



Supply Chain Planet

For a Global Supply Chain perspective

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Cost Savings for the Courageous

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Supply chain costs and their impact are all too often shuffled to the bottom of the 'to do' list for many companies. However, those companies that have performed an honest analysis of their operation and made a commitment to practical and integrated solutions with their trading partners have created significant returns to nearly every link in the chain. A candid review of company performance will unveil the overlooked contributing costs and open doors to competitive advantages that only the courageous are likely to achieve. In the case of one successful high tech company, Thales Avionics, the journey has just begun but with such positive results up and down the supply chain within the first six months, there is no question of a strong return on investment.

Getting to know Thales Avionics

Established in France more than a century ago, Thales is a global electronics company serving Aerospace, Defence, and Information Technology markets worldwide. With the scope of technology, operations in more than 30 countries and 65,000 employees, Thales touches our lives more than we realise. One division in particular, Thales Avionics Limited (TAUK) can't go unnoticed for their recent work in the area of supply chain cost reductions.

The long term success of Thales will rely on more of the same wisdom that has inspired this successful division to reflect deeply on the question... *'What can we do a better job of to secure the future?'*

The challenges were recognised

Procurement Manager, John Mansi recognised most of the issues challenging the Supply Chain of the TAUK operation. John's instinct was to seek an objective analysis to help validate the issues, their impact and solutions that would bring rapid and lasting results. Thales hired an external resource to perform a Quick Diagnostic on-site. During this initial diagnostic phase the overall Supply Chain Maturity of TAUK was analysed against Best-in-Class practices. The result was clear.

In order to achieve the revenue and profit goals set forth by the group, further attention needed to be given to processes and enabling tools, to manage the supply chain inside the walls of Thales as well as outside - across the enterprise to include Thales customers and suppliers. Prioritised actions were:

1. Reduce inventories in all areas (raw materials, work in process and finished goods)
2. Reduce vendor lead-times and outstanding order commit
3. Increase supply chain flexibility and responsiveness
4. Improve Supplier On-Time-Delivery to request

5. Build a model which can easily support primary manufacturing business of make-to-order Thales products as well as contract manufacturing initiatives
6. Take cost out of collaboration efforts with customers and suppliers
7. Automate transaction heavy processes to allow growth without increased overheads
8. Enhance performance management techniques providing for clearer, more decisive decision making

Through a detailed business case at project initiation, quantitative goals were placed on these initial actions establishing the financial metrics, which drove accountability from day one and preserved the project's credibility.

Important considerations in the Design and Delivery of a Supply Chain Solution

As a procurement professional, John had to be sure that the project was planned as a series of integrated steps and that he was selecting the *'right'* solution provider for the job. Due to the highly interdependent nature of functions it was agreed nothing should be changed in isolation. For example the decision to reduce the effective lead-times, used to drive MRP, required input from the supply base and coordination between manufacturing and procurement. The order of the tasks was considered for their implications.

This complexity raises the importance of project management as a full time role. The allocation of a project management resource emphasizes management's commitment, builds momentum and can be fulfilled with an internal or external resource. At the top of the qualifications list for project management the individual must have a wide perspective on the business, with superior communication and organisational skills and the ability to elicit the team's respect. In Thales' case they had the opportunity to complement internal resources, with an external resource, from the beginning of the project and this proved to be a catalyst to accelerate the project initiation and drive the necessary momentum for change.

For TAUk, important considerations in choosing the right solution provider included:

- A non-intrusive application that leveraged prior investment in core systems
- Feature rich functionalities that were scaleable
- Demonstrated capability of the solution
- Competency to take a multi discipline approach and drive needed business process changes prior to the implementation of the new technology
- Phased, safe implementation approach allowing for small victories along the way
- Confidence from the management team
- Achievable ROI demonstrated through a sound business case
- Solution provider commitment through a pay-for-performance element

Following a rigorous review process, Accede Solutions was selected as the solution provider. This decision was preceded by a quantitative estimate that the team and the project would be measured against, in order to report any success.

This approach offers two subtle lessons in winning the long term. Quick and visible early success energises a team to dig deeper and reach higher for lasting results. The holistic perspective, recognising the contribution and impact of each

link, gives the project an inclusive characteristic that attracts support across the supply chain.

Through the Business Case, the implementation of the software application and the execution of the proposed business process engineering activities, significant and measurable cost benefits to Thales Avionics were identified. An estimated cumulative cost saving of a minimum 8.5 times return on project cost after the first full year of operation was on record.

The Thales Supply Chain Project **Phase 1** of the Thales implementation focused on the '*quick wins*' and included:

- Simplifying forecast data exchange for timely information exchange on projected requirements
- Automating order exchanges between suppliers and Thales and thereafter integrating the order response to confirm safe order receipt and confirmation that the order details were accepted
- Designing a Supplier Quarterly Business Review (QBR) template and developing a Balanced Scorecard to enhance proactive supply chain communication
- Implementing Demand/Supply Balancing process to ensure that the inventories were optimal while improving on-time delivery
- Establishing Contract Management and Business rules to ensure supply chain discipline and track liabilities
- Cleansing and maintaining a single Part Master database to improve the integrity of data transfer and use preferred parts where their was a design and/or price advantage
- Mapping core processes to identify unnecessary steps, process time and indirect impact of proposed changes
- Training and change management to increase awareness and allow the Thales team to embrace the supply chain revision for maximum results

Phase 2 will extend the project benefits further up and down the supply chain by adding:

- Automated Request-For-Quote functionality
- Order and Forecast Response exchange
- Application support for non-EDI based trading partners
- Associated process mapping, training and change management for the above

In addition, Thales will ensure its competitive position by participating in a formalised Benchmarking process to gauge its relative performance against the Defence/Aerospace industry population.

The Results Achieved to Date

Return-on Investment Six months into the project, Thales Avionics can report achieving over a *5X Return-on-Investment*, ahead of expectation and primarily driven by Gross Inventory reductions.

Supplier Performance

In addition, through the introduction of supplier collaboration and quarterly business reviews, held in conjunction with top-tier suppliers, average *supplier lead-times have been reduced by more than 50%*. Each of these suppliers now receive a *balanced scorecard* of their performance helping them to identify issues

and increase their service levels subsequently increasing the end-customer On-Time Delivery.

Employee Productivity

Driven by increased demand in both TAUk primary products as well as new contract manufacturing requirements, the Procurement Department has had to become much more efficient - able to achieve *4x the amount of order processing with no increase in staffing.*

Increased Revenue

Increased functionality will contribute greatly to the winning of new customer contract manufacturing orders such that the *2003 sub-contract revenue goals will be surpassed significantly by the end of the year.*

Success is straightforward psychology, when employees, customers, suppliers not to mention management, are the benefactors, momentum builds and the project has a better chance of achieving the success outlined in the business plan.

What Thales says about Their Supply Chain Project

'We are very happy with the measurable impact we have been able to achieve thus far as a result of our Supply Chain Project. The results speak for themselves. We saw clearly our Supply Chain vision, but needed the Accede Solutions technology and the business process changes to be employed in order to achieve it. We now have a competitive and sustainable business model.' John Mansi, Procurement Manager, Thales Avionics

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