VENDOR SUPPLY CHAINS

Applying lean design to vendor challenges

Vendor finance has some inherent issues within its new business processes that still cause finance houses, manufacturers and dealer networks problems.

The core of the difficulty arises around a vendor finance transaction being a fairly drawn-out activity involving potentially several groups of people across potentially several separate organisations - an extended supply chain. Where finance is used to sell an asset as a core part of the proposition, as in the case of contract hire or long-term rental, the situation is amplified. Unlike direct business or vendor business done “after the event", where asset details are known and a firm invoice is present prior to finance being arranged, a rental-based transaction often alters as the sale develops. This creates an iterative process requirement as the customer eventually chooses its rental package configuration, after many asset feature decisions and several quotes.

A good example is a lift truck where often the specification may alter several times during the sale as the customer addresses issues including aisle widths, racking height, battery sizes and mast configurations. A vendor finance operation trying to service this rental proposal may have to alter its residuals, maintenance costs and capital amounts several times within the new business process. This obviously has a knock-on effect on underwriting decisions requiring transactions to re-visit the credit department and often documents require re-signing as invoice details change, perhaps several times.

Many times over the years I have heard administrators in support areas of large finance houses complaining about manufacturers that "can't seem to organise anything" and they continually curse "the hand that feeds them", regarding dealers and manufacturers alike as a nuisance to their own well-ordered lives! The middle and back offices of finance houses that have developed within a direct finance selling culture are here failing to understand the different requirements of vendor finance.

The core problem is that an iterative process requirement is often forced to fit into a generic "linear" new business activity that is more appropriate for direct new business processing.

Supporting complex vendor transactions requires development of visibility for all participants of the supply chain from manufacturing through to pay out and clarity of how the end-to-end process works. The aim is to reduce the quantity of rework, shorten the end-to-end processing time and make data changes easier. This will improve service levels, reduce errors and reduce new business costs.

The problem has been mitigated in the past using manual techniques that do work, albeit in a more cumbersome way, than a modern technological solution. If you place your business managers, and sometimes credit managers as well, on site with the equipment salespeople you can develop communication and team working that helps to solve the problem. This "work cell" approach requires a substantial manufacturer account to justify the investment and was a key feature in large vendor relationships in the 90s. This is not an option to be developed without considerable ongoing costs. It is certainly no good for a well-distributed dealer network.

In today's world we have the advantage of solving this problem more easily than in the past with the use of web-based portal technology. The principal requirement is data collection at the point of sale within the manufacturer/dealer and, as the deal changes, to accurately capture the change as it happens and respond almost instantly down the process line on demand

The manufacturer has access to an application that captures the sale as it develops with all contributors being appraised by the system of the progress of the sale. The work flow of all the people involved in the chain is managed to respond as required as the sale "pulls" their effort. This creates a just-in-time approach to credit appraisal, residual value, maintenance cost setting and documentation production.

The costs can be reduced and the cycle times improved if the decision making is automated. Credit scoring will improve the cycle time by releasing expensive credit managers from repetitive mundane proposals to focus on more challenging cases. Even more valuable is the automation of residual value and maintenance calculations. If the supporting departments can maintain the algorithms and base data that drive the residual and maintenance figures, rather than calculating each one as it is required, the cost to serve will be reduced, cycle times improved and the customer experience will be superior.

The good news is that due to new web-based technologies this type of "lean" design of vendor support is now highly affordable and can be deployed within sensible timeframes. However, equal importance must be given to the process and people issues to complement the technology - giving focus to IT alone can cause major difficulties. It is essential to design, document and train in your business processes to maximise your investment. The cost of the project will be much more than just the cost of the software; allow at least half as much again in time and money for process design, end-to-end process testing and training for all participants in the supply chain, not just the employees of the finance house but those of the manufacturer as well.

Often it can be better to use a specialist business architect independent of your chosen IT partner to focus on business process design and training.

David Winders.
Director, Dever Solutions Limited.

Dever Solutions Limited
Phone: 01962 884795
Mobile: 07849 761762
david.winders@tiscali.co.uk
www.deversolutions.co.uk

This article was first published in Leasing World, April 2007