

# SECOND GENERATION SUPPLY CHAIN MANAGEMENT PROGRAMS FOR TRIBUTARY GOODS AND SERVICES

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## Overview

Supply chain management initiatives specifically designed for tributary products and services\* celebrate their 10<sup>th</sup> anniversary with more sharply defined opportunities and prospects. Many companies find themselves working through their second or third iteration of these programs, with historically strong results and ever-increasing expectations.

Initially, supply chain management programs leveraged experiences from high priority spend categories (e.g., critical component relationships) and broader trends for supplier and trade management. While these programs drove very strong initial results, they also showcased prospective benefits of specialization. Today, companies implementing their first (or second or third) supply chain programs can easily benefit from lessons learned by others in earlier tributary supply chain management forays and from early program adopters.

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*\* Tributary goods and services include those products and purchases that support the direct and indirect activities of a company, while excluding items of high strategic value or critical value add (such as critical raw materials).*

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Supply chain savings potential for tributary goods and services is well-documented, and compelling. Overall spending reductions of 12 – 36% are achievable, with initial savings found in direct spend categories (e.g., reduced printed product cost), with continuous improvements in indirect expenses (e.g., reduction of workflow-related activities and lower procurement expenses). The combination creates an iterative cycle that leading companies leverage for ongoing benefits.

Second generation programs benefit from the addition of substantial expertise and lessons learned from earlier initiatives. Companies can now select from any number of specialized,

Company	Direct Savings	Additional Benefits
\$4+ Billion Consumer Products Company	17% average savings per job	Reduced expediting fees Reduced supplier base
\$50+ Billion High Tech Company	22% average savings per job	Higher accuracy Greater visibility
\$14 Billion Manufacturer	3 – 60% savings per job	More strategic buying focus
\$7+ Billion Media Company	22% average savings per job	Control and accountability

Source: Aberdeen Group, *Print Procurement: A Services Exception*, 2003

**Figure 1**  
**Early Success with Print Management Programs, One of the Key Components of Supply Chain Mgmt.**

proven vendors that offer highly sophisticated software and service combinations. These expert vendors provide a) the significant benefits of specialization and b) faster and more certain program success.

Our experience and research find 5 primary differentiators between second generation programs and their predecessors. Strongly successful programs result from:

- 1. True expertise, managed and utilized well.**  
Typically, companies need to establish an outsourced or vendor relationship to implement successful programs. Supply chain management requires a level of expertise and knowledge rarely affordable unless it is leveraged across multiple companies: Even very large companies benefit from relationships with specialized outside firms. Proven history and expertise are the strongest markers and critical criteria for selecting vendors.
- 2. Independence from product providers.**  
Many vendors promise objectivity; fewer can actually deliver against those commitments. Vendors with production assets, whether they admit it or not, must drive utilization of those resources to achieve financial success. As a result,

they are strongly incented to move solutions toward those that they produce in-house. A vendor truly aligned with a lower direct cost objective invests in purchasing professionals and systems that take full advantage of the unused capacity that exists, each and every day, in many markets, and commit themselves fully to a company's savings objectives. They also use their expertise to establish advantaged relationships with best-in-class suppliers, in a completely transparent approach.

### 3. Full recognition of program

**implementation costs.** Program implementation and start up costs can quickly escalate to 25% of annual spend, effectively eliminating first year - savings. While eventual payback remains compelling, companies will benefit significantly from sharpening vendor selection from the outset and leveraging initial investments across the widest possible spend reach.

*In many spend categories, for every \$1 in direct goods expense, companies spend \$6 in support costs*

4. **Integrated technology and services.** Up-to-date technology can facilitate the design, development and effective delivery of many tributary products and services such as print procurement programs. A key differentiator for highly successful companies (and their vendors) is the full integration of technology with the service offerings. While this integration drives upward initial program expense, the continuing benefits are substantial.

5. **Early proof, followed by aggressive program acceleration.** Successful programs capture closer-in savings earlier; the result of good vendor selection and proper planning. Second generation program vendors can point their efforts at high impact opportunities. Companies benefit by leveraging the success of earlier programs across the entire organization and multiple (related) spend categories. This approach a) provides for testing before a complete

rollout and b) lowers the impact of initial and fixed costs investments. Best of breed thinking enables programs to identify and initiate with high-impact programs, increasingly significantly the overall success rates and sustainability of programs.

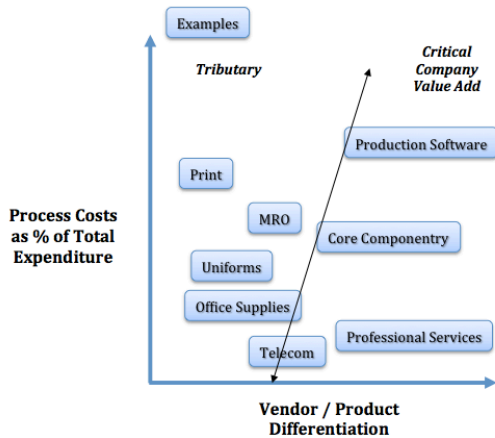
## Background

Tributary purchases account for 50% or more of total corporate spending. As an example, an average US company spends between two and three percent of its total revenue on printed goods and services, marketing material, office supplies and related activities, inclusive of the direct printing expenses and the even more significant indirect expenses. This accounts for a staggering \$500 billion per year, for US based companies alone. While these processes are typically considered 'non-core' by companies, they are almost always mission critical, and touch every aspect of business.

Printed products, for example, support manufacturing processes, marketing and sales efforts, management and administration, and every other aspect of day-to-day business. Despite their importance to running every business, printed goods are often relegated to the 'indirect spend' category within companies, setting up a situation where they are managed more by exception and issue than proactively. In contrast, we prefer to consider them tributary purchases, critical to overall workflow and deserving of attention and management.

Analytic frameworks support appropriate differentiation of tributary purchases, with key segmentation driven by a) the ratio of direct purchases to overall process costs and b) the competitive nature of the purchase. Both these items are relatively easy to calculate, and the combination provides an insightful look at purchase categories.

## Second Generation Supply Chain Management Programs



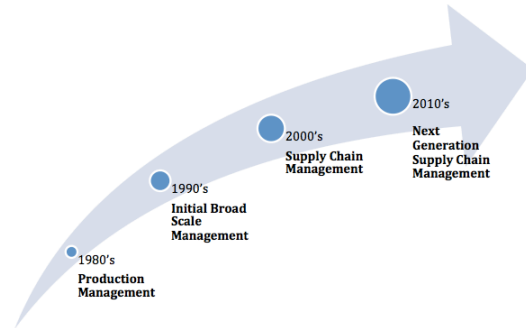
**Figure 2**  
Defining Tributary Purchases

The overall magnitude of these spend categories implies strong potential with management scrutiny and investment. During the past 25 years, companies released increasingly sophisticated approaches to managing these costs. In the 1980's, the prevalent methodology was to manage production. During this period, companies consolidated purchasing activities into service centers, made outsource vs. insource decisions, and began tracking expenses to their respective cost centers. In the 1990's, the approach advanced to spend management solutions. Companies established single source relationships, and determined the proper mix of internal and external resources. They paid closer attention to their overall product utilization, and began seeing the drawbacks associated with business models linked to outside production and other assets.

In the early 2000's, companies applied broader supply chain management concepts to tributary goods and services. More advanced programs captured a comprehensive picture of the direct and indirect costs associated with these purchases, and began managing internal processes, in addition to vendor relationships. The rationale for these programs and the expansion into internal processes is compelling

(using printed goods as an example): for every \$1 in direct printed goods expense, companies typically spend \$6 in support costs. As a result, any program that aspires to reducing significantly the total cost of ownership must address internal processes and behaviors.

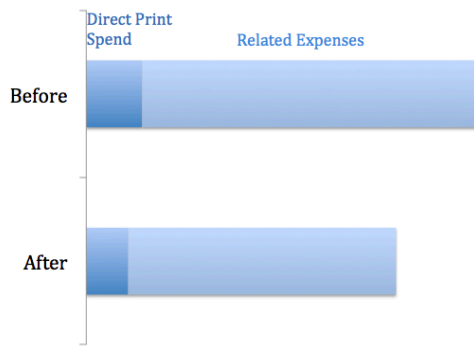
At the same time, newer procurement models arose – reverse auctions, consolidated purchasing activities and just-in-time digital alternatives changed the way larger companies procured tributary goods and services. Used in combination



**Figure 3**  
The Transition to Second Generation Tributary Supply Chain Management Programs

and intelligently, progressive organizations found tools to manage internal and external cost drivers in new and creative ways.

Initial results from new approaches were encouraging. On average, companies saw 15 – 20% decreases in their direct spend – frequently the result of bidding out document management contracts that were in place for 5 or more years. Businesses found additional savings from internal process improvements – automating the ordering and approval activities, utilizing workflow management tools for creation and production, and creating higher awareness of these expenses. Companies also saw improved satisfaction with programs, creating direct and indirect benefits (e.g., initial success in these arenas became a very good reference for other tributary programs and corporate initiatives).



**Figure 4**  
**Savings Potential**

Today, we see leading companies implementing second generation tributary supply chain management programs. Building on earlier success, further savings are achievable and noteworthy successes have been achieved by properly organized programs. Such savings can provide competitive advantage and / or an industry-driven mandate (i.e., a cost disadvantage for non-participants in broader marketplaces). And, the results highlight the differences between vendors with true capabilities and those whose actions fall short of the initial commitments.

*Tributary supply chain management programs are substantial and require large, dedicated resources for their successful implementation. Strong vendor selection mitigates both the associated expenses and implementation risks.*

True supply chain management of tributary goods requires a broad spectrum of capabilities and a services-oriented approach to the business. In print management, for instance, vendors offering the highest potential value share more characteristics with broader-based outsourcing providers than with traditional forms management companies. Programs and contracts look more like service relationships and consulting engagements than traditional manufacturing and logistics agreements.

The critical advancement in second generation programs is the combination of these broader supply chain skill sets with the expertise and specialization to apply those strategies within this complicated niche.

## Characteristics of Second Generation Tributary Supply Chain Management Programs

Even moderately successful supply chain programs begin with solid vendor selection. While there are many good vendor selection criteria approaches available, our experience reinforces the following list as essential to a solid, analytic approach to this activity, as outlined below.

### Vendor Selection Criteria for Print Management, A Key Component of Tributary Supply Management

Product Vendor Independence  
Competence  
Service  
Strategic Alignment  
Value Proposition  
Industry Expertise

**Figure 5**  
**Critical Selection Criteria**

In interviewing and working with a variety of companies, we found measurable, fundamental differences in company / vendor relationship and overall program approaches. These differences separate superior supply chain programs from those that fail to meet expectations.

### True Expertise

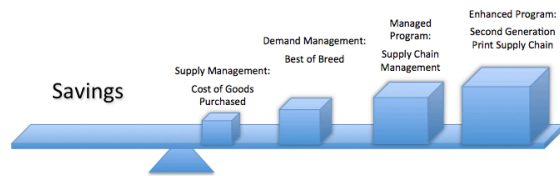
Real results require outstanding expertise. For companies with a large number of locations, we find that these programs – either directly or through their vendor – must excel in six distinct services-driven categories:

- Planning & Productivity
- Process / Design Integration
- Sourcing Management
- Warehouse & Shipping
- Technology Integration
- Management & Reporting

## Second Generation Supply Chain Management Programs

While some companies are able to bring these resources together internally and independent of vendor relationships, **most are not**. Success requires a different mindset and skillset than many traditional procurement organizations offer. Indeed, it is commonplace to find entrenched procurement teams defensive and resistant to the new approaches and requirements inherent in holistic supply chain activities. Special attention from senior management is required frequently to break from traditional business approaches.

Traditional programs place too great an emphasis on procurement, sourcing and fulfillment, at the expense of broader services capabilities. While these skills are critical to value realization and play a major role in early program proof points, they are inadequate to drive truly transformational changes and maintain program momentum.



**Figure 6**  
**Extended Leverage from Newer Programs**

In addition to a progressive mindset, highly successful programs manage vendors with market-specific experience. The question seems simple enough: Has this vendor proven itself with companies we admire and know? Vendors with industry experience bring substantial advantages. They have 'been there, done that,' with similar issues, and can utilize lessons from related companies (good vendors can establish appropriate confidentiality to protect proprietary processes; protection of confidential data should be laid out in every agreement). Expertise from closely aligned markets is also helpful in developing successful programs. Frequently, good ideas are repackaged from solutions tried and proven in related fields.

First generation programs relied on vendors with broader supply chain expertise, and limited exposure to the complexities inherent in specific spend categories. Companies selecting vendors new to their market should expect a substantial learning curve. Dependent on other attributes, this education process could easily outweigh benefits, and limit the program's early success.

### Independence from Purchased Goods and Services

At its core, supply chain management requires an unbiased (or company-centric) perspective on sourcing. Correspondingly, any organization with assets used to deliver the acquired product or service must, necessarily, be removed from the procurement process. This is a key differentiation from strategic, or critical purchases, where the partnership between company and vendor frequently creates value.

Tributary supply chain management is fundamentally a service. This service includes the acquisition and management of manufactured goods. Companies and vendors that remain truly independent from those manufacturers take better advantage of purchasing dynamics and systems. The result is lower day-to-day expenses. Companies seeking breakthrough results must look beyond manufacturers to independent agents.

Our experience and research highlight – again and again – the importance of maintaining independence from manufacturers. That independence forces investments in up-to-date procurement technology (including cooperative approaches, quality control and management programs, vendor certification, reverse auction bidding, and cross-client consolidation of jobs).

Quality management and responsibility become important program objectives and reporting criteria. Despite their separation from manufacturing, the purchasing organization must take full responsibility for specifying, managing and reporting against quality components. Further, financial responsibility for any errors also lies with the purchasing group.

Other tests and proof points for aligned objectives are useful in assessing existing and potential relationships (though none carry the weight of the

previous discussion). Specifically, we evaluated, and found importance, in:

- Business philosophy
- Risk sharing
- Personal relationships and communications

**Full Recognition of Implementation Costs**

Second generation tributary supply chain management programs are similar to their predecessors in one key respect: These programs are substantial undertakings.

	As % of Annual Spend	Borne by Customer?	Borne by Vendor?
Vendor Selection	2%	++	
Program Development	3%	++	++
Systems Modifications	2%		++
Systems Integration	5%	++	+
Internal Transition	5%	++	+
Supplier / Network Transition	3%		++
Program Rollout	5%	++	+
<b>Total</b>	<b>25%</b>		

**Figure 7  
Implementation Costs**

In discussions with companies and vendors, we estimate that initial implementation costs within major (i.e., greater than \$2 million in annual spend) organizations approach 25% of the managed annual spend. Further, both customers and their vendors tend to underestimate the required effort.

Companies and vendors make substantial investments along the way, and bi-lateral communication and sharing of issues is critical to maintaining schedules and process integrity throughout implementation.

As a general rule, companies undertaking a transition to a second generation program and vendor should anticipate that the time and associated expense will both double during implementation (unless significant effort is given upfront to defining pragmatic requirements and realistic timeframes).

Implementation of key practices can reduce this impact. Most particularly, early internal planning and a comprehensive understanding of 1) existing

vendor relationships and termination plans, 2) internal review activities and 3) availability of internal IT department resources can significantly reduce surprises and process-oriented delays.

Leadership and commitment are powerful drivers of the most successful programs, creating a continually updated stage for value creation and costs savings. And, new ideas are more successfully introduced and disseminated.

*Our research and experience find that program implementation takes twice as long and costs twice as much as initial estimates.*

**Integrated Technology & Services**

Information and technology integration provide the basis for good decision-making, and for sustained process improvements. Our experience illustrates the benefits associated with both attributes, throughout the planning and implementation of print management, as an illustration of second generation programs.

Print is one outcome of an internal or customer-driven need to educate, activate or process a resource. Data moves along that process, and can be captured and managed. The best print management programs provide automation for that data capture, use and delivery. And, automation allows for process review and redesign – which can frequently reduce or eliminate the actual paper requirement. *This cycle enables tributary supply chain management – if it is unfettered by a dependence on specific vendor utilization – to provide important precursor steps to broader digital reengineering efforts and the transition to a ‘paperless’ environment.*

Access to process data and management information provides for better solutions. It also reinforces the need, as discussed earlier, for more holistic definitions of opportunity (such as including marketing usage).

And, if a vendor is involved, that information needs to flow continually to the vendor. ‘Better data in, better output out’ is proven to be the case. Strong vendors invest heavily in newer technology, and provide their customers with access to those system investments, as well as

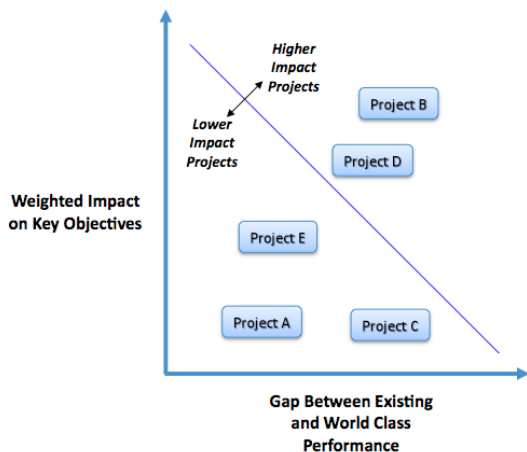
## Second Generation Supply Chain Management Programs

integration and coordination with a company's IT department. Companies and vendors should anticipate and budget for substantial ongoing IT investments, in addition to the one-time integration investments

Embracing technology presents new collaborative opportunities, too. Proven hardware and software solutions are converging to allow much stronger distribution and decentralization of creation and proofing processes. At the same time, these technologies allow for greater version control (e.g., logo use, version management) and management reporting and analysis. Literally, technology provides opportunities for greater control, while dispersing the activity closer to end users. Convenience combines with reduced effort.

### Early Proof and Aggressive Acceleration

Results-oriented programs combine persistence with early success and 'proof points.' Good customers and vendors alike recognize the value of early-on successes to establish credibility within an organization. Focusing on early successes also drives stronger planning.



**Figure 8**  
Project Ranking

Most initial savings and value creation opportunities come from procurement, and changes in fulfillment and logistics. Since these are hard-dollar savings, there is the potential for programs to become self-funding. That is, the initial procurement-based savings can fund ongoing improvements in technology and process

improvement. This cycle of savings and investments creates nearly limitless potential.

Second generation programs can be more aggressive in their initial parameters and scope (in essence, starting where the last program ended). Still, successful projects can be extended beneficially through numerous proven approaches. Specifically, our findings indicate that **compliance** and **marketing spend** are important avenues to additional savings and greater leverage of initial investments.

Simply put, compliance measures a program's effective reach throughout the organization. If exceptions (for whatever) reason abound, the scope and effectiveness of supply chain programs are reduced significantly. Compliance issues multiply across decentralized organizations and with distributed geography and decision-making. Technology and communications lessen the impact, if they are used. And, centralized or geographically favorable distribution centers can eliminate shipping delays, which are a common excuse for non-compliance.

One way to check program compliance and opportunity is to see how supply chain scope is defined and applied within the company. As an example, marketing is frequently omitted from the scope within companies with lower overall program performance. Why? Because marketing is viewed as special and unique, and marketing representatives typically do a very strong job of aligning themselves with local professional services and suppliers.

Our intent here is not to point a derogatory finger at marketing (other organizations and personalities are just as easily granted exceptions from initial programs). Rather, these types of questions can highlight the challenges of any companywide initiative, and also create fact-based analytic support for their inclusion. Greater resistance to participation can, on its own, be an indicator of the potential benefits of inclusion.

## Second Generation Supply Chain Management Programs

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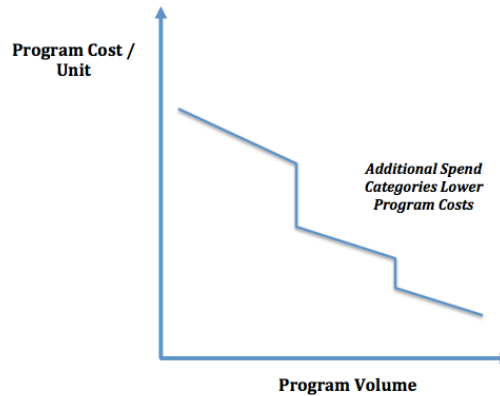
Try this quick test: Determine what percentage of the company's total 'rush fees' for expedited printing is paid for jobs ordered by the marketing department. In our experience more than 50% of rush fees (which can add 25 – 75% to the expense of a job) are associated with marketing.

The test itself highlights two important issues. First, is the data necessary to spot non-compliance and other inefficiencies available and tracked? Second, is the additional cost truly justified?

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Persistence becomes key. Many programs tail-off after the initial savings effort. Perversely, although this cycle may create an opportunity for new management focus, typically it is of an ad hoc nature - inefficient and lacking the benefits seen from continuous improvement. Accordingly, the management focus becomes to be viewed as less critical, or less likely to support ongoing savings targets. This lack of diligence creates a situation that many vendors look for – because it provides opportunity for prices to be raised, and for personal relationships to trump solid business practices.

Once a program's foundation is in place and early results prove value and success, highly impactful programs utilize that base for additional spend categories. As an example, a proven print management program can be extended to include office supplies, then uniforms, then remotely-utilized MRO material. Because the process change inside companies is significant, program leaders look to leverage those investments across a broad spend.



**Figure 9**  
**Fixed Program Cost Absorption**

### Summary

Our research and experience strongly correlate five attributes with long-term success with supply chain management programs for tributary goods and services:

- True expertise
- Independence from product providers
- Recognition of program implementation costs
- Integrated technology
- Early success and proof, followed by program acceleration

Overall savings targets of 12 – 36% of total spend are achievable and can be built upon continuously. Well-designed, well managed programs can be self-funding within the first six months – in fact, the most successful programs require self-funding, to prioritize higher-opportunity, lower-risk projects.

Second generation programs provide greater domain expertise and fully integrate lessons learned. They are most often worth the (sometimes substantial) costs to transition. Payback on the transition to a second generation print supply management program is most frequently under a year, with cash-on-cash payback occurring realistically within 12 - 15 months, for higher-impact, well planned programs. The key challenge is managing the internal implementation costs and timeframes.



**Figure 10**  
**Companywide Benefits**

Success criteria are similar to those seen in broader-based outsourcing arrangements. And, a proportionate amount of leadership and management oversight are required.

Second generation programs profit from faster realization of well-known and traditional benefits, and the also capture newer advantages, such as sustainability, early success and cultural change.

The single largest program success characteristic is vendor selection. Choosing inexperienced, or product-incented partners substantially decreases the scope and potential of tributary supply chain management projects. Good selection similarly increases opportunity, improves expected performance and reduces implementation risks.

### About this Research

This overview of second generation print management supply programs was developed with the cooperation and support of Golden Pacific Systems, Inc. The research itself is based on a review of the authors’ extensive history within the market, existing supply chain literature, quantitative analysis of successful print management programs and interviews with industry leaders and experts.

Golden Pacific Systems, Inc., is a Branding Enabler. Through its 34 years of experience it has been a leading force in revolutionizing the process of online procurement. It assists clients’ ability to gain efficiencies and to increase profits through custom, web-based printing and fulfillment solution, optimized for multi-unit concepts.

More information on the company can be found at <http://www.goldenpacificsystems.com>

For more information on this paper, please call Golden Pacific Systems or 800.628.0345 or Cape Fear Advisors at 910.509.9996.

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