

## **Integrating Supply Chain and Customer Relationship Management to Leverage Economies of Information**

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Most companies today conduct supply chain management (SCM) and customer relationship management (CRM) activities separately. Net result: Too much information tends to slip through the cracks. This can lead to both service failures —companies struggling to fulfill orders from their most valuable customers — as well as handle the high costs associated with excess inventory. In addition, keeping these activities separate means that companies can't identify their most desirable customers, and thus fail to initiate efforts to attract and retain them.

Smart companies are using sophisticated technologies to integrate SCM and CRM. This allows them to ensure that they can identify valuable customers and effectively meet their needs, from the initial order to delivery to post-sales customer care. They can offer different services to different customers, taking into consideration a customer's or customer segment's lifetime profit potential. Once companies have defined a customer's lifetime value, they can then appropriately deliver value across the supply chain. Net result: Increased loyalty among the best customers, repeat business, and a significant boost to the bottom line.

For example, Herman Miller, a leading manufacturer in the traditionally slow-moving furniture industry, is using a tailored internet site and a networked supply chain to allow customers to design and order customized furniture online. The furniture is then shipped directly to the end customer from a plant or through established dealers. More than 500 of the manufacturer's suppliers are hooked into the system, giving suppliers access to manufacturing and inventory data. The suppliers can then provide just-in-time parts for final assembly, keeping Herman Miller's inventory levels low and ensuring speedy delivery. Customers and suppliers have expressed satisfaction with this seamless integration. The process has reduced the time it takes to build and deliver most orders by more than a week and has boosted on-time shipments from about 75% five years ago to nearly 98% today. On the customer side, Herman Miller's most valuable customers get some additional advantages, including special rates available on a customized site called EZ-Connect.

Dell Computer is another company that has effectively tailored service levels according to customer value. It continuously re-segments its customer base, using buying patterns and other information to estimate the lifetime value of each customer or customer segment. Dell then designs the most profitable marketing, sales and customer service relationship. It uses this robust information to create tailored Websites called Premier Pages —it has more than 27,000 thus far —where companies like Boeing and Eastman Kodak place and track orders, get technical support, learn about the technology configurations of their purchases and preview future products. As a result of the positive customer experience offered by Dell, the company enjoys one of the highest levels of customer loyalty in the industry.

At the same time, Dell collaborates with suppliers, making 90% of purchases from its 33 most important suppliers through a portal called [valuechain.dell.com](http://valuechain.dell.com). The site helps suppliers track orders and shipments and understand how they measure up to Dell's exacting standards in product quality and just-in-time delivery. Dell also shares key data including demand forecasts over the site. By working closely with suppliers, Dell has reduced its inventory to just six days – one of the lowest in the industry.

So what does it take to work more closely with customers and suppliers in this way? How do companies successfully achieve this integration?

Many companies blindly attempt to appeal to the widest possible customer base, without determining which customers are the most profitable. Dell has been so successful because it has a strong understanding of who its most important customers are and their value to Dell. Once you understand which customers you're targeting, you need to understand their needs. What products and services do they buy? How do they like to buy? Which channels do they use most?

Most customers will interact with your company through multiple channels, including face-to-face contact, your Website, the phone, e-mail and fax. Not only must the interaction be seamless, but there is the need to understand what customers expect through each channel as well as the potential revenues and costs per channel.

Historically companies have carefully guarded customer information as well as their own forecasts. However, your supply chain partners need access to real-time information on changes in lifetime value and customer requirements. They also need insights into your inventory, your forecasts and new products coming down the pipeline.

Not all customers are equal, and you need to be prepared to commit resources according to the value of individual customers or segments.

Interactive, internet-based applications can provide customers with direct access to critical information and services. By allowing customers to configure and place orders independently or find the status of orders whenever they choose, you offer greater convenience to the customer —while lowering your own costs.

Customer requests can be linked directly to the supply chain, enabling speedy order fulfillment. Cisco has created electronic links with key suppliers and customers across its entire product line. As a result, its suppliers now ship more than 65% of Cisco's orders directly to the customer without Cisco's involvement —significantly cutting delivery time and improving accuracy.

The benefits of integrating customer and supply chain systems are significant. First, it delivers tremendous operational efficiencies. Companies can reduce inventories and overhead, save money and improve accuracy. Returns and cancellations decrease. Through these gains in efficiency, companies can re-deploy people to higher value-added activities. For example, through distributing software and documentation online, Cisco was able to re-deploy more than

1000 engineers and more than 600 customer service representatives —while creating a more convenient experience for customers.

Second, this type of integration allows companies to set priorities more easily and effectively. Resources —including incoming component supplies, inventory and assembly capacity —can be dynamically committed to the most profitable customers if desired. Lead times to less profitable customers can be extended if needed and appropriate, reducing the need for safety stock across the supply chain (hence, reducing cost). On a real-time basis, employees in sales, marketing, service, production, warehousing, distribution and shipping will always know which customers take top priority.

Third, companies can respond more effectively to the customers who matter most, strengthening relationships with key accounts. Marketing, sales and service staff can provide detailed, up-to-the-minute information on product availability and new product introductions. Issues are resolved more quickly. Companies can deliver products more quickly and with greater accuracy. These service enhancements translate into greater customer satisfaction, longer-term relationships and, over time, increased sales.

Fourth, suppliers will be able to stay aligned with their customers and end-consumers because they have access to real-time information on changing demands. This, in turn, helps them plan more effectively.

Finally, such integration leads to greater job satisfaction —and lower turnover —for customer service teams, allowing them to spend more time delivering value to customers and less time resolving service failures.

In today's every changing economy, integrating SCM and CRM has become integral to increasing customer retention, return-on-assets and market share. It is the most powerful and effective way to achieve true balance between supply and demand —and will become one of the critical drivers of success.