REAL WORLD CASE 4

HP, Eastman Chemical, and Others: The Benefits and Challenges of SCM Systems

Computer maker Hewlett-Packard Co. (www.hp.com) began moving its supply chain online in 1999 and has already seen significant benefits. To pick one small example, HP linked together all the companies whose products go into making its computer monitors, reaching all the way back to the suppliers of the resins that are used to make the casings. In the process, HP says, the price of the resins has dropped as much as 5 percent because HP handles all the purchasing and gets a bulk rate; in the past, the numerous companies that HP used to make casings placed their own, far smaller orders.

HP says the number of people required to manage the supply chain for its monitors has been cut in half. The time it takes to fill an order for a monitor has also been cut in half because every company in the supply chain can communicate more easily and thus cooperate better. HP says that moving the supply chain online has even increased monitor sales by 2 percent. The reason is that the company is no longer losing orders because it can't deliver the right product at the right time.

You don't have to be a goliath like HP to see the benefits, says Bernard Cheng, chief executive of Advanced International Multitech Co. (www.adgroup.com.tw), a Taiwan-based manufacturer of golf club heads and shafts with $70 million in annual revenue. He estimates that his company spent $3 million in the past five years digitizing its internal operations, as well as its links with buyers such as TaylorMade Golf. "That's a lot of money for a company our size," Cheng says. "But we believe in the technology. It's what an offshore company like ours needs to get involved with businesses in the West."

Eastman Chemical Co. (www.eastman.com), which generates revenue of $5.3 billion a year and orders huge quantities of propane, ethane, and hundreds of other raw materials on a daily basis, believes so strongly in online procurement that it has bought stakes in a handful of software developers that specialize in that area. Eastman—which spent upward of $10 million on its own e-procurement system launched two years ago—asks its software partners to make presentations to its suppliers pointing up the advantages of going digital.

Eastman will sometimes retrofit a supplier's website so Eastman can send purchase orders to the supplier and handle other exchanges of data electronically. Eastman also has established a central extranet website to allow for at least minimal online contact with suppliers that may use nothing more sophisticated than spreadsheets, personal computers, and browsers. "We bend over backward to bring someone into the loop," says Peter Roueche, a senior procurement engineer at Eastman. "We can't live in a vacuum." In 2000, Eastman forged direct Web connections into the procurement operations of 15 suppliers. Their 2001 goal: 40.

W. W. Grainger Inc. (www.grainger.com) says a fast-growing piece of its business likely couldn't exist without online connections. The unit, FindMRO.com, lets customers of the industrial-parts distributor locate even oddball items that they rarely use, such as bear repellent for workers on the Alaska pipeline. The company deals with 14,000 suppliers hawking more than five million products. "We take the messy, random, and overwhelming tasks that you don't want to do, and do them," says Ron Paulson, the general manager of FindMRO.com.

If the benefits are so clear, does that mean that every company is rushing to link up with suppliers and distributors online? Hardly. Mark Leposky, of TaylorMade Golf, says suppliers have been "under-interested" in doing anything technologically. "I'd say 50 percent of [prospective] vendors will walk away" from business with TaylorMade rather than go online, he adds. Paulson of FindMRO.com agrees that persuading suppliers to take the e-train is often easier said than done. "There is still some fighting and screaming," Paulson says.

Suppliers—particularly the smaller ones employing fewer than 500 people—say that the software and procedures prescribed by manufacturers can be confusing, often contradictory, and not necessarily sculpted to their needs. These smaller companies, which make up 95 percent of the 6.6 million businesses in the United States, also say they are concerned about the cost of the new systems, a worry that has been magnified in a slack economy.

Then there's the often impenetrable technical jargon used to describe the online processes. For example, a small business in the sheet-metal industry thinks about classic supply-chain issues in simple terms. Do you have the part? How many can I get? When can you deliver? How much will it cost?

But the software companies and consultants that often help implement moves to the Web often use buzzwords like "transparency," "visibility," "tagging and flagging," "exception management," "CPFR," and "XRM." "The smaller suppliers feel threatened by the whole thing," says Bill Burke, the president of First Index USA, which sets up online marketplaces for suppliers.

Case Study Questions

1. Why can both large and small businesses cut costs and increase revenues by moving their supply chains online? Use the companies in this case as examples.
2. What is the business value to Eastman Chemical and W. W. Grainger of their initiatives to help their suppliers and customers do business online?
3. Why are many small suppliers reluctant to do business online with their large customers? What can be done to encourage small suppliers online?

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