7 Ways to Supercharge your Supply Chain

And save between $2-10 million

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You don't need to be a corporate giant to save big on supply chain costs. These seven areas offer significant savings opportunities for companies of all sizes and across all industries.

By Rob O'Byrne

Profits for your company can rocket upward if you achieve sufficient savings in supply chain costs. It's not uncommon for a concerted effort to yield annual savings of between $2 million and $10 million (in US dollars), depending on the size of the company.

To achieve that degree of savings, though, you have to know where to look. As this article will discuss, there are seven areas that consistently offer opportunities for supply chain cost savings for businesses of all sizes and across all industries. Because these seven opportunities apply to almost every aspect of supply chain management, you can be systematic in your approach to improvement. This is important given the broad scope of the supply chain, which extends beyond your company to include both suppliers and customers. A systematic approach also is important because of the variable requirements supply chain managers must manage: big volume and small volume; large orders and small orders; frequent and less frequent deliveries; special handling needs; temperature control; city and country locations … and the list goes on.

Before you look at opportunities for supply chain cost savings, though, consider this: The scope and variability of supply chain activities means that anybody who is in business to make a profit needs to understand the "cost to serve" the different types of customers and the different types of products and services your company provides to them. Here are just three examples that show how the supply chain cost to serve customers varies depending on the type of business:

- Cement: Delivery of building products, particularly to building sites, is complex. Very often delivery times must be precise, as workers and equipment are booked for a specific time period to handle the delivery.

- Supermarkets: Constraints often exist not only for delivery time, but also for the configuration of the product. Many supermarkets demand only one product per pallet.
- Home delivery: Distribution is potentially complex and costly, not only because the order size and value can be quite low (and so the cost for distribution as a percentage of sales is high), but also because the customer is often not at home. This leads to redelivery and even more cost.

As the variability seen in these examples suggests, it is paramount that you first understand the dynamics of your customer base so that you can design your service offering to meet their needs at a sensible cost. If you fail to identify customer needs correctly, you will supply the wrong service at the wrong cost. The danger is then that your customers leave you or you go bankrupt – or both.

With those two requirements—a systematic approach and an understanding of your cost to serve—in mind, let's consider the seven areas that consistently offer opportunities for supply chain cost savings for every company, no matter how big or small.

1. Customer service

Give customers what they really want, not just what you think they want.

Your customers' requirements should shape your supply chain strategy and structure. It's a straightforward application of marketing principles: provide customers with what they need and avoid adding costs for things for which they see no value. Although this sounds simple, real-life examples of companies that get it back-to-front are numerous. Here are some that I have observed:

Example 1: One company provided next-day delivery to all of its customers—even though not every customer needed or wanted it. The company was wasting money on express transport by "overservicing" some of its accounts.

Example 2: "*On Monday we deliver to the North, on Tuesday we deliver to the West, on Wednesday we deliver to the East, on Thursday we deliver to the South … and on Friday we do emergency deliveries!"* The auto products distributor that followed this practice had no customer service policy or discipline, and it sacrificed customer satisfaction for its own ease of transport planning.

Example 3: To pacify customers calling in with complaints, a distributor gave them free delivery. The loss of revenue for the distributor over the course of a year came to $500,000. Both the distributor and its customers would have been better off if the distributor had resolved the complaints so the underlying problems did not happen again.

It's important to remember that when customers see value in a particular level of service, they will expect to pay for it—indeed, they will be *happy* to pay for it when it helps them to run their own businesses better. Make sure the whole of your organization understands this, so that the benefits of aligning customer service to customer requirements can be achieved: more sales, more profits, and more customer loyalty.

2. Supply chain strategy

Objectives should drive strategy, and strategy should drive tactics—not the reverse.

Once you have a clear understanding of your customers' needs, you can move on to defining a supply chain strategy that will achieve your business objectives while delivering on your customer service promise.

If you're wondering whether your own company has taken the right approach, then ask yourself if any of the following problems have been occurring:

- You have no documented or generally understood supply chain strategy.
- Your supply chain is restricted to one or two functional departments (for example, purchasing and manufacturing), instead of involving your company in general (including logistics, marketing, sales, research and development and so on).
- Internal and external customer dissatisfaction relative to costs and services.
- Many supply chain projects are managed in "silos," meaning individual functional departments.

A supply chain strategy is a living thing. It must be adaptable and change to meet evolving business and customer needs, and it needs to be flexible enough (or at least encourage sufficient flexibility) to drive optimal tactical and operational decisions. Yet whatever phase it is in, a supply chain strategy also needs to be clear and precise. If it is, then you can immediately decide whether to take a particular action by asking yourself, "does this fit with our strategic imperatives?"

When your strategic imperatives are correctly defined and when your tactics and operations fit these imperatives, then every dollar you spend will be to good purpose. This means you avoid wasting money on actions that do not make a relevant contribution to your bottom line.

3. Sales and operations planning (S&OP):

Get your process right first, and define your systems after.

After correctly defining your supply chain strategy, the next step is sales and operations planning. S&OP is a process that shares information and brings people together in a structured, single plan that is defined across the functional departments. People often confuse S&OP with complex and expensive software tools, but the process comes first, not the system. If you haven't thought out your process properly, then even the most expensive software in the world won't save you.

S&OP is a straightforward concept but it is not an easy one to carry out. Signs that you might have a problem with your S&OP process include:

- High levels of "SLOB" (**SL**ow moving **OB**solete) stock
- Frequent changes to your demand plan and master production schedule
- Wild proliferation of SKUs (stock-keeping units)
- Excessive stockouts
- Poor forecast accuracy—or no forecasting at all

Improving the situation can sometimes be surprisingly simple. For one car parts distributor, for example, a small change in its forecasting algorithm turned out to be a major step forward, even though it was still using a plethora of spreadsheets to predict demand for more than 20,000 stock-keeping units (SKUs).

For other companies, the solution may be more complex, starting with developing longer-term planning horizons, categorizing products by sales volume, and setting up "time fences" for production (rolling deadlines to determine whether changes can still be made to sales forecasts or if the purchasing and production plans can no longer be altered).

What kind of cost-related benefits can you expect when you achieve success with your S&OP process? The benefits include improved availability and stock turns; less "fire-fighting" and expediting; and, of course, improved sales and profits.

4. Supply chain network design

Keep costs down and reliability up by designing your network to minimize product handling.

Think of the shape of your physical supply chain network as being determined by two "bookends": your customers and your suppliers. Your customer base and the service you provide to them on one end and the location of your suppliers on the other dictate where you hold stock to service your customers. The more unreliable the network, for example because

of suppliers being farther away, the more stock needs to be held in your network to ensure service continuity.

But that's something you want to avoid, because one of the most important requirements for an efficient and cost-effective distribution network is to minimize product handling. Each "touch" between the point of supply and the customer incurs cost and increases the risk of error and damage. Inadequate network design can lead to excessive handling, too many stock locations, and poor utilization of your distribution centers. The results are high distribution costs and poor customer service.

The blueprint for achieving a design that minimizes "touches" while meeting your service commitments can be succinctly outlined this way:

1. Establish customer service offers (your first "bookend")
    a. Customer locations and lead time
    b. Service expectations
2. Establish supply points/lead times (your other "bookend")
3. Identify current network performance
    a. Facility costs
    b. Inventory costs
    c. Transport costs (inbound and outbound)
    d. Service performance
4. Test and quantify alternatives for least-cost networks
5. Consider network transformation, if the benefit will be large enough

To achieve even the simplest revision of a supply chain network requires network modeling software and careful analysis. Appropriate analytical tools will allow you to test a wide range of cost and service options to ensure that optimal networks are used and that sensitivities such as demand increases, fuel cost increases, or changes to the customer service offer are checked.

5. Outsourcing

Stick to what your customer needs, not just to what an outsourced service provider offers.

The trend toward outsourcing continues with 85 percent or more businesses outsourcing some part of their supply chain operation or management. The two functions that are outsourced most often are warehousing and transport. A common reason for this is that management believes the company will save money by outsourcing. This is not always the case of course, but cost savings can come about if the service provider is more efficient or skilled in performing the required services than the company is.

Besides saving money, other reasons include:

- The service being outsourced is not core to the business and a “distraction” for management.
- Operations are rapidly expanding, and outsourcing provides an effective means of quickly accessing more space, technology, or other resources.
- The business requires a degree of flexibility in resourcing and a more variable cost structure, either in resource numbers or type.
- The business needs access to specialized skills, equipment, or technology and does not want to invest in those assets directly.

The most important element to get right is the service specification, which includes elements such as frequency and volume of delivery, any special conditions such as packaging, handling and temperature control, and so on. The initial step of defining this service specification is typically enough to avoid the majority of outsourcing issues, such as higher-than-expected costs, poor service, or misaligned expectations.

A successful outsourcing relationship is characterized by both parties getting what they want through a healthy and proactive partnership. As the customer, you get consistent service at a cost within expectations (and the possibility of a lower cost overall), and your service provider makes the expected profit margins.

6. Asset utilization

Get more productivity out of fewer assets.

As a general rule, the more assets you can use within any 24-hour period, the better. Underutilized assets such as vehicle fleets, facilities, or inventory mean inefficiency and poor return on investment. Changing the way assets are used or whether they are owned or leased can resolve these issues, as the following examples show:

- Instead of only making early-morning deliveries and leaving their truck fleets idle for the rest of the day, some bread companies use fewer trucks and spread their deliveries out during the course of the day. Supermarkets get “top-ups” throughout the day, food service businesses can get deliveries later in the day, and other customers may be willing to take deliveries into the evening.
- A major retailer outsourced its delivery fleet, which delivered merchandise from its distribution centers to its stores. The original rate structure was a “truck rate”: for each vehicle that performed deliveries, a flat fee was paid regardless of how full it was. This hardly encouraged the transport company to utilize the fleet efficiently. Now the rate has been changed to a pallet rate: fleet efficiency has gone up and costs to the retailer have gone down.

- A very large beverage manufacturer experiences a peak in business at Christmastime.

Providing sufficient warehouse capacity to accommodate this peak within its own network would mean very low warehouse space utilization at other times of the year. During the build-up to Christmas each year, therefore, it rents additional warehousing capacity just to handle the seasonal peak. It only pays for the extra capacity it needs (for a month or two, rather than for the whole year) and therefore saves money.

7. Performance Measurement

Measure what is strategically important so that you can manage and improve it.

What really matters to your business is your supply chain "end game" objectives. That's what you need to manage, regularly and consistently, so that you can set realistic targets for improvement. You then choose the corresponding key performance indicators (KPIs) that let you measure your performance compared to your targets. You also embed them in the culture of your organization, with the clear understanding that they are there to serve your objectives, and not the reverse.

Different organizations will have different KPIs. What works well for one may not be relevant for another, so resist the temptation to copy what someone uses. Go through the process of setting your own objectives and targets, and then defining KPIs that give you the right measurement of your own performance.

You'll know if you have good supply chain KPIs when the following is true:

- KPIs are recognized in your organization as "meaningful and relevant."
- KPIs are tracked and understood across functional departments.
- KPIs are used to focus on and drive performance improvement.
- And last—but by no means least—supply chain performance is improving!

Improved supply chain performance means that you get a better return on your investment – or similar performance as before, but for less money.

Basic principles still apply

In my experience, when companies focus on these seven areas of supply chain management, they very often easily uncover significant cost savings. Those savings frequently amount to between $2 million and $10 million, depending on company size.

Not all of these areas may need "fixing" in your own business. However, in almost every company, two or three at least are likely to be worth investigating for potential improvement. No matter which areas you choose to concentrate on, the most basic principles of effective

supply chain management will still apply: understanding customer needs, defining the right company objectives and strategy, executing on that strategy, and measuring the results so as to be able to continually improve the whole process.

Entrepreneur, Author, Speaker and Supply Chain Expert

Rob was born in Jersey in the UK, was educated at Cranfield University in the UK and moved to Australia in 1993. He became a proud Australian citizen in 1997 (and yes, he cheers for Australia at the cricket). He is married with four grown children. Rob lives in Sydney and oversees the operations of Logistics Bureau, Logistics Bureau Asia and Benchmarking Success. Since establishing Logistics Bureau in 1997, Rob has enjoyed overseeing over 1,200 client projects, based in 22 countries, across a broad range of industries.

His greatest satisfaction is in assisting customers improve their business and operational performance and over the years Rob has personally led projects that have delivered millions in bottom line savings and improved customer service levels.

Rob is the co-founder, owner and Group Managing Director of Logistics Bureau and has been working, teaching and consulting in the field of Logistics and Supply Chain since he was 17.

Along the way, Rob has picked up a few interesting ‘ticks in the box’, such as a Masters Degree in Logistics from Cranfield, a stint as a Nuclear Rocket Engineer and membership of Mensa (the high IQ society). So he probably qualifies as an entrant for Beauty and the Geek!

Outside work, Rob’s interests include boating, learning piano, singing and songwriting.