

White Paper:

Total Cost Management & the Financial Supply Chain

Contents

Introduction	1
Total Cost Management	2
Physical and Financial Supply Chains	2
Benefits to Total Cost Management	3
Leadership Dedication to TCM	5
Challenges in Total Cost Management Initiatives	5
Summary and Conclusion	7

Introduction

The business practice of Cost Management is not new. Companies have always strived to lower costs in order to increase profit. The ongoing need for cost control and business process improvement has led to some major breakthroughs that continue to change and reshape the business landscape. Innovative breakthroughs, from the assembly line to the most recent advancements of ERP systems have rapidly become standard practice throughout business and industry and continue to yield significant savings in the cost of doing business. However, ongoing competitive pressures and declining margins necessitate continued innovation in cost management initiatives in order for a company to continue to stay healthy in today's environment. Cost Management is not an initiative that is ever complete. Successful organizations will remain successful by continuing to explore new ways of lowering costs and improving their business processes.

Enterprise Resource Planning, Supply Chain Management and Product Lifecycle Management tools have combined with proven practices and methodologies such as six sigma, target costing, lean manufacturing, throughput costing, standard costing, kaizen and activity based costing to provide a foundation for growth and change in today's business environment. To take full advantage of this foundation, though, companies must combine this with a new operational framework and intelligence to more efficiently plan, make and execute business strategies for the future. This new combined framework is "Total Cost Management".

Total Cost Management & the Financial Supply Chain

Total Cost Management

Total Cost Management (TCM) is a philosophy that leverages business processes and technology to enable organizations to dramatically improve cost savings and organizational efficiencies across the enterprise-wide financial supply chain, and into all facets of their organization. TCM is comprised of business processes that transcend all areas of an organization, including procurement, finance, engineering, sales and marketing to proactively manage all the fixed and variable costs of doing business.

CEO's are increasingly relying upon cost management excellence as a source of innovation and economic value-add (A.T. Kearney, 2001)

TCM is the competitive differentiator that will allow organizations to develop a deep understanding of the driving forces within the financial supply chain and model both real-time changes and forecasts to improve and impact business decisions and the bottom line. TCM integrates four key areas:

- » Business Process
- » Technology Architecture
- » Best Practice Costing Methodology
- » Continuous Improvement

TCM is an organic practice. The concept of Total Cost Management does not dictate that there is a single methodology that must be adhered to across an entire organization. Instead, TCM recognizes that there are localized processes and efficiencies that may only apply to distinct subsets of the organization. A successful TCM program will not just accommodate such nuances, but encourages each business unit or geographic region to find the processes and methodologies that are a best fit and then apply the TCM discipline across those processes and methodologies. The greatest value in a TCM program is that it provides global access and visibility to enterprise costs in a common way which facilitates collaboration and change management across the organization, while at the same time taking advantage of the individual differences throughout the enterprise.

Physical and Financial Supply Chains

Since the 1960s, organizations have implemented improvements to business infrastructure and process architecture centered around the traditional / physical supply chain where the focus is on improving logistical efficiencies in areas of who does what, when, where and how. While these improvements once yielded a high savings on the cost of doing business, attempts to gain additional improvement from this physical, or operational, supply chain are slowing and becoming harder to achieve.

White Paper:

Total Cost Management & the Financial Supply Chain

This slow down is due to the lack of integration and coordination between the physical supply chain and the financial supply chain. The financial supply chain incorporates cost management and business processes to provide a comprehensive view of an organization's needs from a financial perspective. The financial supply chain is focused on the bottom-line impact of decisions made regarding the physical supply chain. A tight integration between the financial and operational supply chains allows organizations to make informed decisions based on the relationships between cost and logistics, design & partners rather than on an independent view of any one factor.

Every decision regarding how a company will operate and manage its supply chain has a direct financial impact on the cost of doing business for that organization. Total Cost Management for the financial supply chain is effectively achieved when organizations have visibility into all potential situations involving supply chain decisions and the impacts of those decisions on the bottom-line, across the entire organization. Achievement of this total management view allows organizations to steer through the tough economic times of today and position themselves for growth and profitability in the future.

Benefits to Total Cost Management

Total Cost Management increases an organization's visibility into all supply chain related costs and brings

to light areas for cost savings across the enterprise, ultimately improving the bottom line. Implementation of a Total Cost Management program leads an organization toward unified partnerships and business units all leveraging one another for maximum cost savings and optimized process efficiency.

A dedicated pursuit of Total Cost Management in an organization yields the following benefits:

Global Vision – The establishment of a globally recognized "single point of truth," or System of Record is an immediate benefit to a TCM implementation. The provision of visibility and analytical capabilities on timely and accurate enterprise costing and supply chain information to all stakeholders facilitates global thinking which is at the very heart of Total Cost Management. Each organizational group within the enterprise will retain the ability to continue operations in a manner which leverages the local efficiencies associated with geographic location, line of business or business function, while basing this operation on common information available to all stakeholders in the enterprise. A Global Vision establishes an environment where decisions can still be made to maximize local gain while ensuring that gain is not to the detriment of the overall enterprise.

Increased Profitability – As organizations gain increased visibility into all costing and supply chain related information, meaningful analysis of that data

White Paper:

Total Cost Management & the Financial Supply Chain

will give light to the areas where partnerships can be better leveraged and processes can be improved across the enterprise thus minimizing the total cost of doing business.

Reduced Manufacturing Costs – With visibility into both the operational and financial supply chains, organizations are better positioned to make manufacturing decisions regarding outsourcing, material costs, vendors and service costs with the confidence that the financial impact has been fully comprehended. With this cross-functional analysis available, extensive modeling can be performed to examine the impact of all potential business decisions.

Efficient Supply Chain Collaboration

– Organizations gain added visibility into the end-to-end supply chain, better positioning them to collaborate with all suppliers and partners and pass the benefits of that collaboration on to the customer. It is this global visibility into all costs and into the nature of all supplier and partner relationships that allows organizations to more effectively negotiate and leverage relationships across the enterprise, and provide all internal business units the benefits of the best negotiated terms. When an organization gains visibility into the entire supply chain and provides visibility to suppliers and partners as well, all entities can work together to create an environment where all parties benefit and all are held accountable.

Costing Performance Measurement - The implementation of TCM and the adoption of a global vision, “single point of truth”, establishes an agreed upon baseline for enterprise performance management. Costing performance management serves as an excellent compliment to any business improvement initiatives organizations might have such as Six Sigma, Corporate Performance Management or Kaizen. In many cases, costing is the greatest leader for process and operational change, allowing organizations to quickly see results when coupled with other corporate performance management initiatives.

Improved Accountability - The broad-based introduction and implementation of a Total Cost Management program will make the entire organization more effective. TCM provides a global approach to the reporting of information and ensures that the entire organization is fully aware of the overall direction being followed that leads to early detection of any disadvantageous financial trends. Important to note is that the benefits of a TCM program extends the accountability beyond the enterprise, and into an organizations partners and suppliers.

Decreased Time to Market –To remain competitive in today's fast-paced environment, companies must do more than get their new products to market quickly; they must get them to market profitably. It may seem counter-intuitive that the establishment of a global vision, as well as common processes

White Paper:

Total Cost Management & the Financial Supply Chain

and sources of costing information would reduce time-to-market versus an isolated, localized solution. However, the free-flow of information across the enterprise inherent to a successful TCM program not only reduces delays at each decision point in the product life cycle, but also provides the opportunity to view total cost to market at each step along the way. TCM allows organizations to collaborate with real-time processes and technology ensuring that information flows freely throughout the organization enhancing an organizations competitive edge.

Effectively controlling costs and managing performance across the supply chain will require the development and coordination of new organizational and technology infrastructures that blend proven supply chain strategies and deep commodity and market intelligence with emerging sourcing, planning, procurement, monitoring and analytics technologies (Aberdeen Group, 2001)

Leadership Dedication to TCM

Management acceptance and leadership support are the first steps toward the successful adoption of a Total Cost Management program. Implementation and adoption of TCM takes time, consumes internal human resources and requires an economic investment, but can result in an immediate improvement in processes and profitability.

The ability to implement a successful TCM initiative requires leadership dedication and a focus on

modifying business processes such that the fundamental goals of the TCM program can be achieved.

These goals include:

- » Fully optimized business processes and operations
- » Maximized Profitability
- » Common, agreed upon global vision of costing
- » Establishment of a global costing mindset that transcends organizational boundaries
- » Efficient flow of timely, accurate and credible costing information both within the enterprise, as well as with partners and suppliers
- » Utilization of global purchasing power to leverage cost savings
- » Consistent drive to increase shareholder value

The level of leadership commitment to obtain these core goals will directly impact the success of TCM within an organization. Once organizational leaders and managers are supportive and dedicated to TCM adoption, a strategic plan can be developed to incorporate Total Cost Management in a way that maximizes its impact on the entire enterprise.

Challenges in Total Cost Management Initiatives

Implementing Total Cost Management requires comprehensive planning and business process

White Paper:

Total Cost Management & the Financial Supply Chain

reengineering. There is a fundamental paradigm shift that is inherent in the application of TCM. Before an organization attempts to move toward a Total Cost Management methodology, an analysis should be conducted to determine the company's readiness to accept this paradigm shift, and to determine the potential challenges that may be encountered during the adoption process. With an upfront recognition of some of the potential challenges that may be faced, the TCM initiative is more likely to sustain the necessary level of support to overcome those challenges, and thereby ensure its success.

A TCM implementation plan should acknowledge and account for the challenges that are often encountered:

Information Access and Availability – The advent of the internet, ERP, SCM and PLM has given corporations the ability to store and manage data that can be used to drive decisions throughout an entire organization. This information is often isolated, available only to those groups who utilize the process or data, and not fully leveraged across the enterprise. Collaboration and visibility between these systems is fundamental to enable TCM. Where collaboration is unavailable, measures must be taken to provide meaningful links between disparate systems and processes.

Resource and Economic Constraints – This is quite possibly the most prevalent limitation to any corporate initiative. While an organization must be willing to invest both human and economic resources in the TCM initiative, utilizing a phased approach to implementation can soften the upfront investment. TCM is an initiative that can be “grown into” at an organization's necessitated pace. Capturing incremental value in TCM will assist in developing best practice methodologies throughout the organization. Even with a phased approach to implementation, organizations must be prepared to dedicate the necessary resources for successful movement toward Total Cost Management.

Outsourced Manufacturing Impacts – As outsourced manufacturing has become more common, organizations have realized significant cost and operational benefits, but often have sacrificed visibility, control, and accountability in exchange. Visibility and collaboration are key to enabling full financial supply chain excellence. A successful TCM approach involves partners and suppliers, and requires a renegotiation of some outsourced relationships such that visibility, control and accountability are restored to the company. This in turn will provide value throughout the entire financial supply chain.

Timely Information and Analysis – Due to the shear volume of data that organizations capture and process, there are often timing and coordination

White Paper:

Total Cost Management & the Financial Supply Chain

issues preventing its meaningful use and analysis. In order to fully realize the value of information being captured across the enterprise, that information must be available in a real-time fashion for immediate impact and benefit to the organization. Fundamental to TCM is the ability to make prompt decisions and continuously improve the business process, methodology and bottom line.

Summary and Conclusion

Today, as in years past, factors such as competitive pressures and the drive to increase profitability continue to challenge corporations to find methods for managing and reducing costs. As fast as standard business practices and sophisticated cost management strategies have evolved, so has the complexities of the business landscape and the financial supply chain. Total Cost Management is an enterprise initiative that addresses the added complications of the complex relationships in the expanded financial supply chain of today. TCM is global, in that it is a methodology that requires a complete view of all an enterprise's costs and processes, whether that information exists in disparate systems throughout the organization, or in the organizations of its partners and suppliers.

A successful TCM program necessitates global visibility into all the supply chain costs, accurate and timely information access, enterprise-wide collaboration, and the business processes and technology in place in order to decisively act upon this financial supply chain intelligence. Because

TCM requires time, as well as human and economic resources, all of which are scarce commodities for businesses today, management understanding and support at the top should be secured in order to successfully achieve Total Cost Management.

The major benefit from a successful TCM initiative is global cost intelligence. Continuously garnering and acting upon the global cost intelligence available within enterprise financial supply chain will provide the means to reduce costs, improve operational efficiencies, and increase profitability



3303 FM 1960
Suite 460
Houston, TX 77068

Phone: 281-397-7029
Fax: 281-397-6487

www.i4cast.com