (the task of supplying products made from raw materials to customers in the form of finished product), companies gradually realized that there was another way of looking at things. Since all business processes concern themselves with "planning", "execution" and "measurement"(or "control"), logistics could be examined and managed with the same framework. What was missing however back in the 1960's was the understanding that all three aspects are required in suitable amounts to be good at the task in question. Over time, to make the raw material and finished product physical movements, i.e. the logistics, effective and efficient, people had to plan the processes, to anticipate both the process capacity and the material requirements. Consequently several other business initiatives evolved: that of MRP II from MRP, and consequently DRP. Manufacturing Resource Planning and Distribution Resource Planning were early attempts by businesses to supplement the physical movement and accounting of goods with the planning of the goods flow. This resulted in the drive to provide "the right product at the right place at the right time", and later, "at the right cost."

The 1990's revisited

Supply Chain Management is born

Supply Chain Management (SCM), as it was originally conceived, focused on the movement and flow of products and *information between* trading partners. It did not focus on inward processes but on the processes that existed between trading partners. Some companies realized that this focus was synonymous with the planning elements required to make logistics work properly. However, marketing people got involved. They did not want the term logistics to lose face, so the terms "supply chain management" and "logistics" became intermixed. In 1990 one could easily go to a seminar or read a paper on logistics and supply chain management and assume these were identical processes. The original concepts were different, but the marketing people confused the issues.

Today, almost every consulting and software company in the known universe now uses the phrase "supply chain management". Even real businesses use that phrase. All of a sudden we all now need to "do" supply chain management. However, the ERP systems that simply were in the market did not provide this level of functionality. This wonderful concept did not appear as a possibility for any of the companies spending the millions of dollars on ERP implementations. The realities are already setting in – proven by the recent moves by SAP, Oracle and PeopleSoft, three leading ERP vendors, who are rushing to add their own albeit basic level of Advanced Planning and Scheduling software.

So ERP now includes SCM?

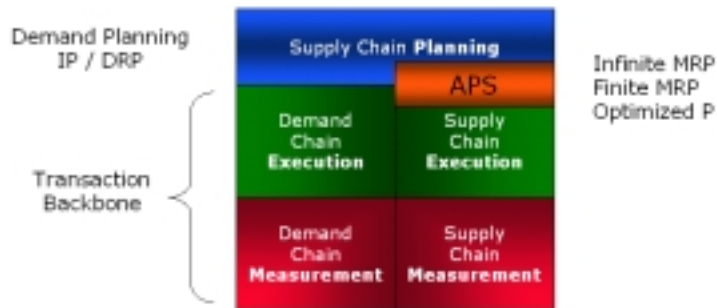
So to minimize the gap and gloss over the missing functionality, and to buy the time necessary to add the planning or SCM tools to their stable of products, the ERP companies began a deliberate move to "own" the phrase SCM. For example, SAP, the worlds largest and most successful ERP provider, overnight changed it's message from the leading provider of ERP systems to the leading provider of SCM systems –

without actually adding any new products or features. The size of SAP dictated that all other ERP vendors had to follow suit. At a stroke, the market known as SCM was now part of ERP. All the niche providers that focused on “planning” systems related to logistics and partner relationships had just lost the war of words.

Thankfully, some innovative consulting company introduced the phrase “advanced planning and scheduling” (APS) to represent the remaining planning functionality that was preserved by the vendors in this space, such as Logility. The obvious implication is that all the ERP vendors may or may not deliver SCM functionality, whatever the phrase SCM means, but they sure do not deliver what is known as APS. Historically however, “APS” itself is a term that grew out of the finite scheduling models that were added to MRP in the Eighties to assist in the improvement of the MRP processes. However, the term APS has grown to include distribution, transportation and demand optimization. But beware – several writers will use APS to mean plant planning and optimization exclusively and others will use it liberally.



Finite Scheduling to APS: 1994-5



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Supply Chain Planning preceded APS,
But APS subsumed SCP

A Name suitable for the Year 2000

If one actually takes the time to analyze what people do at work, one can make some useful, insightful and communicable determinants. The first is as old as the hills. Every operational activity undertaken in a firm is focused on Planning, Execution or Measurement. Execution represents the physical creation and movement of products or materials; Measurement represents the counting of products and materials that are relevant to the performance of the execution activity, and Planning is the various activities that ensure the right products or materials will be in the right place at the right time at the right cost to ensure effective satisfaction when the (physical) order turns up.

It is a strange and often misunderstood point that the bulk of the time spent by management leaders in the last 20 years has focused so much time and money on the physical movement and accounting of goods. The physical creation, movement and measurement aspects of the equation represent ERP. It is generally recognized that ERP concerns itself with efficiencies. And for the last few years many companies have saved millions of dollars on “simple” efficiency drives. But the very foundations, the essence of ERP, have absolutely nothing do to with “the removal and elimination of barriers between trading partners”.

What about Collaboration?

What you might not know is that the word collaboration actually has a sour taste in certain parts of the world. During World War Two (yes, we’re back there again!) after the fall of France, the German Wermacht set up a puppet French government referred to as Vichy – for the land mass of France so named that the puppet government had control over. ‘Collaboration’ was a word used by the occupied and “true” French people who hated subjugation and oppression for their country folk who actually worked with the German occupiers. It was a sour experience and so the word has sour connotations in France.

Ignoring the history lesson, the word “collaboration” has gone through the same process that SCM did with respect to ERP. During 1995 and 1996 two particular companies pioneered new business processes using the Internet. A year later an industry move was born that replicated the earlier work but now with the weight of several very large retail organizations. This industry move resulted in another new acronym, that of CPFAR – or Collaborative Planning, Forecasting and Replenishment. In fact the history does mark CFAR, Collaborative Forecasting and Replenishment, as the forrunner to CPFAR. The point here is that the definition of Collaboration is “the removal and elimination of barriers between trading partners”. Guess what? The ERP vendors, spotting another “hot ticket” are about to make a play for the word and concept associated with “collaborative planning” even though they again provide very little in terms of tools to achieve such goals.

But what some vendors focus on for their existence, like Logility, are the tools to enable true collaboration between trading partners. This collaboration involves, as we shall see, sharing of important plans and data across the inter-company spaces. For the Millennium, this is being called Business-to-Business (B2B) Collaborative Commerce.

Will the real meaning of Supply Chain Management Stand up: A proposal.

The graphic following is my attempt at a business model that should keep everyone happy. Since every presentation you see assumes you understand what is meant by “Supply Chain Management” or it tries to explain it, I have found this graphic useful in getting everyone I meet to an agreement point – that is, what is the “big picture?”

This graphic synchronizes the meaning of several themes introduced by this paper and introduces one new one. Integrated are the concepts of ERP, SCM, Plan, Execute and Measure, with Demand Chain Management, or DCM.



Adoption of Internet Collaboration 1997



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A perfect model?
ERP, APS, SCP, SCM, and Collaboration across
All trading partners and processes

Concepts explained in this graphic:

Demand Chain Management (DCM) versus Supply Chain Management (SCM)

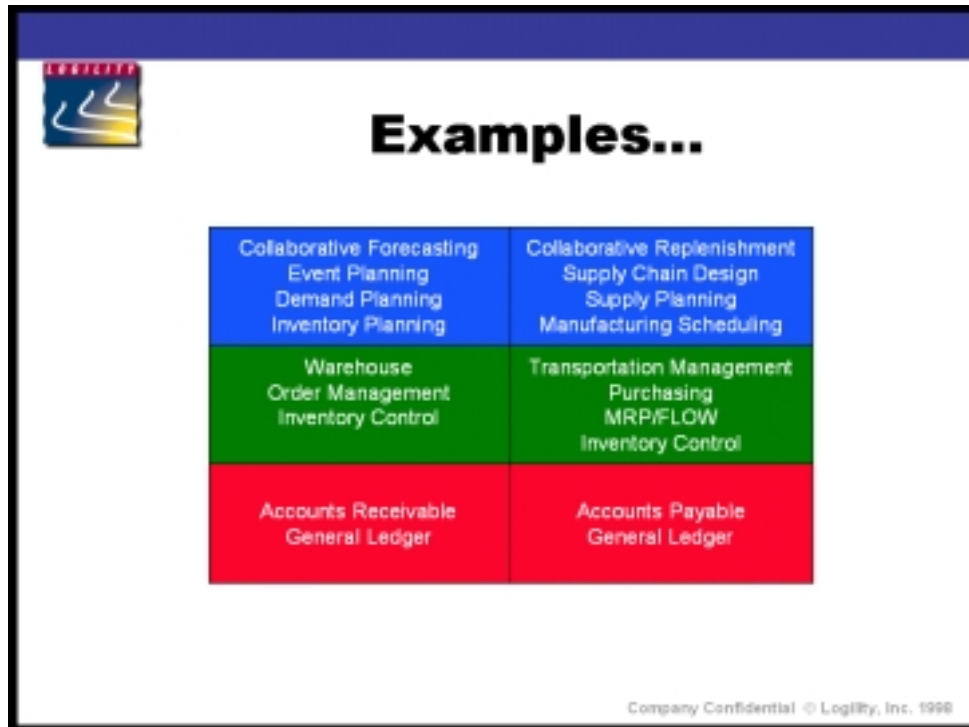
DCM is all of the processes (plan, execute and measure) associated with your organization's customers and markets including external factors. SCM are all of the processes (plan, execute and measure) associated with your organization's ability to meet such needs, including your own capacity and your supplier's capacity. Taken together, DCM and SCM equate to Value Chain Management – the series of value-add steps synchronized from raw materials to end consumer.

Planning, Measurement and Execution

Execution is associated with the physical side of product creation and movement from one end of the Value Chain to the other. Planning concerns itself with anticipating an order (demand). Measurement is the third phase of the Value Chain Process and relates to the performance and transaction capturing side of a business – such as the financial suite. Planning includes all those steps that must be in place in order to anticipate and prepare for the eventual execution order. Planning is synonymous with information.

Logical extensions that combine the previous concepts lead to Demand Chain Planning, Supply Chain Planning and the combined Value Chain Planning. Demand Chain Execution and Supply Chain Execution combine to give Value Chain Execution; and Demand Chain Measurement and Supply Chain Measurement combined provide Value Chain Measurement. In all cases this is a logical and meaningful presentation of often-quoted and often-misunderstood concepts.

Here is an illustration of these points:



Demand Chain and Supply Chain Collaboration

Demand Chain Collaboration concerns itself with all the customer and market-facing processes in your organization – such as Collaborative Forecasting (a Planning function) and Collaborative Order Processing like Dell Online (an Execution function). Supply Chain Collaboration concerns itself with all the supply and supplier-faced processes in your organization – such as Collaborative Replenishment in planned receipts (a Planning function) and Collaborative MRP (an Execution function).

ERP and Logility

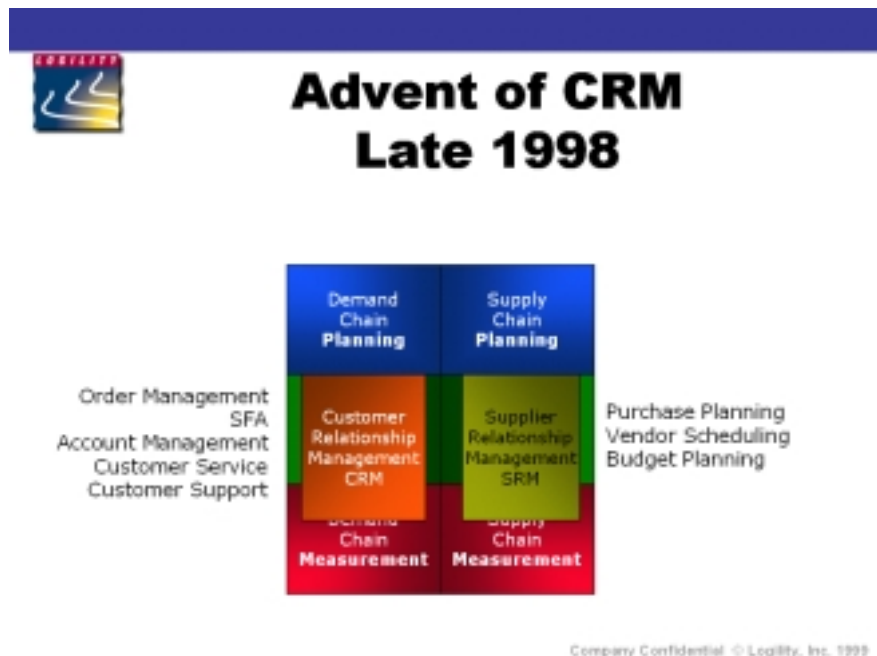
ERP provides for Execution and Measurement processes across the full Demand and Supply Chain – and is beginning to provide some limited and basic Planning functions in some areas. Logility specializes in the Planning processes across the entire Value Chain, i.e. both the Demand and Supply Chain.

Today, the ultimate in the naming game is **B2B Collaborative Commerce**. The use of the word “Collaborative” here represents all Internet-based processes – including planning, execution and measurement. However, only true collaboration “changes the transaction and hence the nature of the relationship between trading partners”. And there is a test you can exert to determine if a process is true collaboration. Look at the data or information in question and ask: “is this jointly derived? If the data is jointly derived through a process, it is true collaboration. CPFR as explained above is the earliest example of this. There are other areas that are evolving

including Collaborative Promotion Planning and Collaborative Product Design. If the data in question has not joint component, then it is of the false collaboration model.

The Advent of Customer Relationship Management (CRM)

Late in 1998 at AMR’s Fall Conference, a whole track was dedicated to a “new paradigm” – that of Customer Relationship Management, or CRM. A full day and a half was spent describing what CRM is which software vendors were providing for the technology. At that time, CRM consisted of Sales Force Automation, Account Management and Customer Service. Generally it could be seen to be several “traditional” business processes that were initially being deployed “as is” over the Internet. Hence they were attracting much attention.

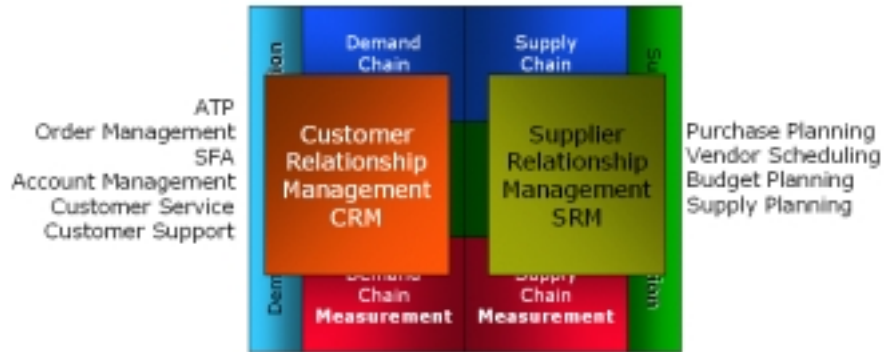


The Original Scope of CRM
And the natural implication of SRM

Then in early 1999 AMR Research and others started to realize that the very name “Customer Relationship Management” was a give away – anything that touches a customer is Customer Relationship Management. Therefore there was a mad rush to add to the stable of CRM tools the following: Available to Promise, Order Management, Order Entry, and, ultimately, Collaborative Planning. Now we have come full circle. What is actually very new and innovative is being swallowed up in another industry initiative. What is true today however is that there are two flavors to CRM. The older, “brain-dead” ERP suppliers are simply deploying their old screens inside a browser and calling themselves CRM vendors. These are virtually useless and should be shunned by users. Then there are a second group of real CRM vendors that are building from the ground up applications that exploit the Internet. These are highly valuable to end-users as they represent a critical evolution in enterprise and value chain business management tools.



CRM Vying for Vision



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CRM's final resting place – the elimination of ERP
and "ownership" of Collaboration

But I have one other question. If one creates "CRM", should this not imply "SRM"? If we have a customer relationship process why should we not have a supplier relationship management process? Surely the suppliers are just as critical as the customer in order to succeed and win! I would expect that some vendor will introduce some time in 1999 or 2000 an SRM solution.

Summary and Conclusion

This short paper dates to explain why the very success of the original business process and hence name "Supply Chain Management" has been its undoing. Today the phrase SCM is virtually meaningless. The new mantra is that of Value Chain Management – which fairly and logically describes what ERP and other Advanced Planning and Scheduling vendors provide. As we look forward to the Millennium, even Value Chain and APS is losing ground to the **B2B Collaborative Commerce**: processes that enable "jointly development" of information needed by both companies that "change the nature of the transaction and hence the relationship between them.