

GLOBAL SUPPLY CHAIN REVIEW

Published by the Global Supply Chain Leaders Group
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LEADER PROFILE:
INTERVIEW WITH
CINDY REESE

**IMPORTER SECURITY
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JANUARY 26, 2010?

SPECIAL REPORT:
IT STRATEGY FOR
SMALL AND MEDIUM-
SIZED BUSINESSES IN
AN ECONOMIC
DOWNTURN

Cindy Reese
Senior Vice President
Worldwide Operations
Sun Microsystems, Inc.



Message from the President of GSCLG

The GSC Review closes out 2009 by having spent some time with the third executive in a series of Supply Chain icons. As President of the GSCLG, I am delighted to present an interview with Cindy Reese, Senior Vice President Worldwide Operations, of Sun Microsystems, Inc. Cindy has a superb set of skills ranging from hardware and software manufacturing, global logistics, global backlog management, supplier management, supply management, purchasing, manufacturing engineering, inventory management, and supply planning.

Cindy is by far one of the most accomplished individuals in Silicon Valley. She is regarded as the best material management executive in the country. Her accomplishments have garnered her repeated recognition. Most recently, Cindy was a recipient of the 2009 Top 25 Supply Chain Executives Award from the Global Supply Chain Leaders Group.



We have aligned the most influential, accomplished, and renowned executives from some of the better known corporations worldwide. As I've said in the past, we seek those individuals who have made the most significant contributions to the advancement of the supply chain industry at the same time helping their companies' bottom lines. In other words, these are the individuals that will inspire both veterans and new hires in supply chain. These are the type of professionals most people would like to be when they reach their professional goals.

We will do our best to keep searching globally for those leaders that deserve to be singled out. I ask you to send me the names of those you would like to be profiled so we can learn from their views and accomplishments. We've already received a few names after publication of our October edition and we have a great lineup of individuals coming in the next few months.

We celebrate supply chain leaders with vision, passion, and care for their customers and employees. These leaders provide the value shareholders' deserve; they ensure that their customers keep moving forward while dealing with global challenges affecting the day-to-day operations.

If we recognize great performance and leadership potential, we will promote our capacity to lead both operationally as well as at the C-level. As senior-level supply chain leaders, the senior executives featured in our magazine should be recognized by their peers and by the industry. We hope to see them grow and become the future CEOs that we all deserve and admire.

We are honored to present Cindy Reese, Senior Vice President Worldwide Operations, of Sun Microsystems Systems, Inc. and look forward to honoring many more like her in 2010 and beyond.

We wish you and your families a healthy and happy holiday season!

Sergio Retamal

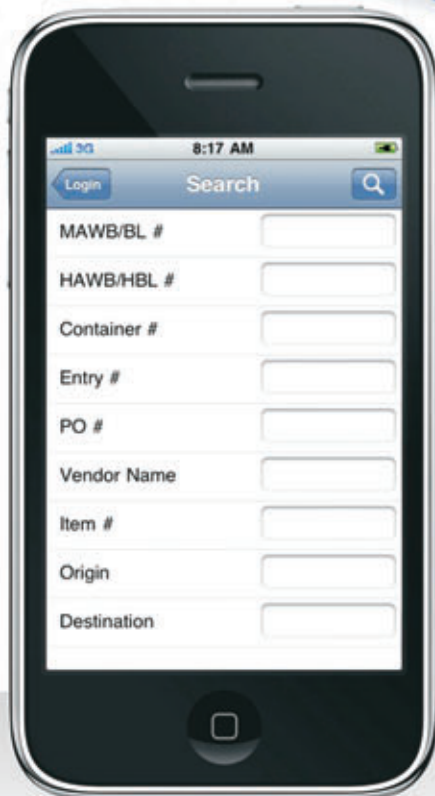
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If you attended the GSCLG's 2009 annual dinner, then you already know what a truly unique and valuable networking opportunity that was for a senior Supply Chain executive like yourself. Our next event promises to be bigger and better so mark your calendars. Details will follow in the months leading up to this event.



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Interview with Cindy Reese of Sun Microsystems, Inc.

By Nancy Ellen Dodd, MPW, MFA

As Sr. Vice President for Worldwide Operations, Cindy Reese runs Sun's supply chain, manufacturing and logistics programs, which are recognized by the industry for delivering high quality and cost effective product execution to Sun's global customer base. Previously, as Sr. Vice President for Systems Operations, Reese was responsible for overseeing the manufacturing, supply chain management and operations engineering for the company's Systems products.

Cindy Reese's career spans more than 25 years in operations with experience in procurement, strategic materials management, manufacturing, distribution, and logistics. Since joining Sun in 1999, Cindy has held numerous leadership roles including: VP Storage Operations, VP Scalable Systems Manufacturing Operations, VP High End Operations, Executive Lead for the StorageTek integration, and various Director positions.



In 1999 Cindy joined Sun as Director of Global Supply Management where she managed the architecture of Sun's strategic supplier strategies and commodity management. In 2001 Cindy was promoted to senior director of Newark Site Operations, overseeing the manufacture of Sun's flagship Enterprise Server and Network Storage products. In 2003 Cindy was promoted to the position of VP High End Operations, responsible for Sun's three manufacturing sites in California, Oregon and Linlithgow, Scotland. In 2004 Cindy assumed the new position of vice president of Sun's former Scalable Systems Manufacturing Operations handling all SPARC-based products. In 2005 when Sun acquired StorageTek for \$4 billion dollars, Cindy was asked to take on an executive role and was instrumental in leading the integration of 7,000 StorageTek employees into Sun.

After the successful integration of StorageTek, Cindy moved over to the Storage business as the VP of Storage Operations. Cindy had operations responsibilities for material procurement, supply management, operations engineering, internal and external manufacturing and re-manufacturing for all Sun products. In this role Cindy had responsibility for Sun's internal manufacturing sites in Hillsboro, Oregon and Linlithgow, Scotland, where Sun's high end server products are manufactured as well as Customer Solutions Integration operations for Sun's entire product line.

In May of 2008 Cindy was promoted to Sr. Vice President for Worldwide Operations.

Prior to joining Sun, Cindy was VP of Worldwide Materials with Silicon Graphics (SGI) and held executive leadership positions at RightWorks and Convergent Technologies.

Cindy's outstanding leadership has been recognized by prestigious awards such as the YWCA tribute to Women in Industry (TWIN) Award, which she has received twice: first in 1995, while at Silicon Graphics, and most recently in 2003 for her achievements at Sun Microsystems, along with Leadership Awards from both SGI and Sun. The TWIN awards are given throughout the country to recognize successful women executives for their outstanding achievements and leadership.

Cindy received the 2009 Top 25 Supply Chain Executives Award from the Global Supply Chain Leaders Group.

How important is supply chain management to Sun Microsystems' overall business strategy?

At Sun our goal in supply chain management is to make sure we are finding ways to grow both the top and bottom line results. We want our supply chain to be viewed as a strategic differentiator for the company.

What primary areas of focus (or key initiatives) should Sun Microsystems be looking at for Supply Chain Management?

We have been focusing on three main initiatives over the last year. The first is in the cost area. Our focus is not only in ongoing cost reduction programs but also in cost avoidance. Reductions come from commodity cost trends or new technology. We have two key terms we use in our cost management approach.

Design it right: Am I designing the lowest cost solution for the functionality being delivered?

Buy it right: Am I paying the best possible price for the solution?

Design it right targets consist of the following:

1. Lowest cost design solution for a given function within the constraints defined by the product specifications
2. Lowest known available cost (or estimated cost) for components based on the best in class sourcing strategy and available volume forecasts
3. Generated early in the program (before first prototype builds, when possible)
4. Represents product cost goal for production builds, NOT prototypes

Buy it Right targets consist of the following:

5. Lowest cost purchasing or procurement solution for a given product or component based on the selected sourcing strategy, final design and current volume forecasts
6. Generate at or immediately after the first prototype builds (once all design decisions have been finalized)
7. Represents the cost goal for production volume builds

Cost targets are not stagnant and are subject to normal price erosion factors and commodity trends. Why do we need cost targets? Design it right cost targets provide an early estimate for marketing and design teams.

8. Provides early cost estimates for product business justification
9. Provides design teams with potential lower cost alternatives
10. Enables design team to include product cost and supply chain impact in making design decisions
11. Provides supplier management with cost alternatives and goals for supply chain decisions and negotiation purposes
12. Enables competitive comparisons across products

Buy it right cost targets provide on-going goals for the supply team

13. Provides data to continually drive down component or system level costs
14. Provides goals for negotiation purposes

The second area is execution. Having a very predictable supply chain based on fixed lead time scheduling that is very flexible and cost effective is key in today's marketplace. The third area is quality. We have a very robust quality management system that measures our quality throughout the supply chain.

How has outsourcing enabled Sun Microsystems to be successful with these initiatives?

We are 96% outsourced. The focus on outsourcing has definitely helped us reduce costs. However this

does not mean we have walked away from the areas we have outsourced. What we have learned about outsourcing is you have to pick the right suppliers and develop strong relationships with them. We trust our suppliers but also have a very focused verification process to make sure our suppliers are doing what we want them to do. Lastly we measure our suppliers against strict criteria across core areas of the partnership including cost management, quality, execution and NPI. If suppliers are not meeting our requirements we are not afraid to make a change.

The external manufacturing business can be a very sticky business. It's very expensive to change an external manufacturing partner, so we are highly focused on managing, measuring and improving our suppliers.

How is Sun Microsystems addressing the market's increasing focus on 'green' supply chains and reducing a company's carbon footprint?

This is an area of focus for Sun and one that the Company has been investing in for some time. We are quite proud of our progress. Sun's supply chain is truly global; our products are developed, designed, and manufactured by suppliers in more than 30 countries around the world. To ensure that Sun's suppliers conduct business in a way that is consistent with Sun's values, we instituted our Supply Chain CSR (Corporate Social Responsibility) program three years ago. The core component of this program is Sun's Supplier Code of Conduct, which mirrors the Electronics Industry Code of Conduct. Adherence to the Code is a contractual requirement for suppliers and drives Sun's supplier risk assessment process and Sun's supplier CSR audit program. Sun also requires that Suppliers are ISO 14001 certified and that they provide data on their greenhouse gas emissions.

In addition to ensuring that Sun's products are built under socially and environmentally responsible conditions, Sun works to ensure that products are handled responsibly at the end of their life. Sun's global product take back program increased the amount of product taken back from FY08 to FY09 by 57%. Of this product, only 0.5% ended up in a landfill; the rest is reused or recycled. While Sun is working diligently with its suppliers, customers, industry organizations and other stakeholders there continues to be a lot of work to be done to ensure that conditions all the way down to the raw material level meet Sun's standards.

What are the biggest INTERNAL challenges for manufacturers to achieve supply chain excellence?

Our biggest challenge as a company focused on innovation is managing the unique product line requirements that result from that innovation along with the varying levels of complexity.

What are the biggest EXTERNAL challenges in achieving supply chain excellence?

Making sure we can provide competitive costs given the number of unique products we offer and the volumes we ship.

Who is responsible for planning your company's business continuity when facing natural disasters, major disruptions or other geopolitical issues?

We have a formal Corporate Crisis Management & Business Continuity group that leads our risk management activities. Supply Chain Management is a key member of the management team.

What are the main skills and personal attributes that have helped you reach your current position?

Relationship management has been the key to my success. I'm very direct. I make it a point to look for the win/win solution. I'm very fair in my decision making, and I can pretty much work with anyone. I strongly believe in building a great team of people who are smarter than I am. I'm very metrics driven so everyone understands where they are at all times. I believe in constant investment in learning. Most importantly I love what I do. I look forward to coming to work every day, which keeps me focused and always looking for new opportunities to solve our challenges.

How do you grade Sun Microsystems' supply chain overall performance in client satisfaction?

We have an excellent reputation in the industry, most notably in the telecommunications sector. In this space we have actually taken over many of our customers' extended supply chains. We buy their third party components, load their custom designed cards, and load their software. Basically we build and test their entire solution. We rack and stack everything for them, and do their acceptance testing on our production floor. Many of our top telecommunications customers rate us as number one or two in our Quarterly Management Reviews (QMR's).

During this economic downturn, how do you keep your entire organization motivated?

We are making investments in our people, investing in training and cross training our team members. People love a challenge. Keeping your employees challenged and busy is key in a downturn. Our best motivation tool is engaging our team members in our improvement plans so they can feel that they are part of the solution.

Who do you rely on for advice?

I have many mentors with whom I have built relationships over the years. Some are external to Sun as well as the internal mentors I have. I also have built a strong network of peers who have similar jobs to mine in many different industries that I rely on for advice.

What have you learned as Sr. Vice President for Worldwide Operations that has surprised you or changed the way you do business?

The more you outsource the more you need to worry about places where suppliers hide costs. You cannot discount how creative people can be at hiding costs. During my early outsourcing days I believed when you outsourced something you completely disinvested in that activity. I quickly learned you are still accountable for the activities you outsource. You need a very tight verification process to watch everything you outsource or you will quickly find the savings you achieved from outsourcing have gone away.

Turbulent times should be the best time to implement changes. However, companies tend to paralyze due to uncertainty in the market or their human capital. What is your advice to maximize the opportunities to implement changes during tough times?

In every organization we have budgets which we get to control. I'm a firm believer there is always money and resources to manage that can lead to improvements. It's all about our

Sun's CSR Program Highlights:

Reported Global air freight GHG emissions in FY09:

- FY08: 120,986 metric tons CO₂e
- FY09: 72,304 metric tons CO₂e
- FY10: More comprehensive air freight data and suppliers are providing GHG emissions data.

Product Take back:

- 9.55 million pounds of product returned which is a 57% increase from FY08
- 6.9% is reused, 92.6% is recycled, 0.5% goes to landfill

Supplier Code of Conduct:

- Covers 63 suppliers and 182 facilities
- Covers more than 95% of Sun's direct material spend

Supplier CSR Audits:

- 13 CSR audits conducted in FY09
- 64 nonconformities found
- 41 of which were resolved through Sun's Supplier Corrective Action Plan process. The remaining 23 are still being worked on.
- Most common findings are: excessive overtime, internal audit systems, and occupational safety.

choices as managers to make the right calls and not hide behind budgets or lack of resources as an excuse. We have to limit and focus what we are able to work on given our constraints, and make the most of managing excellence within them.

What attracted you to supply chain management?

I believe people who are in supply chain management are a different breed. I find with myself I don't do well with a project that takes three years to get it actually working or developed and ready. I work much better with something that I can see the start and the end, and I know exactly how to break it up into chunks to get the work done.

What would you say is the biggest challenge you have faced in your career?

In the 80s it was the big DRAM crunch where the whole industry went into this huge shortage in supply and no one could get their hands on any parts. I had contracts with suppliers that they weren't fulfilling. One of the outcomes from that big shortage, which basically shut all of the electronics industry down, was we found out we didn't have the right kind of agreements and contracts or the right strategic relationships in place that protected us. Back then we were all buying parts based on the best price at the date that we had to make the purchase.

We've had several challenges like the big dot.com bust. You basically didn't have to work hard to sell product-orders just came in. You couldn't build product fast enough. When the bust happened and things started to slow down, we didn't have the ability to react fast enough. There were small companies that had built their product around your needs and when your ordering stopped, it put them out of business.

In the 2000s we have had the recession. In a downturn it's said that people don't spend money, so you have to figure out how to do the same amount of work at a lower volume with a lot less people. Even though it was very difficult and many companies went out of business, we're starting to see recovery. People reacted much faster to the change and had different agreements and relationships with their suppliers in place. It's a whole different feeling from those other two events. I think the changes that we've seen and the investment that's gone into the supply chain and building professional careers over the last 20 years really showed in this last recession.

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What We Do: We help our clients save large amounts of money, improve efficiencies, and avoid costly errors in their global logistics operations.

Who We Are: We are a team of high-performance, hands-in industry veterans that come to the table with proven experience. We deploy experts in import / export compliance, multi-mode transportation, partner negotiations, third party logistics, and general operations management to implement innovative solutions with immediate, measurable results. Our resources, along with our supply base management techniques, collaborative communication infrastructure, and technologies frequently produce savings of 15% to 25% of a company's logistics spend.

Customized Supply Chain Solutions to Help You Succeed

See how our results speak for themselves

Transportation Cost Savings
We conduct a 12 day no cost audit of your transportation spend and identify opportunities for cost savings in areas such as rate reduction, coding errors, commodity code classification, or service level requirements. As the conclusion of this audit we present you with our findings and recommendations, including a quantifiable cost savings opportunity.

Client: Large West Coast contemporary clothing retailer
Concern: The client company was concerned that its global transportation expenditures were escalating and they could not pinpoint cost savings opportunities. The company also desired to establish a best-practices import compliance program to eliminate non-compliance entries and subsequent risk of fines and penalties.
Results: Global4PL conducted a post audit of recent freight invoices and shipments, and discovered transportation cost savings totaling over 27% net cost savings. Global4PL reviewed the company's import compliance program and documented required changes to achieve best practices status, and identified classification changes to comply with US CBP regulations.

CBP IS, and SOL Compliance
We offer a comprehensive set of services to ensure compliance with import / export regulations and to improve the efficiency of your compliance processes. We develop and document a comprehensive import / export program, present to your master with CBP and / or IS in the event of an audit or entry. We will level our errors to avoid costly fines. We will identify any duty savings opportunities.

Client: Mid-size computer company
Concern: The client company had a small logistics staff with limited import/export compliance expertise and a potential risk of non-compliance in import/export operations.
Results: Global4PL compiled a best-practices import/export compliance program that detailed compliance procedures, documentation formats and related research methods and requirements. Global4PL reviewed all product HTS commodity codes and uncovered a classification error. Thanks to rectify the past errors, Global4PL presented thorough documentation of the error, Global4PL's client used US CBP and prepared the import entry filing for submission to US CBP. The self-disclosure was accepted by US CBP with no assessment of penalties and no further action.

Logistics Strategy
We conduct a complete review of your supply chain management that spans all movement and storage of raw materials, work in process inventory, and finished goods from point of origin to point of consumption. We provide a complete assessment of your inbound and outbound distribution, warehousing and export logistics functions, both domestically and internationally. We identify inefficiencies and opportunities for cost savings.

Client: Large telecommunications manufacturer
Concern: The client company modified its supply chain footprint as the market and strategies shifted over time.
Results: Global4PL executed the project to rationalize the company's logistics strategy and to optimize the revised supply chain strategy. Global4PL's assessments (including geopolitical and process risks and solutions) improved the company's intra-Asia shipping efficiency. Global4PL set up customized import / export compliance programs, having met with officials at contract manufacturers and conducted packaging strategy which resulted in 50% overall cost savings without compromising engineering requirements. Global4PL revamped transportation provider relationships, resulting in 20% reduction in transportation costs. Global4PL developed and implemented an operational strategy to minimize EU VAT charges (including reverse logistics considerations). Last, but not least, Global4PL provided a supply chain visibility tool (PO Navigator™) that tracks product movement at the part number level.

"In the first month we engaged Global4PL we were able to implement three cost reduction projects which will result in millions of dollars in savings over the next five years."

JB Delaney
Director, Supply Chain
Infraera Corporation

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What would you say is the most rewarding experience you've had in your career?

By far, the most rewarding thing is that I have been blessed to work for companies that have put total trust in me, let me make mistakes, and have given me a safe landing to learn from those mistakes. The things that have shaped me and grown me into the leader I have become today are things that I've done wrong and the ability I've had to learn from them. Also fulfilling for me has been to be able to provide that same kind of leadership to people that I'm mentoring.

What are your thoughts regarding globalization?

I think it's a two-sided story. It's helped us really learn more about what total cost of ownership means, and it's given us a reason to be really competitive. At the same time it's helped us learn other things we need to think about. Is it always the right decision to go for the lowest labor cost? How many of your people it is going to take to manage them? What kind of language barriers do you have? If you're building it there, but the whole supply chain and all the parts are coming from some other place in the world, this is not going to be your best total cost solution. It's about understanding the full capability you need in the process and making sure you get the lowest total cost and not just the lowest labor cost.

How do you balance your work life with your personal life?

I'll be honest, I don't. I put in a lot of hours. I made different trade-offs when my children were young and I focused myself differently, but the minute it got to the point I didn't need to do that, I went right back into supply chain jobs because those are the ones I was excited to get up in the morning and go to work to do. I have global manufacturing going on all over the world and they work three shifts a day. I get phone calls every weekend. I check my email all the time. I've been able to balance it to where it works for me.

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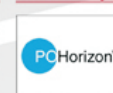
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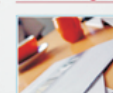
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Consulting Services



Global4PL is an award-winning supply chain consulting firm with its own unique suite of services helping companies rapidly evolve and implement global supply chain programs. Our consulting and implementation services go all the way from effective and efficient integration of process, systems, and training. Our clients include high-tech, retail, and manufacturing companies.

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Client: Large West Coast contemporary clothing retailer

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Results:

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CBP, BIS, and SOX Compliance

We offer a comprehensive set of services to ensure compliance with import / export regulations and to improve the efficiency of your compliance processes. We develop and document a comprehensive import / export program proven to pass muster with CBP and / or BIS in the event of an audit or error. We will ferret out errors to avoid costly fines. We will identify any duty savings opportunities.

- Review existing operations
- Set up compliance programs
- File rulings
- Review products, classification, create databases
- Free trade agreements – qualifications / reviews
- Create policies and procedures
- Draft disclosures

Client: Mid-size computer company

Concern: The client company had a small logistics staff with limited import/export compliance expertise and a potential risk of non-compliance in import/export operations.

Results:

Global4PL compiled a best-practices import/export compliance program that detailed compliance procedures, documentation formats and record retention methods and requirements. Global4PL reviewed all products' HTS commodity codes and uncovered a classification error. Then, to rectify the past errors, Global4PL prepared thorough documentation of the errors, calculated duties owed to US CBP, and prepared the post-entry filing for submission to US CBP. The self-disclosure was accepted by US CBP with no assessment of penalties and no further action.

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IT Strategy for Small and Medium-Sized Businesses in an Economic Downturn

By Charla Griffy-Brown, PhD, and Babu Palanisamy, MS, MBA

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<http://gbr.pepperdine.edu/094/smallbusiness.html>

In an uncertain economy, small companies often feel the pinch of reduced business activity acutely. When customer orders fall, they suffer an immediate impact as they often do not have diversified product lines or buffers in place like large firms. Suppliers and lenders seek safe, low-risk investments, often favoring large firms, while small businesses' already stretched resources become even more so. As a result, it becomes increasingly important to do more with less, including careful, strategic, information technology portfolio investment analysis.

The U.S. Small Business Administration (SBA), the government agency responsible for assisting and protecting the interests of small businesses, created small- and medium-sized business standards, which are usually stated in terms of the number of employees or average annual receipts. SBA has established two widely used size standards: 500 employees for most manufacturing and mining industries, and \$7 million in average annual receipts for most non-manufacturing industries. While there are many exceptions, these are the size standards applied in this article to distinguish small- and medium-sized businesses (SMBs) from large enterprises.

Table 1 lists the pros and cons when it comes to information resources associated with being a small- or medium-sized business.

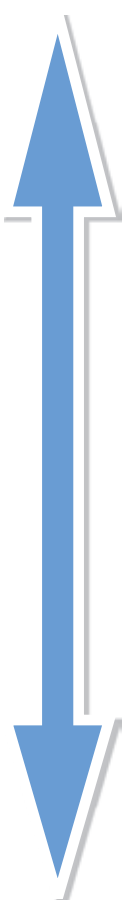
Table 1 - Pros and Cons of IT Investment for SMBs

Pros	Cons
Business processes are often immature so easier to re-engineer.	Must justify IT based on a smaller number of users.
Less risk as processes modeled on fewer product lines/customers.	Capital expenditure on IT difficult to justify because of high cost.
No legacy IT infrastructure to contend with.	Ad-hoc approach to IT investment because of pressure on operations, limited funds, and lack of strategic planning.
Benefits immediately seen from better data management.	Established strategic IT portfolio management processes for large companies too expensive or complex.

Many SMBs fail to see the opportunities hidden in economic downturns. In reality, this is the time for them to make the most of the pros in terms of IT investment and to effectively mitigate the cons. But first, SMBs must thoroughly assess their vulnerabilities and act decisively to minimize them.

Leveraging the opportunities of the economic downturn often means focusing a high level of attention on cost improvements-usually strategic, structural improvements, such as streamlining infrastructure, adjusting the service delivery model, and redesigning the business model. Figure 1 is an example of various cost-improvement levers. These projects all involve a significant number of information and process systems decisions.

Figure 1 - Cost-Improvement Levers



Tactical Improvements	Cost-Improvement Levers	Description	% Savings
	Spend Reduction and Demand Management	Strategic sourcing, demand management, and tax management to aggressively reduce external spending	10 - 20%
	Business Process Redesign	Streamlining business via simplification, elimination, or outsourcing	5 - 10%
	Infrastructure Rationalization	IT and real estate portfolios, projects, platforms, and support rationalization	15 - 25%
	Service Delivery Model and Organizational Alignment	Re-aligning staff based on a method of adding value and relationship to business	10 - 30%
Strategic Structural Improvements	Business Model Redesign	Shift to a more cost-efficient business model	20 - 30%

Adapted from Deloitte's, "Three Steps to Sustainable and Scalable Change, Part 1: Rethinking a Company's Business Model."

For SMBs, IT alignment with business objectives must be elevated and strategic data information flow management should be a top priority. However, these often get pushed aside in the midst of crisis management-especially if IT projects are seen as additional up-front capital expenditures.

Now, with the arrival of cloud computing, software as a service (SaaS) can provide lower-cost alternatives without the need for an internal IT group and reduced up-front capital costs. *(Editor's Note: For more on SaaS, read "Servicing the Software Industry: 7 New Rules for the Software Business.")*

As indicated above, one advantage that SMBs have over large enterprises is that they do not have legacy infrastructures. Large enterprises have to migrate these often-complex legacy systems, whereas SMBs can often build their services directly into the cloud with greater efficiency, at a lower cost, and in a streamlined, strategic manner, thus mitigating many of the challenges highlighted in Table 1. However, in order to move toward a solution, SMBS must first consider more strategic IT portfolio management based on the cost improvement levers above and critical success factors for surviving the economic downturn.

Critical Success Factors for Surviving Economic Uncertainty

Innovation

In any economy, innovation is essential to business success. While the economic downturn lasts, firms will need to find innovative ways to cut costs and to make better strategic decisions. They must also create products and services that will drive greater revenues once the economy improves.

The Internet and enterprise IT are accelerating competition within traditional U.S. industries-not because more *products* are becoming digital, but because more *processes* are. Just as a digital photo can be endlessly replicated quickly and accurately by copying the underlying bits, a company's unique business processes can now be propagated with much higher fidelity across an organization by embedding it into enterprise information technology. As a result, an innovator with a better way of doing things can scale up with unprecedented speed to dominate an industry.

To survive or, better yet, thrive in this more competitive environment, the mantra for any CEO should be "Deploy, innovate, and propagate".

1. Deploy a consistent technology platform.
2. Separate yourself from the pack by coming up with better ways of working.
3. Use the platform to propagate these business innovations widely and reliably.

The most effective corporate strategy is now a function of answering three key questions: What are my capabilities? What is my position relevant to the competition? What technology should I use to help improve my results?

Strategic Planning

IT benefits the most from a long-term, disciplined, strategic view and a square focus on achieving the company's most fundamental goals. Many units within SMBs have individual initiatives that are not centralized or integrated. They each might have their own business applications, technologies, and even data definitions. Data rationalization and integration become important once an SMB reaches a tipping point in its life cycle, such as significant growth in customers, geographic expansion, or the proliferation of product lines. It may also be required when project costs are high because individual teams are isolated, rather than harnessed together.

A unified technology platform can replace a wide variety of vertically oriented data silos that serve individual business units with a clean, horizontally oriented architecture designed to serve the company as a whole. Just like its large counterparts, an SMB's first step is coming up with technology standards, followed by a concept of rational data architecture. The firm will have to think strategically about IT-enabled business value and to develop a plan for facilitating this value.

Cost Reduction and Elimination

Expense reduction in good times is important for business; in difficult times, it is essential. IT budgets need to be rigorously scrutinized because if there is duplication built into them, there is waste. In some instances, SMBs are not utilizing their existing functionality due to outdated or inefficient processes. IT groups should examine the costs and benefits of extending refresh cycles, delaying upgrades, discontinuing maintenance agreements, and using open source platforms and applications. In today's world, we also need to stop thinking about how to perform tasks more efficiently and start thinking about how to automate work that eliminates the task entirely (and with it, the cost).

Beyond Cost-Cutting

Except in the direst of circumstances, eliminating technology investments during a downturn is counterproductive. When business picks up, a firm that made such a decision would inevitably lack critical capabilities. Besides, when they are aligned with business value, many technology investments can improve a company's profitability in the short to medium term. In fact, when business and IT professionals come together to take an end-to-end look at business processes, the resulting investments can have up to 10 times the impact of traditional IT cost reduction efforts. The trick is to scan for opportunities, such as improving the customer experience, reducing revenue leakage, and improving operating advantage.

Technology investments can have a substantial impact on businesses, and such outcomes can be greater for SMBs than large enterprises because any cost cutting through process optimization is immediately apparent in the bottom line, given most SMBs' tighter financial situation. Likewise, any additional revenue generated by better data analysis in areas such as market research shows up very quickly.

To extract value from these opportunities, SMBs must make managerial improvements in the following areas:

- **Developing New Insights:** Few companies have successfully capitalized on the explosion of data that has occurred in recent years. Often, this information has never been mined for insights that could add value. Business and IT staffers can uncover opportunities by combining their detailed understanding of business processes with straightforward analyses of consolidated datasets to identify new opportunities for revenue leakage.
- **Optimizing Processes:** As IT becomes tightly integrated with processes, breaks in workflows are often built into systems, diminishing productivity. Focusing on these areas with an integrated view of operations and technology may well reveal problems, such as outdated processes, manual steps, redundancies, and bottlenecks. A new system may be needed or, perhaps, modest enhancements or targeted workarounds will suffice.

Solutions for SMBs in the Current Economy

Operations efficiency comes from building a unified, streamlined business environment that fosters collaboration and agility. The integration of business processes can improve coordination among individuals and streamline workflows and processes, which, in turn, help to retain and satisfy customers. These systems link the order, inventory, sales, purchase, manufacturing, supply chain, and warehouse management modules within an enterprise to ensure fast and accurate information availability for those involved. All enterprise resource planning (ERP) systems in the market perform these functions, but identifying those that best meet the needs of SMBs requires careful scrutiny.

On-Demand, Hosted ERP Solutions

SaaS ERPs-sometimes called hosted software, on-demand software, or utility computing-have been the most interesting technology innovation for SMBs over the last two decades. The changes hosted software introduces-such as movement from a fat client portfolio to a thin one, from software acquisition to software subscription, and from on-premise installation to hosted Internet delivery-have been enthusiastically adopted because of the tangible business value and bottom line benefits they provide, such as:

- **Lower Total Cost of Ownership:** There is little question that SaaS solutions generally provide lower computing costs initially and over a useful five-year life.
- **Decreased Implementation Risk:** By eliminating the computer hardware and platform software components, companies can decrease overall implementation time and the probability of project delays and implementation failure risk.

- **Outsourced Skills and Expertise:** Outsourcing the IT management of ERP systems frees up internal IT resources to focus on core competencies, higher-priority projects, and strategic services. SaaS hosting enterprises also retain IT and security specialists with deep skills not found within SMBs, such as high operations availability, performance optimization, information security, disaster recovery, and business continuity.
- **Hosted Software Delivery:** The more reputable SaaS systems guarantee anytime-anywhere access backed by service level agreements with financial penalties for system down time. Browser-based system access to the ERP is especially valuable to highly decentralized companies. As there is no need to purchase additional hardware and bandwidth, on-demand scaling as the business grows is another valuable benefit.
- **Subscription Pricing Model:** The market has enthusiastically embraced the pay-as-you-go software-utilization pricing model over the traditional "pay-and-pray" procurement method. Pay-as-you-go pricing is a great boon for companies that cannot afford traditional ERP systems, but want to reap the benefits of informed decision-making processes. Subscription pricing also delivers a foreseeable future payment schedule, while eliminating the all-too-common cost overruns associated with on-premise ERP system implementation.

Considerations for On-Demand ERP System for SMBs

Hosted, on-demand ERP solutions offer greater flexibility for SMBs with little or no revenue in the earlier phases. Lower total cost of ownership and faster implementation are the key advantages from an SMB perspective. Because SaaS does not require a complex internal technical infrastructure for support, the initial costs are significantly lower than they would be for purchasing ERP software and running it internally. In addition, one can essentially "lease" the software, so firms have less of a big payment up front than they would with traditional, on-site ERP. However, there is still the ongoing cost of the lease to consider in calculating total cost of ownership.

On the downside, because the firm does not own the software on its own servers, there is inherently less it can do to customize the ERP to its own business needs. The software can still be configured and set up according to the firm's needs, but when it comes to hardcore workflow redesign or software customization, SaaS is limited in its capabilities. However, unlike large businesses with complex workflows and legacy processes, SMBs have less of a need for customization. Firms should look for systems that offer greater flexibility in choosing modules and accommodating their growing needs. The other key requirement is for the most commonly used system with little or no downtime. Supporting service-oriented architecture (SOA) functionality is an added advantage because SOA allows businesses to share and collaborate more efficiently.

The challenge for all companies, including SMBs, is that going "live" has less to do with getting the software up and running than it does with clearly defining business processes, configuring the system accordingly, and ensuring that people are well trained in the new process workflows and transactions.

Conclusion

In an economic downturn, innovation is particularly essential to business success. Deploying IT serves two distinct roles-as a catalyst for innovative ideas and as an engine for delivering them. Firms should examine their processes and data to find opportunities for cutting costs through the automation and elimination of processes. By taking a careful look at operations with an integrated view of technology, firms may discover problems, manual steps, redundancies, and bottlenecks, many of which can be resolved with modest enhancements.

In terms of revenue generation, it is essential to search for opportunities, such as improving the customer experience, reducing revenue leakage, and improving operating advantage. More importantly, SMBs must leverage IT to develop new insights by examining the existing data to find opportunities to create new value for customers.

SMBs can also look at new, less expensive options for unified platform technology solutions. A strategic IT portfolio analysis that incorporates these concepts should enable small- and medium-sized businesses to survive the economic downturn and positioned for future success.

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Importer Security Filing - Are you ready for January 26, 2010?

Jeff Chiu, Vice President, Global4PL Supply Chain Services
Reprinted from January 2009

In the past year, United States Customs and Border Protection ("CBP") issued the Proposed Rule on the Importer Security Filing ("ISF" or "10+2") to satisfy section 203 of the Security and Accountability for Every Port Act of 2006. CBP received and reviewed comments from the import community; the Office of Management and Budget officially signed off on the Proposed Rule; and on November 25, 2008, CBP published the interim Final Rule in the Federal Register.

<http://edocket.access.gpo.gov/2008/pdf/E8-27048.pdf>

The requirements of the Importer Security Filing - unofficially named "10+2" for the 10 data elements supplied by the importer and the two elements supplied by the ocean carrier - will take effect on January 26, 2009. The interim Final Rule allows for public comments (on six of the importer's data elements) to be received on or before June 1, 2009, and provides a compliance date of one year from the effective date.



Although much has been said and published on this subject, many have remained on the sidelines contemplating the resources in preparing for the implementation. CBP has granted a 12-month informed compliance period, during which importers are expected to gradually comply without the threat of full enforcement and monetary penalty. What do importers need to do to get ready? Who has the responsibility of gathering, validating, and transmitting this information? How will this latest security initiative affect importers' businesses?

The importer is required to submit these "10" data elements:

- Manufacturer (or Supplier) name and address
- Seller name and address
- Buyer name and address
- Ship-to name and address
- Container stuffing location
- Consolidator name and address
- Importer of record number
- Consignee number
- Country of origin
- Commodity HTSUS number (minimum 6 digits)

The vessel carrier is required to submit these "2" data elements:

- Vessel stow plan
- Container status messages

The Importer Security Filing initiative states that the electronic transmission of the data elements must be executed no later than 24 hours prior to the loading of cargo onto a vessel destined to the United States. Chronologically, this requirement shifts the transmission to an earlier stage of the supply chain. An importer may designate, with the proper power of attorney, its freight forwarder to submit the data elements. A freight forwarder normally receives shipping documents with the cargo. Thus, it has access to, and may be familiar with, six of the "10" data elements: manufacturer (or supplier) name and address, seller name and address, buyer name and address, ship-to name and address, container stuffing location, and consolidator name and address.

Many mid to large importers employ the services of a Customs broker. In the course of electronically filing a Customs entry, the broker normally transmits eight of the ten data elements: manufacturer (or supplier) name and address, seller name and address, buyer name and address, ship-to name and address, importer of record number, and consignee number, country of origin, and HTS number.

The Customs broker may be asked to submit the information to CBP. A Customs broker normally transmits electronic entry summary information to CBP while an ocean vessel is on the water. The Importer Security Filing, as noted above, would shift the transmission of data to an earlier stage of the supply chain. CBP will allow for a single transmission of the ten data elements and entry summary information by the importer or a licensed Customs broker to help in reducing the amount of data entry.

The Importer Security Filing initiative states that the importer is the party ultimately responsible for the submission of (the "10") data. Between the freight forwarder and the Customs broker, the importer should have all of the data required. It would be a simple exercise of providing the appropriate party the respective missing elements. The freight forwarder and Customs broker would require the respective balances of data elements.

CBP provides some flexibility in the reporting of four of the importer's data elements. Importers are allowed to provide a range of responses for the manufacturer / supplier, ship-to party, country of origin, and commodity HTSUS number. Although this helps in meeting the filing deadline for each shipment, it requires the additional work of submitting one or more subsequent update(s) to the original filing.

CBP provides additional flexibility in the reporting of two additional importer's data elements. Importers are allowed to provide the container stuffing location and the consolidator name and address no later than 24 hours prior to arrival of the vessel at a U.S. port.

All of the required data elements exist; that is certain. Whether the data is transmitted by the freight forwarder, the Customs broker, or the importer, there remains an uncertain level of burden in the exercise of data collection.

Taking the "10" data elements and turning them into questions is the very first step. How many suppliers / vendors do I have? How many manufacturers do my suppliers / vendors represent? With how many manufacturers do I deal directly? From how many countries do I import? What are the products' countries of origin? What are the tariff numbers for those products?

An importer must be able to answer this set of questions with practically 100% certainty as the penalty for the submission of false information to CBP would result in a penalty of 100% of the value of the shipment. That was the penalty under the Proposed Rule; the penalty under the Final Rule is \$5,000 for each violation of the Importer Security Filing. (100% accuracy of the data elements has the additional benefit of contributing to overall import compliance.) Whatever the penalty amount, with which department should the responsibility lie within each importer's organization? Who will take charge?

An importer's organization may include both Customs compliance and logistics departments. These groups are heavily involved in the daily operations and generally do not have the time nor the perspective to execute this data collection. Even when the data is easily accessible, the task of validation could be daunting. For example, Accounts Payable has an address for a vendor to which it sends payment, but is that vendor the actual manufacturer? Is that vendor's mailing address the physical location at which the goods were made or stuffed into the ocean container?

Some other questions to consider are:

- How many Customs brokers does an importer employ? Does each broker have the authority to classify product independently or does the importer supply all classifications?



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- Does the Customs broker have the support and coverage overseas to avoid lengthy delays due to time zone difference and the timing to correct those issues at origin?
- Does the vendor know how to classify products correctly and does it provide the information timely and consistently?
- Does the contract manufacturer provide support needed for its products?
- Do the procurement, logistics, import and trade compliance groups work together to coordinate the information and avoid Customs delays? Is there an inefficient inbound of materials due to lack of information from origin?

An importer's current processes may work well, but without a clean and efficient operations model, including the documentation with the required information from contract manufacturers, vendors, suppliers, etc. at origin, not only will an importer subject itself to potential delays and penalties under the Importer Security Initiative, the import supply chain will suffer. Now is the time to assess and correct any deficiencies before they affect a company's import compliance record as well as its bottom line.

About the Author:

Jeff Chiu is Vice President at Global4PL, a supply chain management consulting company that assists clients to reduce costs and achieve their full operational potential. Mr. Chiu, a licensed US Customs Broker, possesses over 13 years of experience in import operations and compliance, with emphasis on internal Customs audits, commodity classification, tariff engineering, trade programs, and training.

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