

PEAK Advantage

Performance
Enhancement
Advice &
Knowhow

Battle of supply chains...



...creating disruptive innovation for competitive advantage

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A fierce battle is waged daily among supply chains competing to meet increasing, ever-changing customer demands.

Success depends on the ability to: (1) reach the higher performance levels customers expect, (2) conform to customer demands to reduce costs and (3) provide outstanding service that meets customer specifications.

What customers want

With so much riding on satisfying customer demands and changing service standards, there is simply no room for mediocre service and performance.

Many suppliers already know this, as more and more of their customers:

- Demand lower prices and higher service levels
- Purchase the same quantity but want to reduce inventory by pushing it back to suppliers
- Expect special services without added costs

- Create penalties for a supplier's poor performance
- Demand shorter lead times between order placement and expected delivery
- Require technology applications and information integration with suppliers

It is difficult to satisfy steeper customer demands, ever-changing service standards and, at the same time, achieve higher performance levels and cost reductions.

The classic methods many companies have long used—reducing head count, increasing inventory levels, raising prices, adding pricing for new services—no longer work and are ineffective when it comes to meeting today's challenges.

To gain real ground and hold it, your company must reinvent some of its main business models and processes.

Creating distinction among competitors

The U.S. is a great nation for

manufacturing and distribution, but reinvention is a process we are slowly learning to master.

When you begin to think about reinventing your business model, it may help if you try to see your company the way your customers and competitors do.

In terms of product, pricing, quality, function, feature and service, many customers find it difficult to distinguish one supplier from

customer service with supply chain performance

The question is, will your current business model and customer-response processes allow you to implement these methods and meet new customer demands without adding major costs? Probably not.

Keep in mind, your company's business model was designed to achieve specific results. Meeting the challenge posed by new customer service demands may necessitate a redesign—not only of your business model and processes but of your information support systems, too.

In fact, you may need several business models to address the needs of different customers, market channels and industry segments.

The barriers to new markets

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another or one supplier's product from another's.

Methods that can help distinguish your company include:

- Innovating services and new products
- Providing the highest level of



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News from Corporate Finance



Planning your exit strategy: right time to sell

by Troy Prewitt, BKD Corporate Finance, LLC,
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Timing is everything when exiting closely held businesses. The right time to sell is when uncontrollable value-driving forces—healthy economy and industry, availability of transaction capital and higher valuation multiples—are properly aligned.

Historically, these forces align in a positive cycle about every five to 10 years.

Presently, merger and acquisition activity is strong. The economy is at its healthiest since 9/11, the interest rate environment remains favorable and an abundance of private equity capital is com-

peting for acquisitions in the coveted middle market. As a result, valuation multiples are at their highest levels since the boom era of the late 1990s.

It's important to be flexible in the timing of your exit strategy. Using the current market to unlock the true value of your business may provide an unexpected jump on retirement.

If you are within three to five years of exiting your business, contact BKD Corporate Finance for more information about succession planning. □



Tax Tips

Telephone excise tax refund opportunity

by Chip Storey, Springfield,
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Manufacturers and distributors that have racked up long-distance phone bills for the last three years may have an opportunity for refunds of the federal excise tax paid on them for the past three years.

The federal government requires telephone service providers to collect a 3% excise tax on long-distance services, including 800 numbers and phone cards.

Various courts have recently ruled that this

excise tax does not apply to most modern long-distance telephone plans.



Although the IRS has appealed some of these decisions, manufacturing and distribution companies should act now to preserve refund opportunities in prior years, before the time limits on claiming refunds expires.

Refunds could potentially be as much as 3% of long-distance phone bills for the last three years. Of course, you will need to weigh the costs of filing in deciding whether or not to pursue refunds. □

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Battle of supply chains...

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are falling away because nearly all products and competitors can cross market and industry channels.

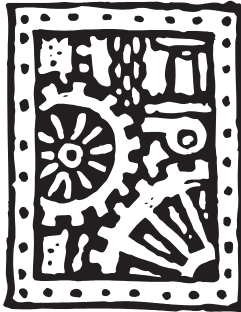
However, different and more highly customized supply chain models and business processes will be required to respond effectively to customers in many new markets.

The entire supply chain and all its players need to participate in the design and implementation of the new business models.

Industry consolidation stressful, challenging

The dynamics of the continuing consolidation among industry competitors support the need to review the adequacy of your current supply chain and business processes:

- Customers acquire each other to gain market share and create greater leverage with suppliers
- Competing manufacturers acquire each other to increase their brands, products and market share and create greater leverage with customers
- Customers acquire suppliers to ensure their supply source, lower costs and create leverage with their own customers
- Manufacturers acquire distributors to ensure a customer base, own the supply chain all the way up to the customer and create leverage with customers
- Distributors search for new value-added offerings for their customers as the supply chain consolidates and the value proposition that distributors offer manufacturers becomes less distinguishable



Customers are getting larger and stronger to grow their businesses, add share and grow their products and markets.

The consolidation of industries and players in the supply chain creates significant pressures and challenges on every player in the chain.

Disruptive innovation is a creative process

To provide products and serve customers at the least total landed cost, be prepared to make dramatic changes in your business model. This means you may have to reinvent it from the ground up.

In fact, the battle waged today by competing supply chains is won by those that can be effectively reinvented. Creating “disruptive innovation” is key to this process.

Disruptive innovation is a journey that begins with a supply chain vision and strategy. It’s when a totally unique concept or business model is implemented in the marketplace, one that focuses on the customer.

It’s also when “breakpoint changes” (giant leaps and crucial shifts in the rules that govern success) occur in:

- Methods of doing business with the customer
- Business practices, policies and procedures

Supply chain vision and strategy is where disruptive innovation begins. From there, high-performance supply chains, business processes and information support systems must be successfully combined end to end across the supply chain.

This involves the use of enabling information-support technologies that will help you integrate across the supply chain and

enable disruptive innovation to be systemic.

As you begin to reinvent your supply chain business model and business processes and practices, you also must have harmonious key performance measurements in place to help drive the right behavior, improve performance and solve problems.

Just how do you create disruptive innovation? Begin by improving your:

Supply chain vision and strategies - to exploit market opportunities and meet customer requirements by adding more value, *e.g.*, continuous product replenishment at the rate of customer use without the customer having to reorder.

Process designs - to eliminate nonvalue-added operations and improve supply chain performance and customer service, *e.g.*, the customer has no inventory, and the manufacturer manages product flow up to consumption. The customer pays for the product when it is used.

Business policies - develop those that encourage customers and suppliers to collaborate, which enables more efficient, cost-effective processes to serve customers and operate the supply chain, *e.g.*, net pricing and elimination of returns, damage allowances and unauthorized invoice deductions and invoice hold backs.

Business processes - to eliminate waste, reduce lead times, improve quality and provide products and services at the **least total landed cost** with the lowest working capital investment, *e.g.*, continuous replenishment and “pull-based” demand product flow.

Information support systems - to integrate across the supply chain

and provide visibility on demand to the supply chain’s performance.

Key performance measurements - to work in harmony to help drive the right behavior and improve supply chain processes.

Education and training - which is vital in creating a highly skilled, educated and customer-focused workforce.

Supply chain collaboration - to enable players to work in harmony so customers can receive better service.

Achieve benefits & economic gains

When you create disruptive innovation with high-performance supply chains, the competitive advantages that result can provide large and systemic business gains.

Order-of-magnitude business benefits and economic gains that result from disruptive innovation generally exceed those achieved by executive performance-gain mandates, which are typically short term and unable to create the systemic changes many businesses need to win the war.

Today’s battles must be fought from one end of the supply chain to the other, with close attention paid to both the consolidation strategies of competitors and the ever-changing demands of customers and untapped new markets.

* * *

For more information about creating disruptive innovation and reinventing your supply chain business model, contact your BKD Manufacturing & Distribution Group advisor. □

Occupational fraud targets most businesses

by John Mallory, Kansas City,
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A 2004 study concludes occupational fraud and abuse is “a tremendous problem, one that affects practically every organization.”

Recently released by the Association of Certified Fraud Examiners (ACFE), the **2004 Report to the Nation on**

Occupational Fraud and Abuse, defines occupational fraud as “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.”

Based on documentation from 508 fraud cases, the report found:

- Losses totaling more than \$761 million
- More than 90% of the cases involve asset misappropriation, *i.e.*, the theft or misuse of an organization’s assets
- Small businesses suffer disproportionately large losses from occupational fraud and abuse and are less likely to survive



them; approximately 46% of the cases involved organizations with fewer than 100 employees

- More than half the cases involved owners and executives identified by anonymous tips, which supports the need for Sarbanes-Oxley’s requirement for audit committees to establish confidential reporting mechanisms
- Confidential reporting mechanisms significantly reduce fraud loss—organizations that use them suffered less than half the median losses compared to those that do not (ACFE also recommends confidential reporting mechanisms be expanded to include customers and vendors)
- Cases detected by internal controls had a median loss of \$40,000, which was less than half the loss in the next lowest category
- Generally, occupational fraud is directly related to the perpetrator’s position, with owners and executives responsible for higher losses because they are able to override or circumvent internal controls

- Many occupational fraudsters are first-time offenders yet long-time employees; the longer you work for an organization, the more it trusts you, which is what fraud depends on—trust
- Prevention is the most cost-effective way to deal with fraud; ACFE’s report indicates 40% of the victims recovered nothing

The ACFE’s report—available at <http://www.bkd.com/service/Forensics&DisputeConsulting/>—provides insight into occupational fraud’s various mechanisms and offers tips for limiting your exposure.

* * *

BKD’s Forensics & Dispute Consulting (FDC) team investigates fraud and alleged fraud, ranging from expense account abuse to some of the nation’s largest alleged financial statement manipulations and abuse.

The FDC team is comprised of certified fraud examiners from diverse backgrounds, who are skilled in using forensic computer services to gather and analyze evidence.

Members of our FDC team can help you assess risk, which

can help reduce your chances of becoming a victim of fraud, and, if you already are a victim, they can conduct interviews, prepare reports and testify for you in court.

For more information, contact your BKD Manufacturing & Distribution Group advisor or a BKD FDC advisor. □

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