

White Paper

Integrated Capabilities for Global Sourcing and Import Logistics in the Retail Industry – A Smarter Strategy

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Introduction

For a number of years, retailers have expanded their direct sourcing activity to allow them to build private label assortments and take advantage of cheaper sources for their products. The early ‘trailblazers’ set up overseas buying offices to help reduce the gap between buyer and supplier and find lower costs and better quality products. Significant business benefits were delivered in the form of improved gross margins and increased sales, while at the same time providing exceptional value for money to consumers through their own brands.

Other retailers, fearing an erosion of their competitiveness, followed suit. For the industry as a whole this has proved “the smart thing to do”. The cumulative impact has been to keep prices low across all retail sectors during an economic period that witnessed significant growth in customer spending.

The result was a positive cycle of growth: cheaper products driving increased sales, fueling an increase in sales footage and new stores, requiring more new products to fill the stores, all to satisfy the growth in customer demand.

However, with the focus on growth and satisfying demand it has proved difficult for retailers to allocate sustained strategic effort and resources to optimize the complex processes required to manage ever increasing volumes of imported goods sourced directly from overseas factories. These processes extend from first product concept and the planning process through sourcing operations and import logistics to receipt at the DC or store.

The impact can be seen in how processes, organizational structures, and supporting systems typically work today:

- Key processes are fragmented with multiple ‘hand offs’ between functional teams, severely reducing the retailer’s visibility to see what is happening across the supply chain, and its ability to control, co-ordinate, and direct inventory and information flows.
- Roles and responsibilities are not clearly understood by everyone and may overlap across functional silos resulting in redundant effort to perform tasks, inconsistent operational execution and duplicated, inaccurate data.
- Senior management does not sponsor the definition of responsibilities or engage in making organizational changes to help align with the operational challenges of increased global sourcing.
- Merchants continue to perform tactical sourcing tasks instead of focusing on building profit margins and developing the brand and store experience.

- Internal capabilities get focused on departmental excellence and completing specific tasks quickly rather than on how to bridge functional boundaries or building collaborative relationships with internal and external partners to achieve company goals.
- Spreadsheets and standalone databases are the primary tools supporting most processes. As private label volumes have grown, so has the complexity and variety of spreadsheets used to support operations together with the human resources required to maintain them. The result: data overlap, redundancy, and inaccuracy.
- New systems tend to get implemented within functional silos, further entrenching current 'ways of working' and disenfranchising other supply chain groups who often see no improvement in their workload or issues.

Here the cycle of growth has a negative side. By increasing volumes of private label and other direct imports retailers have increased the number of people required to support the processes, which in turn has created greater operational complexity and reduced management visibility to what is happening. This requires more people and processes to 'administer' the supply chain activity and report on it.

Yet, with established sources of supply, competitive and expanding trade routes and continuing low overseas raw material and labor costs, the overall business benefits are still in favor of growing direct sourcing and import management activity. This presents an important question: *"How can we make the management of this complex global sourcing process smarter and realize all of the substantial cost savings originally planned?"*

This paper sets out to discuss the complex landscape faced by retailers today and proposes a smarter strategy for developing world-class global sourcing capabilities. The paper concludes with a maturity model against which to measure progress and some imperatives for getting it all done before your competition.

The New Reality

Consumer behavior, expectations, and attitudes are growing increasingly complex and harder to predict and satisfy. The rise in importance of “green” and “ethical sourcing” agendas are driving more challenging expectations by all stakeholders in the market.

At the same time the global trading landscape is constantly changing. Ever challenging global economic conditions, combined with volatile raw material, fuel, and labor costs, have multiplied the challenges and choices that retailers now face as they seek to make the right sourcing and import logistics decisions. And because of these dynamic markets, sourcing decisions have to be regularly revisited and revalidated.

With the global economy exposing underlying operating weaknesses in many retailers, the senior leadership teams of merchandising and supply chain organizations are put under increasing pressure to build internal capabilities that deliver a higher volume of private label merchandise faster and more profitably. So is the Smart answer to go back to “local sourcing” or pass the challenges back to suppliers to figure out?

The answer is neither. For most categories, there is no turning back. More than ever, merchandising has to accept longer and more complex supply chains with higher risks in order to achieve higher margins. Survivors in the retail sector will be those who create price flexibility and drive towards shorter product lifecycles to capture consumers who are shifting their loyalty and retain existing advocates of their brand. Margin and cycle-time are key weapons in the competitive battles that are being fought between the mass merchants, discount warehouses, big box stores and specialty retailers. Even the most sophisticated suppliers can't fix a retailer's demand issues or decide the 'content' of the offer to the customer. Nor can retailers outsource their responsibilities for quality, choice and social accountability if they are to retain their brand equity and retain the loyalty and trust of their customers.

The Scope of Global Sourcing

- Global Sourcing spans processes before the Purchase Order (PO) is released ('Left of the PO') and all of the activities after the PO is released ('Right of the PO') up to arrival at the domestic distribution center, deconsolidation point or store.
- Globally sourced merchandise typically has little or no further production activity post-import. For some products, there may be some product finishing completed domestically, or undertaken at consolidation centers by third parties.
- Products are primarily sourced through trading relationships with overseas manufacturers in low cost labor markets such as China, East Asia, Africa, Central & South America, and Eastern Europe.
- Typically, ownership of the goods transfers from the manufacturer to the retailer on dispatch from an overseas location (factory, port, etc). If the volumes are large the retailer reduces freight costs by directly managing inbound ocean and inter-modal transportation and leveraging all import volumes across the same ocean / air carrier contracts.

Instead, retailers need to develop superior organizational capabilities to support streamlined, end-to-end processes that are integrated across functional boundaries where all participants are crystal clear regarding their changing roles and responsibilities. Only then can the organization execute with the operational precision and predictability to maximize margins while remaining flexible to react dynamically to change.

The scale and scope of this organizational change requires board level strategy development and sponsorship. Without the corporate will and vision to set the agenda and help ensure the entire organization is aware of its strategic importance, initiatives to achieve a step change in business capability are liable to fail. The scope of change covers new roles and responsibilities, new performance measures, new internal and external behaviors based on collaboration, and the development of truly cross-functional ways of working. However, without new planning, execution and visibility tools and 'enabling' systems that help manage and integrate processes into one continuous stream of activity, the challenge could still prove too great.

The best way to help ensure success is to first align the organization with a roadmap that details the incremental phases of capability development. This roadmap should support the retailer's strategic objectives and identify the sequence of phased organization, process and technology changes that are needed for successful and cumulative capability development.

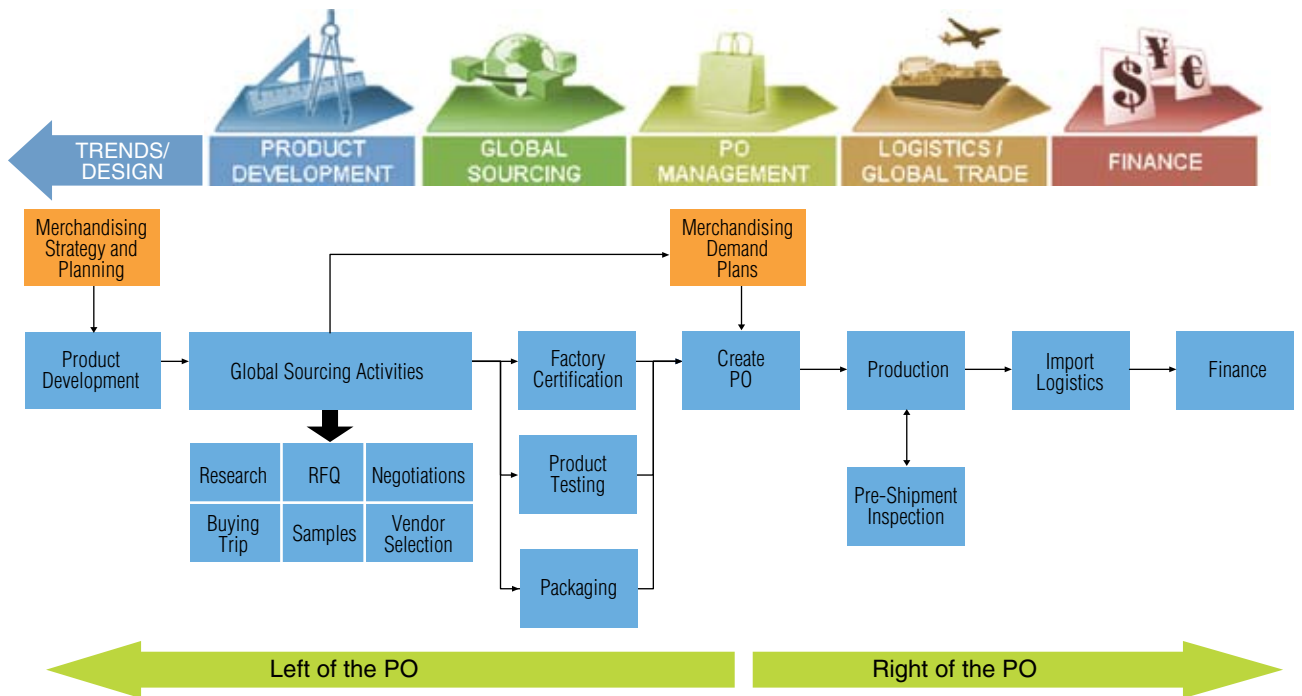
This is important – it's only natural that capabilities will be developed and deployed over time, and for expectations to be realistic and managed they need to be grounded in a clear understanding of where the retailer is today, i.e., its level of maturity, and its ambitions for tomorrow.

A Complex Landscape

The management of Global Sourcing and Import Logistics covers a multitude of complex and overlapping processes and sub processes. However they can be broadly grouped under the headings shown in the diagram below.

The common link between them is the Purchase Order.

The information created in Product Development and Global Sourcing provides the product specification detail and key supply parameters that are subsequently embedded in the purchase order. At the other end of the process, it is the PO details that Finance takes to complete the transaction and account for the goods.



Until recently, for many retailers the merchandising function took ownership of all activities up to logistics. Yet apart from merchandise planning, product development, identifying product trends and directing design, all of the other processes are very tactical in nature and add unnecessary overhead to a merchant's day that could otherwise be focused on more creative activities, such as building the assortment and brand. In addition, each merchant typically executed based on his or her own practices. Some continued to buy from existing domestic import agents; others went direct to factories. They all did things differently so little or no leverage was achieved.

Nowadays, leading retailers have developed a Global Sourcing function that takes responsibility for much of the tactical execution of sourcing. This allows them to become centers of excellence for global sourcing, gaining consistency in execution, leveraging vendors / service providers, and gradually perfecting the science of global sourcing,

A Landscape being shaped by powerful Internal and External Drivers

There are a number of key drivers and trends shaping how retailers operate their global sourcing and import logistics business. Some are internally generated, focused on alignment with the development of the customer offer, or on operational improvement. Others are a response to external trends that cannot be ignored.

Some examples are given below:

Internal

- The growth of private label product ranges, and the use of private label to differentiate the depth, breadth, price and quality position of the retailer's brand.
- The move towards providing a near constant stream of new merchandise through introducing 'mini' seasons, special events, improved features, or simply more choice - all to keep the product offer fresh and attractive to ever more discerning customers.
- A reduction in product lifecycles that may include: fast track product development, the use of information portals to more quickly identify potential suppliers, and the postponement of product completion until demand patterns emerge.

- A need to have more predictable cost and service, and greater reliability of estimated landed cost verses the actual landed cost as net margins come under pressure from greater competition and overseas cost increases.
- Retailers are pushing for control further to the left of the purchase order to break down all cost components. Taking on the procurement of raw materials and seeking visibility of the bill of materials costs help to drive out cost and leverage component parts across products.
- A desire to integrate the purchasing of new products through global sourcing with more traditional replenishment strategies to eliminate 'lot-size' orders, matching actual demand 'pull' as closely as possible to drive down inventory and improve availability.
- Global sourcing operations are now being managed more directly overseas. What were once 'sourcing outposts' are now multi-functional, businesses with their own set of relationships with suppliers, factories, shipping and customs agents – and their own set of processes and performance measures.

External

At the same time the retailer has to respond to a rapidly changing external environment:

- New sources of overseas supply are developing, while existing sources are getting more costly. Changing supply sources, however, presents risks – they can require new distribution and quality management arrangements to be set up, and reliability and operational stability can be unknown quantities.
- Retailers are increasingly being held accountable for supplier actions. The twin demands of new social and regulatory requirements on the one hand and consumer concern over ethical sourcing and environmental issues on the other are driving a need for proactive management by the retailer on all aspects of product "traceability".
- The import logistics choices are increasing with the rise of "value add" third parties who sit between the supplier and retailer and can add not only traditional consolidation and shipping services, but also "sales floor ready" activities, track and trace services, and the management of customs paperwork.

To gain and maintain control of global sourcing processes requires consistent, accurate and timely information. The overall visibility of this information and the ability to make the right decisions based on what the information is telling us is of paramount importance to the acquisition of competitive advantage and expansion of margins.

In the past, information of this quality has only been available for domestically sourced products and the lack of comparable information for globally sourced products seemed to have been an acceptable result of the longer, more complex supply chain processes and higher number of partners involved. Thankfully, this era is ending and we now see a higher level of integration led by the availability of new integrated sourcing solutions specifically designed for managing private label and direct imports. Additionally, supply chain partners and product manufacturers are aligning with retailers' needs for visibility and are participating in higher levels of collaboration to help provide it.

In this highly fluid and devolved ecosystem, where complex operations are managed from multiple locations, and where information integrity and accuracy is critical, the retailer has to deliver flexibility, responsiveness, and awareness. Unfortunately, this need requires companies to move further away from the capabilities most currently have!

The Current Situation – A View From The Ground

While the internal and external pressures for change are growing, the reality on the ground in most retailers has not altered significantly. With the exception of managing compliance, the processes set up to support direct imports have not changed much over the years. With growing volumes of directly imported merchandise, however, these processes now consume far greater human resources and management time. For many, current methods will not scale nor deliver the full cost savings that global sourcing promised.

Retailer experience with direct imports has created, over time, some deeply embedded merchandising, sourcing and logistics practices, and operational timescales. Most of these practices and the information that supports them are still held on spreadsheets and in folders on servers or individuals' PCs, forcing those who need the information to hunt it down.

“Best practice” is in the hands of each functional head or internal expert and process development and optimization is therefore constructed within the four walls of each functional group’s set of responsibilities. In many cases, these functional groups seem to have a natural reluctance to divest responsibility for any part of their processes – even if they do not add value to their domain. Meanwhile, ocean freight, customs, local ports, ground transportation, all operate under cost-optimized schedules and methods, stretching the timeframes of global sourcing to scales that almost seem anachronistic compared to the pace of the rest of the business.

What happens when consumer demand, product designs, merchandising strategies, pricing schemes, and inventory fills change faster than traditional global logistics timeframes can afford? How can a process that is inherently slow suddenly become flexible, dynamic, and responsive to change?

In this environment, pulling information together to get a clear view of inventory and commitments within the sourcing pipeline and even raw materials back to manufacturer is a significant and time consuming task, and crucially no one group’s overall responsibility. The result is increased operational risk causing increased costs and delays in getting products to market. Financial impacts are not felt until it’s too late to act and business objectives (e.g., margin expectations, stock turns and availability) are missed.

Some retailers have addressed the issues with action plans that mitigate the worst of the process and organizational “pain points” – but most have implemented point solutions to alleviate workload within functional boundaries instead of taking a more holistic view. Many have failed to recognize the importance of a scalable, integrated platform of cross-functional processes and systems for global sourcing and import logistics. For these, it has become impossible to synchronize product development, merchandising, global sourcing, PO management, import logistics and finance operations and growth of private label volumes results in increased pain.

Where benefits from system supported change have been expected, they have typically fallen short of expectations, often due to dependencies on other 'functional teams' or processes out of scope that have not been able to align or support the new business capability.

It is not surprising, however, that point solutions have been deployed. Even today, there is no one solution that supports the integration of all processes across the private label life cycle. But there are functionally rich solutions available that when combined with existing systems in a more flexible, service oriented architecture (SOA), form an integrated platform to support all aspects of private label growth. Furthermore, this platform can be implemented in phases and without wholesale changes to legacy systems.

The key is to identify the issues and prioritize them by current and future business impact. While this may appear to be straightforward, today's issues are complex and often interrelated. They are, by definition, a retailer's current state issues and must be put into context by comparing with industry leading capabilities. This helps to assess the total opportunity for additional value associated with organizational, procedural and technological change. It also eliminates favorite or 'soapbox' issues seen by some as important, but contributing far less cross-functional value. Only after such analysis can today's issues be prioritized – not just against each other but also against the covert issues that constrain today's operational and financial performance.

The Issues – The Complex Life in the Machine

Developing, sourcing, and importing private label merchandise is, after all, very complex. There is the intense collaboration required with distant overseas manufacturers to create new product designs and bring them to market in time for seasonal collections. Achieving global trade, financial, customs, security, vendor and product compliance is challenging enough, but then there are ever-changing manufacturing labor rates and tariffs as low-cost manufacturing markets develop their national economies, driving the need for more dynamic landed cost calculations. Meanwhile, overseas infrastructure is a long way from ideal, but in most countries it is continually improving, making it necessary to re-evaluate logistics networks and costs frequently.

Key challenges include –

- Timely management of multiple direct import programs, with hundreds of new products, thousands of associated Purchase Orders, all managed, amended, and coordinated through multiple internal and external databases.
- Handling thousands of container shipments, with products spending weeks on the water, in distant consolidation centers, ocean terminals, or on local haulier vehicles between the factory and the port.
- Coordinating hundreds of supplier factory certifications a year, new product testing, pre-shipment inspections, and ensuring that regulatory and social / ethical compliance requirements are met.
- Managing continuous customs entries, ever-increasing security compliance and freight contract compliance audits across multiple geographies.
- Maintaining an audit trail for all of the above to help ensure full product, vendor and shipment traceability.

Managing this much complexity, across borders, across divisions, across 3rd party partners, and across product lines and multi-layered suppliers (agents, factories, raw material plants, local offices, holding companies, etc) is a monumental task even in the most staid and predictable of environments, let alone for the highly dynamic world in which retailers work. Moreover, this complexity doesn't even account for aspects that characterize global sourcing, such as changing custom laws, geopolitical dynamics, or trans-oceanic shipping schedules.

At a functional level, the business challenges grow more specific and, in most cases, much more tactical. Any one of these may appear to lack the urgency to drive change, as they seem either localized or manageable through manual processes. They only become compelling when looked upon at the strategic level as interdependent and mutually reinforcing. Collectively, their impact inhibits an organization's ability to be nimble, and hinders attempts at cost control, both at the unit level and in terms of overhead efficiency.

The table below details some of these issues by function and the negative results they may affect.

This functional area...	Is often challenged with these issues...	That causes certain risks, short-comings and inefficiencies
Product Development/ Global Sourcing	<ul style="list-style-type: none"> • Loosely defined roles and responsibilities • Process variance – no workflow management • Email & attachment-based collaboration • Poor / no RFQ and decision support tools • Lack of audit trail and version controls • No vendor leverage or performance tools • Headcount growth linear with volume • Proliferation of Microsoft Excel / Access 	<ul style="list-style-type: none"> • ELC inaccuracies • Sub-optimal gross margin • Extended time-to-market and cycle-time • On-time delivery risk • Low productivity • High attrition
Import Logistics and customs	<ul style="list-style-type: none"> • No forecast collaboration with carriers beyond current POs • Poor visibility of upcoming demand changes and promotions • Ocean contract management by spreadsheet • No bid optimization tools • No formal communication of PO Revisions to 3PLs • Classification codes not integrated with item setup • Container and dray/hauler management by spreadsheet 	<ul style="list-style-type: none"> • On-time delivery risk • Sub-optimal rate negotiations • Risk of undetected errors in shipments and invoicing • Customs compliance risk • Customs holding charges
Merchandising/ Finance	<ul style="list-style-type: none"> • Redundant system entries (create PO) • Multiple, manual PO changes • Manual ELC/ALC variance analysis • ELC/ALC variance reconciliation latency • ALC variance not allocated fairly across products in shipment • Poor visibility of PO status • Contingency built-in rather than driven out • Manual auditing of invoices • Proliferation of Microsoft Excel / Access 	<ul style="list-style-type: none"> • Landed cost surprises • Gross margin and IMU risk • Inaccurate gross margin reporting • Delivery delays / variance • Sub-optimal inventory • Redundant data entry • Low productivity • High attrition

RFQ = Request for Quote; PO = Purchase Order; 3PL = Third-Party Logistics service provider; ELC = Estimated Landed Cost; ALC = Actual Landed Cost; IMU = Initial Mark-Up

A Smarter Strategy for Developing Global Sourcing Capabilities

The landscape is therefore an extremely challenging one – tough enough to navigate through when times are good, but many times more difficult in the current economic conditions that encourage accelerating growth in the product mix of private label merchandise. Working harder, cutting costs and consolidating operations and partnerships is not going to be enough. The need is to work “smarter”; looking again at every activity, every role, and every relationship in the Global Sourcing and Import Logistics value chain and deciding how they can be integrated to drive a step change in the key drivers of customer loyalty and cost reduction - efficiency, effectiveness, responsiveness, and flexibility.

The level of change required can only be achieved through the creation and execution of a new type of “Roadmap”. This roadmap of change encompasses people, processes, systems, roles & responsibilities, organizations, and ways of working. These fundamental business building blocks come together as distinct and powerful business capabilities.

The roadmap, however, has to be grounded in an understanding of the specific retail market the retailer is competing in to account for different competitive drivers, and different product flow dynamics. For example, product development for apparel is very different to that for hardware. The roadmap also has to align with evolving and projected channel management requirements, the retailer’s unique business priorities, and level of maturity. The last point is a key one, which we address later when we look at measuring progress against the strategy and roadmap. Namely, the importance of applying a maturity model and other measures to help baseline expectations of progress and identify success.

Three Steps to Success

- I. Creating the strategy and vision for the “future state” set of capabilities roots the goals of the business transformation in the redesign of organizations, processes, and enabling systems. For this redesign to be realistic and achievable it needs to be placed within a clear, milestone-driven timetable and structural framework of ‘bundles of related change’ - where change is laid out in a logical, benefits-focused way.

The redesign starts with board level agreement on where the overall initiative sits within the corporate agenda, what the critical customer facing and financial objectives are tied to and measured against, and when it should start (e.g., tying in with the budgetary cycle, and completion of current major investments).

- II. Developing the new capabilities is about rebuilding the 'organizational DNA', i.e., the complementary and holistic set of demand and supply chain 'links' which will support and optimize direct sourcing activity in the future.
- III. Measuring progress means understanding what service model you are aiming towards, and the level of maturity, relative to your competition, that you aspire to. This does not simply translate into "being the best". The 'stretch challenge' from where you are now to being the best may be too great a risk within the window of time that is available, meaning that there is most often a "window of opportunity" for these transformational change initiatives. The majority of change typically must happen within this window, before the business turns its attention to new challenges.

I. Creating the Vision – The Roadmap to 'Smarter' Management

Let's accept that the pace of business has changed. Let's accept that the changes the internal and external stakeholders in the private label merchandising/global sourcing / import logistics value chain can propose independently will only mitigate the current pain points rather than build a flexible and responsive platform for successfully managing future challenges.

At this level, it's not just about minimizing costs or improving operational excellence, but also about how to align and integrate demand chain capabilities with the realities of supply in order to deliver the brand promise expected by fickle customers... over and over again. Therefore the task needs leadership, clear direction, and the development of widespread consensus on what needs to be done - and in what order.

This is both a "top down" and "bottom up" process. Top down because the key strategic imperatives need to be clear to everyone engaged in the process, and bottom up because it needs to be clear whether the proposed strategy has any chance of being implemented at the operational level. Being smarter at this stage means understanding that the organizational redesign will impact many internal and external functional teams and business partners. *Their input is crucial to success.*

What ties these two approaches together is the definition and 'buy-in' to a set of interrelated performance metrics that are both challenging and meaningful to the organization in terms of its current level of maturity, the service model it is aiming to be, and other factors.

Examples might be -

- "We will increase our mix of private label merchandise by 20 percent in 2 years"
- "Our customers will enjoy 98 percent availability of every private label product we offer within the channel they choose to buy through"
- "Every one of our sourcing decisions will be based on lowest landed cost for products of equal quality and supply routes of comparable risk"
- "We will meet 100 percent of our regulatory and social compliance obligations and maintain auditable records to prove it."

By linking these measures together and identifying the high level set of organization, process and system changes that need to be achieved to deliver them successfully we can describe some top-line characteristics of the future state. One key word that occurs throughout these descriptions – "Integration". Essentially the smarter private label merchandising / global sourcing / import logistics value chain is one that is tightly integrated:

- *Integrated horizontally*, so that different functions share common processes, data definitions, and metrics, enabling them to share a single view of product and global sourcing status.
- *Integrated externally*, for collaboration with vendors and partners so that activities are orchestrated between all parties.
- *Integrated vertically*, where activities, processes, and data are coordinated from the beginning of the product lifecycle (design and demand planning) through to arrival at the distribution center or store.

Once integrated, moving to global sourcing operations that are fully scaleable, flexible, and agile with a focus on centralized planning and business performance measurement becomes possible.

But integration is too often used as a blanket term for any coordination or connection within a business function, and often reserved to imply only technology systems. In terms of the global sourcing and logistics operation, integration has far-reaching and broad implications across many different business practices and functions, including how people work together, how information is shared, how common goals are shared, how processes are coordinated, how departments align, and how external entities interact with the sourcing and logistics operation. Integration also implies that functional groups prioritize company performance improvements over functional performance improvements.

The need for integration can be better understood by considering some key attributes or definitions of what the future state should look like verses the current state. The chart below represents a sample of our experience with working with retailers on these change initiatives.

Common characteristics of the current state	Future state characteristics
<ul style="list-style-type: none">• Functional alignment & information• Departments task & productivity focused• Manual and reactive scheduling• Landed cost analysis within months• Management by inspection• Process execution dependent on experts• Fragile, overloaded infrastructure• Compliance auditing focus	<ul style="list-style-type: none">• Cross-functional alignment & common visibility• Business & process performance focus• Collaborative planning and forecasting• Landed cost reconciliation within days• Management by exception• System-based decision support• Robust, scalable infrastructure• Compliance planning focus

However, while a compelling vision and case for change is enticing to most, real change among people and operations has proved difficult to achieve. Coordinating cross-functional tasks and collaboration is often resisted where it is needed the most. Proud histories and engrained habituation drives a status quo, not innovative transformation. Everybody in the organization has to become somewhat of an agent of change.

Essential to achieving a smarter vision is building a roadmap for new core capabilities that act as the vehicle for integration and change. Only when the organization unites behind a common strategy of smarter capability development does the need for integration become clear to everyone.

II. New Capabilities for the Integrated Global Sourcing and Import Logistics Operation

What do we mean by New Capabilities? The best way to illustrate this is to compare new capabilities to existing capabilities.

In a retailer that has been sourcing products directly from overseas factories for some time, existing capabilities have grown in islands around the business. The import finance department may have a reasonable capability to access information on, say, purchase order changes. But other departments may have no access to the same information without requesting a report, or they may have access to PO changes made up until two days ago. The capability for the organization to have a single view of current purchase order status is severely impaired – if it exists at all.



Due to the complex nature of global sourcing and import logistics there are many primary capabilities that retailers should consider as potentially valuable to develop. Not all capabilities depend on technology. Some can be developed through standardization of processes and careful change management alone. But many high-value capabilities involve integrated, cross-functional processes and these capabilities reach maturity more quickly if they are seen as IT-enabled capabilities.

Here, we will consider groups of new capabilities that must be enabled to optimize and integrate the supply chain in whole. The image below shows six categories of new target capabilities. These must be considered across each functional step of the value chain.

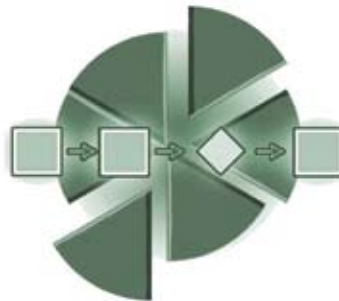
Together, the functional view and the new capabilities form the vision. Below we will describe how new or enhanced characteristics or competencies from each capability group contribute to improving the overall global sourcing and import logistics operation.

New Capabilities for the Integrated Global Sourcing and Import Logistics Operation

1. Collaboration, Communication and Resource Empowerment



2. Standardized Processes



3. Global Trade Management Expertise



4. Trade Orchestration, Compliance and the Extended Enterprise



5. Sourcing Information and Technology Enablement



6. Innovation, Growth and Performance



1. Collaboration, Communication and Resource Empowerment

Across all functions, poor collaboration and communication are often among the largest inhibitors to productivity in global sourcing and logistics. At the outset, global collaboration and communication has obvious, natural challenges including geographic disparity, language differences, time zone issues, cultural differences, and communications infrastructure/protocols. At a personal level, collaboration and communication is difficult for any organization as people's behaviors and work styles often combat against it.

Collaboration becomes fundamental when the need is to be far more dynamic and responsive. Collaboration represents how people work together to solve problems. Collaboration in future means working with experts in other functional areas to help ensure that upstream decisions are optimized for downstream execution and vice versa.

For example, in Product Development, a new product design should gradually build to include how and where it is going to be sourced, how raw materials or sub-assemblies are going to get to the manufacturing floor, and how shipping methods are going to affect launch and fulfillment dates, and even reach into sales, marketing and service calendars. In many cases these processes are ignored or not considered effectively enough to optimize operations downstream.

Enabling internal and external collaboration is the first step and the most visible result in integrating global sourcing and logistics. Unfortunately, in many operations, collaboration is not a formally managed and enabled practice. Instead it is regulated to informal work habits, localized or homegrown processes, or necessitated by crisis management. And collaborative communication is constrained within the limitations of e-mail, file folders, telephone and fax.

In order to be successful, collaboration, communication, and resource empowerment must come from formally structured programs and processes. Procedural actions must be taken to promote and reward collaboration. Organizational barriers must be eliminated or changed to support people working together. This also includes mitigating and managing the most obvious of obstacles such as dealing in multiple languages, multiple currencies, multiple measurement systems, time zones, etc. Technology platforms that support collaboration, knowledge sharing, and communication should be deployed to foster a collaborative environment. Much of this change may be attitudinal or cultural, and should be supported from the top down.



2. Standardized Processes

Arguably, different processes used by different groups to work on the same task may be the biggest hindrance to achieving integration in global sourcing and import logistics operations. In general, there can be some allowance for divergent processes in small groups or multi-category value chains. But as private label volumes grow in scale, process differences begin to take their toll. Using different processes to track different products for instance, or to calculate estimated landed costs, can cause manual work-arounds, redundant data entry, inaccuracies, amendments and mistakes.

The costs of process variance go up exponentially when trying to achieve horizontal integration (i.e., multiple functions or product lines sharing the same core sourcing operations and processes for leverage and efficiency). Imagine trying to coordinate sourcing decisions involving multiple vendors and countries when different teams use different RFP (Request for Proposal) procedures,

different product testing protocols, or different landed cost formulae. In the end, the amount of effort is duplicated, the chance for error is increased, and the ability to gain a unified view is hindered if not destroyed.

The lack of a unified view of what is happening may be one of the most strategic shortcomings that can be attributed to lack of process standardization. Without this view, the opportunity for efficiency and leverage among vendors and partners is severely diminished. Unifying work streams and labor forces becomes difficult, especially globally. The organization also loses their ability to plan and forecast effectively, manage inventory across the enterprise, and measure performance centrally.

So, when looking to standardize processes, supply chain leaders should look to each function for key processes that provide opportunities for coordination. These include the following examples:

Product development processes: product development workflow, specifications, seasonal calendars, product cost development, optimization of components, historical sales analysis.

Global sourcing processes: standardized workflow, RFP management, pre-shipment tracking, vendor capacity management, ELC calculation at sourcing level, factory certification, product testing, vendor management.

Merchandising: product strategy and development, assortment planning, samples management, PO/vendor approvals..

Import logistics processes: carrier assignment, container management, logistics event management, compliance management, freight claim processing, customs document management, imaging and record retention.

Finance processes: financial instrument management, product invoice / payment management, records management, estimated versus actual landed cost analysis, service provider invoice / payment and automated audit.

To achieve process standardization, a formal effort must be taken to catalog and understand the full portfolio of processes being used in the current environment. Processes must be analyzed to determine which processes are the most effective in the current environment and how they should look in future. In many cases, this provides a pause of contemplation and an excellent opportunity to redesign processes from the ground up or adopt best practice processes from outside the company.

In some cases, process change will necessitate technology and system change. In other cases, process standardization will be impacted by other factors such as data standardization, where the lack of common data definitions or consistent measures will make process standardization impossible. In these cases, data reconciliation and system changes will need to be completed in concert with process standardization efforts.

Some technology solutions have workflow and process built in. This can provide a good opportunity to quickly adopt external best practice, but also must be balanced against the temptation to short-change specialized aspects of specific supply chain operations.

When driving to standardized processes, serious and thoughtful attention should be given to the centralization of certain processes that are particularly routine and repeatable or highly specialized. These are often perfect candidates to centralize in global sourcing centers of excellence, where process control and standardization can be tightly run by a single group and often executed by lower cost resources. This can be a double win: better performance and control at a lower cost.



3. Global Trade Management Expertise

The ability to develop and sustain standardized processes in this area is a critical business capability, but what is often missed is that many of the people who work within the complex processes of Global Sourcing and Import Management need to have highly specialized skill sets and experience. For example, being good at executing global trade related processes requires having experts who understand the ins and outs of conducting business overseas and across borders.

These skills are often those developed in the 'home office', and moving a good supply chain individual familiar with domestic logistics to managing global transport movements is not necessarily the right one; the learning curve is steep and can take too long in the context of all the other change that is being implemented.

The ability to have problem- and error-free customs, trade quotas, regulatory compliance, and other cross-border transactions smoothes the ability to conduct global business in general. This skill becomes more difficult as new sourcing markets are explored and as laws and procedures change on a daily basis.

Some of these skills include:

- Knowledge of markets and options e.g., new low cost country sourcing options, and the relative benefits and risks each provide. This also requires a keen sense of being up to date with industry news and trends, as well as the ability to look forward.
- Localized competency in trade risks, labor laws, customs, tariffs, environmental policy, local customs/culture, infrastructure advantages and risks (e.g., power, roads), political/military risks, workforce risks, and other diverse local factors ranging from religious constraints to national holidays.
- Establishing the required operational capability, such as setting up sourcing offices overseas, building cross-language/cross-currency systems, and having trusted partners in needed locations.
- Knowledge of international shipping levers and concerns e.g., price differences, time differences, ocean, air and ground transportation modes, packaging issues, drop shipping, expedited operations, etc.
- Expertise in global trade processes, for example, customs classification, freight claim processing, denied party listing, customs audit management, export regulations, post entry processes, documentation processes.
- Acumen in global financial transactions, currencies, financing, lending, escrow, collateral, etc.

The main issues come with the fact that most of this knowledge is kept within the minds and personal work styles of the experts employed. In many cases, each knowledge worker in this space relies on their own expertise and most likely their own network of peers by which they gather this information. Problems can arise when this situation is applied to a large, global enterprise where knowledge needs to be consistent, instant, and not dependent on the skills of a few experts. In an integrated global sourcing and import logistics operation, global trade expertise and knowledge is programmatic and institutionalized, meaning that formal actions and programs are in place to store, codify, and disseminate global trade information, as it is needed.

At a human level, this may require providing directories and forums for peers to exchange knowledge and keep up to date. At a program level, it may require dedicated experts (or a service) to update trade information on a daily or even real-time basis. This is more useful for market-driven information, such as pricing or supply levels, more so than less dynamic information, such as changes in trade policy.

At a system level, advanced knowledge management systems should be deployed to capture and provide access to expert information so that it may reside and be used outside of the minds of experts. In truth, this programmatic approach doesn't replace the role of global trade experts; it more often coordinates their abilities, extends their usefulness, and further enables the organization.



4. Global Trade Orchestration, Compliance and the Extended Enterprise

The nature of global trade is that it largely relies on the interaction, transaction, and cooperation of multiple parties across distances. Therefore, the act of coordinating and controlling interactions and transfers between parties becomes paramount in global trade execution.

In the past, the hand-off between separate parties was kept at arms' length, be it of supplies, finished goods, or funds. This may have been because different parties wanted to maintain their negotiation advantage. Operationally, coordinating things like real-time information and process transparency was just not possible.

Today, the modern private label value chain must integrate its core systems, data and processes into an extended enterprise, meaning that external partners, suppliers, third-party logistics providers, and customers are keyed in to the responsive and data-enabled supply chain operation. This can enable the supply chain to better use shipping routes and inventory stores, better align delivery to customer demand, and respond more effectively to changes and dynamics within the inventory fulfillment cycle.

Orchestration is already happening. This is where a mediator or “manager of service providers”, much like an orchestra conductor, guides the interactions between many suppliers, partners, manufacturers, distributors, and end-clients in a graceful orchestration of a supply chain, artfully matching customer demand to nearby inventory stores, changing shipping routes on the fly for maximum efficiency, and establishing on-demand, just-in-time inventory fulfillment across the global supply chain.

Retailers have a choice of which orchestration to perform themselves and which areas to employ the services of third parties. An example is in the area of sourcing and the use of different types of agents. Depending on the retailer’s level of maturity and sourcing markets being exploited, a range of agents are available offering different advantages, risks and limitations. Choices vary from using a domestically based Indirect Import Agent / Distributor right up to establishing a company-owned sourcing office overseas. Some key agent types are summarized in the table below.

Comparison of Sourcing Orchestration Alternatives

	Sourcing Office	Buying Agent	Selling Agents	Indirect Importers
MARGIN GAIN	<ul style="list-style-type: none"> • Highest 	<ul style="list-style-type: none"> • Medium 	<ul style="list-style-type: none"> • Low 	<ul style="list-style-type: none"> • Lowest
PROCESS CONTROL	<ul style="list-style-type: none"> • Greatest control over end-to-end sourcing operations 	<ul style="list-style-type: none"> • Collaborative controls 	<ul style="list-style-type: none"> • Multiple collaborative control efforts 	<ul style="list-style-type: none"> • Minimum control over processes
OTHER BENEFITS	<ul style="list-style-type: none"> • Confidentiality • Develop in-house expertise • Best platform for private label • Competitive advantage • Tax/corporate entity 	<ul style="list-style-type: none"> • Rapid access to market (vendor/product) knowledge • Long-standing relationships • Cultural awareness • Trade techniques 	<ul style="list-style-type: none"> • Rapid setup and execution • Intimate knowledge of vendor’s capability • Flexibility in supply • Less complex transactions 	<ul style="list-style-type: none"> • Ease of purchase (standard PO) • No currency risk • Real-time interactions • High inventory turns
OTHER RISKS	<ul style="list-style-type: none"> • Time to critical mass • Remote governance • Conflicting roles • Over-reliance on geographic location 	<ul style="list-style-type: none"> • Agent capability and reputation • Informal suppliers bias • Information ‘ownership’ • Lack of confidentiality 	<ul style="list-style-type: none"> • Multiple agent relationships • Formal supplier bias • Lack of transparency • Compliance resolution 	<ul style="list-style-type: none"> • Product availability • No visibility <ul style="list-style-type: none"> - Costs - Production - Compliance
RETAILER PROFILE	<ul style="list-style-type: none"> • Import volume/growth • Mature processes • Product development/private label 	<ul style="list-style-type: none"> • Moderate maturity • Multi-region sourcing/emerging markets 	<ul style="list-style-type: none"> • Opportunistic buying • Very early stages of sourcing maturity 	<ul style="list-style-type: none"> • Limited import experience • Name brand supply • Inventory sensitive



5. Sourcing Information and Technology Enablement

Integration for global sourcing and import logistics operations, requires a fundamentally sound and strategic technology foundation in order to operate. Technology should not be seen as the sole 'means' of creating integration but it is critical to understand how it provides new business capabilities and enables others.

Information-based decision-making must become a core competency. Capabilities in this area include applications of analytical data to provide insight for performance management, metrics tracking and reporting, and planning/forecasting purposes. These are captured in the business concepts of business intelligence and business performance measurement.

ERP and legacy applications will typically exist in most retailers, and will already be integrated with EDI messaging and other enterprise services for domestic sourcing and purchase order management. This legacy platform also provides master data management capabilities such as item, vendor and purchase order management. Therefore, the key to success is finding a way to leverage this existing investment as much as possible for imported private label merchandise.

Purchase orders for imported goods are more complex than domestic POs. Additional data related to import logistics need to be associated with the PO – information like port of departure, port of arrival, classification codes, factory location, container loading information (for the new US Customs and Border Protection “10+2” regulation), etc.

Modifying legacy systems or ERP is not usually the most cost-effective route to cater for these import complexities. There are now integrated sourcing platforms that include PO management capabilities to manage import POs and these systems can be integrated with existing legacy/ERP systems at a lower cost.

However, where ERP systems are deployed, they could have a critical role to play in Master Data Management (known as MDM, the practice of creating a consistent use and record of data across the enterprise), which often requires common data definitions and a strong focus on data accuracy and quality. Different from data integration, MDM practices focus on consistent definitions and processes, formal data governance structures, and systems of record that control the validity of data. This enables a single view of the truth, enabling analytical reporting to be much more powerful enterprise-wide and day-to-day data usage to improve in overall effectiveness and efficiency. MDM can be started in spot-areas, such as the coordination of product or inventory data, but is fully applicable and advantageous to span across functions and the enterprise.

Other key technology areas for consideration in building new business capabilities are -

- **Common and/or integrated platforms:** Integrating systems allows for them to interchange data and information automatically, providing more global coordination at faster paces with fewer errors. System integration can be harrowing, as most advanced enterprises may have hundreds of different applications, running different versions, different languages, and some with histories older than the product lines they serve. System integration requires a thoughtful approach, where the system portfolio is optimized to deliver the most value with full awareness of when it is best to enhance a system, integrate it into the broader fabric, or retire/replace it.
- **New architecture approaches (e.g., SOA):** Amongst all of the technological change, new architectural approaches such as Service Oriented Architectures (SOA) may provide new ways to achieve some of the loftier goals (such as MDM or information integration) in a way that builds flexibility for the future, makes ROI easier to achieve, and makes the difficult readily achievable. These approaches, and SOA in particular, could very well transform how an organization considers technology from the standpoint of how it can leverage the past while trailblazing towards the future.
- **Business performance management and business intelligence:** Achieving integration enables managers to generate analysis and access measurements that enable business decision-making. The more robust and accessible these tools and information are, the more valuable they become as managers are able to gauge business performance, measure where their operations are failing or succeeding, and take speedy and informed action to improve their business. The newest tools involve management dashboards and other user-friendly analytical tools that draw off of operational data stores, data warehouses, and data marts.

- **Global sourcing and import logistics tools:** Many tools exist to embed best practice and optimize particular functions of the global sourcing and import logistics operation. They include tools such as: product and merchandise lifecycle management tools, sourcing workflow tools, RFP management tools, potential and current vendor data repositories, vendor scorecards, PO management tools, contract management (bid/amendment) tools, carrier volume forecasting and assignment, logistics event management, compliance management tools, service provider billing and automated audit, customs classification database, imaging and record retention systems, automated invoice audit, Web based invoice status, and many others that may benefit the sourcing organization.



6. Innovation, Growth and Performance

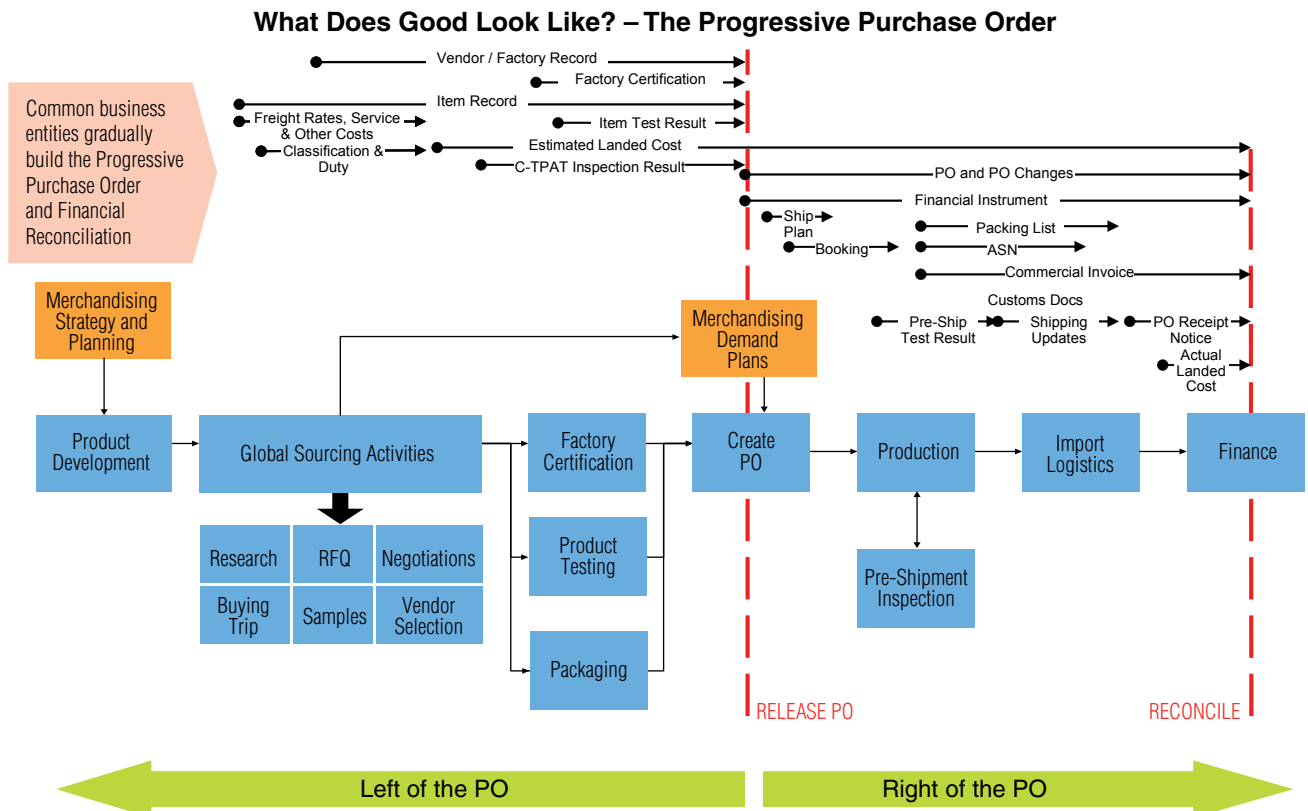
Even the most innovative and forward-thinking vision, in time, will eventually become a relic of the past. Change is constant in the Retail Industry and in the complex world of Global Sourcing and Import Logistics. Even small changes in the 'ecosystem' have far reaching effects. To succeed, change in the marketplace should be embraced, and where possible, anticipated. The organizational requirement is for a culture that supports constant innovation, growth, and ways of working that 'foster' continuous improvement.

At an operational level, innovation and growth need not be thought of in terms of 'groundbreaking' or 'eureka' type invention that disruptively transforms the operation. Instead, innovation and improvement come from a slow and steady discipline of monitoring business performance, understanding what works and what doesn't, and making gradual improvements that fit the style and appetite of the business.

An example of innovative capability development is what we call "The Progressive Purchase Order". As discussed earlier in this paper, a purchase order is the central business entity to all global sourcing and import logistics processes. It is probably the most used business entity by all operational functions for visibility across the private label value chain. Numerous management reports rely upon PO data and yet, the PO in the PO management system often lags reality because recent changes have not yet been updated, or suppliers have requested changes due to lack of raw materials, or the manual keying of data (often redundantly) has resulted in errors, or for many other reasons. Basing business decisions on reports generated from inaccurate POs can be very costly.

The Progressive Purchase Order solves this problem through integration of processes and data. By using an integrated sourcing platform earlier product development and sourcing activities to the left of the PO progressively fill the data required for an accurate import PO such that once workflow management completes all the approvals, the import PO is cut automatically and accurately. And because the same integrated platform is used for collaboration with vendors and service providers, future changes to the right of the PO are also implemented in real-time resulting in continued accuracy right up to receipt of invoices and financial reconciliation.

This may be fairly common for domestic purchase orders, but it represents a significant and innovative step forward for most retailers cutting import purchase orders, who struggle with PO accuracy and changes. The complexity can be seen in the diagram below.



While innovation, growth and improvement capabilities look inward to find incremental improvement, they should also look outward to keep a keen eye on competitors, understand the needs of the customer, and develop an intuitive and rapid sense of evolution within the industry and technology landscape. Synchronizing demand and supply for private label and continuing to push decision support further and further to the left of the PO will help retailers to be more responsive, provide the right selections and reduce mark downs much farther to the right of the PO – right up to the offering in the store. Key to this practice is a strong and disciplined measurement program, typically founded on smart scorecard metrics, actionable goals, and a data-driven ability to ascertain the truth about organizational performance.

III. Measuring Progress (Measuring your Maturity)

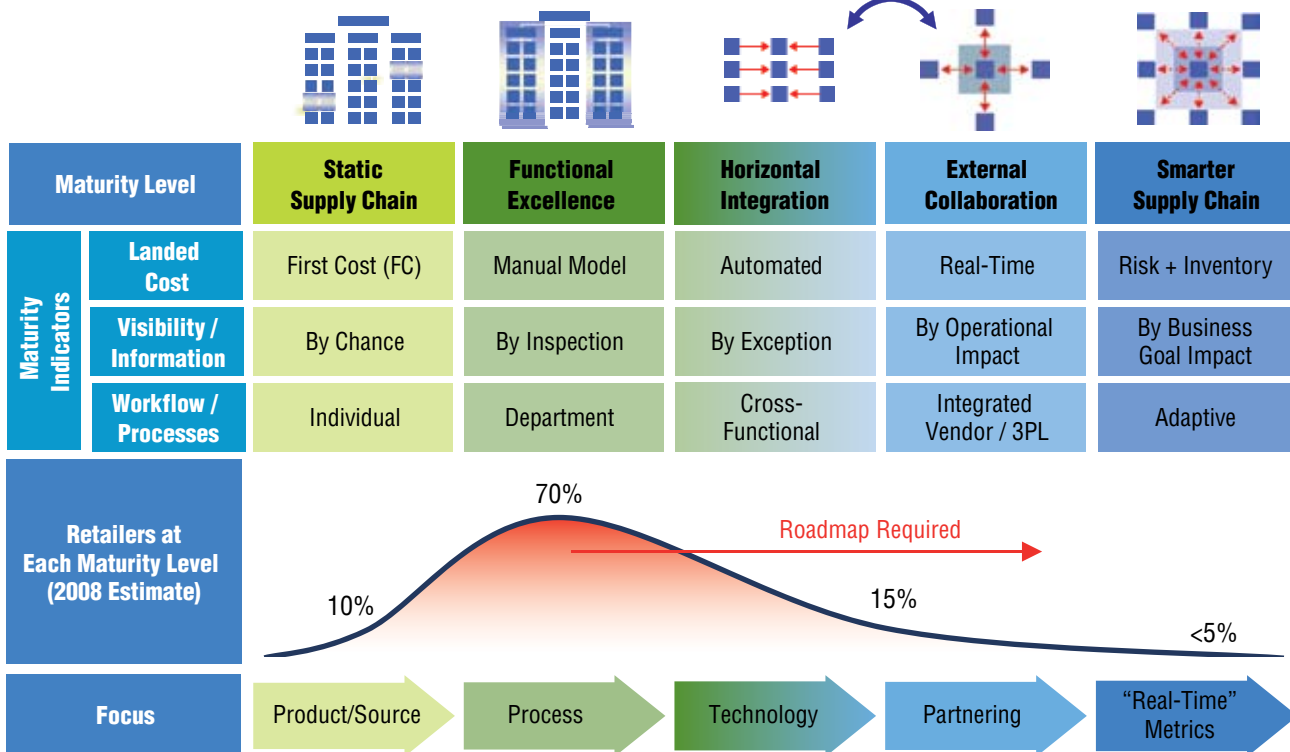
Creating a vision, building a roadmap and actually developing the new business capabilities is not an event as much as it is a journey. For retailers looking to make the journey, they must understand that it is a gradual process of building the right capabilities at the right time, balancing the expected benefits with the cost and organizational impact each step of the transformation can deliver.

Shown below is a top-level maturity model for integrating global sourcing and import logistics operations. At the lowest level of maturity, the organization is 'aware' of the opportunity for change but is still very static, unable to leverage their buying power and mostly focused on improving productivity within individual functions at single locations.

The majority of retailers are at a 'functional excellence' stage, where they are able to coordinate their supply chains for any given product, but not fully synchronize the effort cross-functionally or beyond a division or product line.

Very few companies have been able to ascend to a leading state of maturity and create a smarter supply chain for private label where they focus on improving business performance and are fully scaleable. While few have achieved this, it sets the aspirational direction and goal for companies to achieve.

Global Sourcing / Import Logistics Maturity (Retail)



Using this maturity model, retailers can plot their course of development as they grow directly imported private label volumes. Moving from left to right, landed cost capabilities change from considering the product only to incorporating all costs, first manually then automatically. Eventually, more indirect costs get added until sourcing decisions can be confidently made quickly after all the vendors have quoted.

Visibility improves from management by inspection to management by exception and ultimately to management by the impact on the retailer's business goals.

With increasing maturity, workflow and processes extend beyond the retailer to all partners and eventually become adaptive – changing based on the current business environment. For example, processes may adapt based on early sales results for a highly seasonal product to allow for mid-season adjustments in volumes. Such adjustments are only possible if demand is integrated with sourcing and contingency is driven out of the process.

As a retailer moves through the maturity model, their focus will change. Initially, the focus is on making product and sourcing decisions. The focus then switches to functional process development to achieve functional excellence and move towards horizontal integration, which also requires a technology platform to standardize execution and provide visibility across internal functions. Collaborating with external partners requires a focus on building trust and symbiotic relationships. Finally, adding capabilities for real-time metrics enables the switch to making operational sourcing and import logistics decisions based on the impact of each decision to the overall business performance.

The maturity model helps to measure medium/long-term progress. It is also important to set up short-term tactical measurements of business performance using business intelligence tools as mentioned in the Sourcing Technology Enablement section above.

All of these measures are vital to understanding where a retailer is starting from and whether they are still on track with meeting their goals.

Conclusion

In today's economy, we expect to see continued growth of private label merchandise volumes to attract shoppers who are changing their allegiance to their primary retailer and also to retain existing customers who are already loyal to the brand. Given the maturity of most retailers, significant senior management attention is required to make this a strategic objective. This top down initiative will provide the urgency required to make progress and stay up with or ahead of your competition.

Key Enablers to Organizational Alignment

Too often, retailers attempt to make changes either to have them not deliver the benefits they expect, have the transformation cost too much, or have the transformation fail outright. Risk can be mitigated in part by looking at the following keys to successful transformation:

- **CEO Sponsorship!** Transforming global sourcing organizational structures, responsibilities and capabilities to enable private label growth must be a top down initiative at the CEO level.
- **Take a phased approach** to make change achievable in measurable, time-fixed tracks of implementation effort. A phased approach enables the organization to realize high-priority benefits in the short-term while building for the long-term, learning throughout the process.

- **Establish partner connectivity:** Develop the strategy for partner collaboration, work on the tools to use (jointly) and then get them connected to reduce time-to-market, transaction time and decrease business risk.
- **Identify experts:** Experience with integrating global sourcing, import logistics and business functions across the full extent of the inbound supply chain is critical. The ideal skill-set base would include direct knowledge of import scope including: product development; merchandising; sourcing; procurement; order management; global logistics planning and execution; distribution; trade and customs regulations; and financial settlement and credit checks.
- **Build an integrated import process and system framework:** Create an import framework that helps you view the import functions across all your business operations – to the left and right of the PO. The single view that results from such a framework enables you to make more informed business decisions and support rapid import volume growth.

Global sourcing of private label merchandise and import logistics is a complex topic that spans multiple functional areas and extends beyond the company to collaborative efforts with vendors and service providers. For the majority of retailers, change is required to make the growth of direct imports and private label a scalable reality. This change will require the careful but urgent development and execution of a phased roadmap that outlines the prioritized new capabilities to be developed. The ability to envision your future state and then taking a sensible and pragmatic approach to achieving it will make the difference between success and failure in building an integrated global sourcing and import logistics operation.

Bottom line: If the whole organization is not aligned around this common purpose of private label / global sourcing capability development, your competition will beat you to it and take market share. A radical change is required to live with the future, and those who do make the change stand to reap new opportunities, benefits, and rewards.

Next Steps

For more information on related topics and to browse through additional materials written by IBM specialists for business executives please visit our Web site:

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You can also contact your IBM representative to discuss how to build the integrated roadmap and business capabilities that will support your future Global Sourcing and Import Logistics strategy.

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