Post-recession supply chains – opportunity and challenge for design makeover

Tom Craig, president of LTD Management, says on the path out of recession, companies would do well to start taking the business of supply chain management seriously

Supply chain management is a complex responsibility. There are supply chains within supply chains. Supply chains are not linear from one customer to one supplier. They involve multiple customers and multiple suppliers each of whom has a supply chain. This complexity is compounded by the presence of three different supply chains — product, information and financial.

Despite the scope and complexity, supply chain management is often not a vital part for many companies. It is viewed more in terms of costs, such as freight. Supply chain executives are not presidents of retailers, wholesalers or manufacturers. Supply chain departments are often positioned somewhere lower down in an organisation.

The impact to companies of their treatment of supply chain management has handicapped their effectiveness and resulted in:

1) Wasted capital and resources
2) Increased costs to perform activities and transactions
3) Lost customer sales and poor customer service
4) Sacrificed competitive advantage

Supply chain management's biggest challenge and obstacle is internal and begins with the company of which it is a part. The reasons for the situation are numerous and include:

- Companies are dominated by a focus on traditional corporate functions — manufacturing, accounting/financial and sales
- Supply chain management is not viewed as a core competency. It is viewed as a cost centre
- Organisations are built from the inside out. Despite the attention to customers, companies are not designed from customers and markets back into the firm so as to best serve them. Firms are not truly customer-centric
- Supply chain management is a horizontal process that runs across the organisation and outside the organisation to include suppliers, logistics service providers, and customers. Companies, though, are vertical. Processes, products and information do not flow smoothly across the vertical barriers created by organisation silos.
- Accounting has its roots in manufacturing when companies were

vertically integrated and labour costs were large and when variable costs- and fixed costs-control dominated attention. Nowadays, with suppliers located around the country and around the world, outsourcing, product life management and cycle times are important. Accounting does not adequately address supply chain management. Freight and warehouse costs are reported monthly on the profit and loss statements. Inventory is viewed as an asset and is reported annually on the balance sheet. This is what is reported to shareholders and stakeholders. Customer service, including lost sales and lost opportunities with discount sales, are not reported on any financial statement.

- Companies recognise global complexity of their business but do not include its impact on overall performance and do not include supply chain management in their strategy.
- Channels of distribution are dominated by large corporations. Each large firm has different requirements because of each one's internal supply chain restrictions. The difference in size and the differences among firms inhibit real collaboration and the ability to streamline and improve supply chain management. Instead, accommodating to each customer's demands is how supply chain management is performed. The firms do not ask the large customers why they do what they do; nor are they proactive to initiate and collaborate with other approaches that could help customers. Instead, company practices are force-fitted to accommodate the various customer specifications.
- Company metrics are not cross-company. Instead they are more functional to select areas and are tangential to supply chain management.
- Supply chain management evolved from being traffic to distribution to logistics to supply chain management. Companies failed to recognise the evolution and the meaning of this change.

The above is why much of a firm's supply chain management is cobbled together and contributes to company difficulties in addition to those caused by the severity of the economy.

As a result, programmes, such as lean do not properly address international supply chains and sourcing, and long lead-times and waste created with inventory and time. Lean, instead, is essentially used for the domestic side of the company. It is not totally appreciated that offshore procurement and its cycle times can create significant issues for forecasting accuracy, and for good sales and operations planning.

Often, one supply chain approach is used for all products, markets and customers without segmentation or differentiation for risk, complexity, velocity, time and service requirements beyond those demanded by each customer, revenue, and profit contribution. Warehouse networks are not regularly analysed as to costs, service and flow, even though customers, products, suppliers and business demands change. The locations have been static while business has been dynamic as to customer and supplier locations, products and order and delivery requirements.

This conundrum applies to companies regardless of size, regardless of industry and regardless of what country in which the businesses are located. It is especially difficult for small-medium firms. These firms fight a competitive battle against large companies who have leverage and resource advantages. Less-than-needed supply chain management only compounds the problems for these small-medium companies.

Companies are in a survival mode trying to deal with and get through the global economic crisis and the credit collapse. As firms work through the difficulties, will change come for those companies that have not properly performed supply chain management? There will be change because many firms will not make it through the

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global recession. What other changes will occur?

Will firms try to bully their way through the economy with broad-brush approaches with inventory reductions and costs reductions? Will there be change from the revived economies or will companies repeat the mistakes of the past with regards to supply chain management? How will firms deal with the permanent changes that come from the global recession? Will they choose to have lower costs; better customer service; faster capital velocity, for inventory and, in turn, cash; and increased competitiveness, even advantage? Growth, even survival, may depend on the answer.

The answer should be to change and to address the issues above. Not changing is to repeat the mistakes of the past and can be considered as lunacy — doing the same thing over and over and expecting different results. Many company business models are outdated and more of them will be in the changed global economy that emerges from this recession.

Not all changes will be made. Organisations are not going to evolve into horizontal entities with horizontal processes. They will remain vertical with the obvious implications of authority. Accounting standards are rules that will not be updated quickly to reflect the realities of global business. While there may not be changes to these, companies need to recognise the limitations they impose on supply chain management performance.

Steps, improvements, even transformations, can and should be made, such as:

- Determine and differentiate what the company needs from its supply chain with regards to competitive advantage, market positioning, cycle time, capital required for inventory and other applications, service, revenue, profitability and growth.
- Include and incorporate supply chain management into the company strategy. Recognise the complexities, challenges (including green), global scope, risks, impact and requirements into plan achievement. Mitigate risk and complexity, especially where they create waste. Do this for the three supply chains of product, information and financial.
- Segment and assess present supply chain performance and process as to customers, markets, industries, distribution channels and products. Analyse the process based on customer and market requirements, and on competition.
- Depending on the assessment results, supply chain redesign from the customer and market perspectives is preferable to trying to fix the present operation. Utilise different tactics for higher risk, higher complexity, high volume, fast moving, profitable products, customer and markets than for ones that are marginal.
- Place responsibility for management of the entire supply chain at the 'C' level, under one organisational group and staff it with good people. That alignment will improve process flow and internal collaboration, limit organisational barriers and allow for better dealing with other issues. Make supply chain management part of the corporate culture.
- Reflect supply chain management in company-wide efforts. For example, expand lean to include the international side of the business and the suppliers and supply chain to identify and remove waste. Or, use metrics that flow across the company and across the supply chain.
- Blend operations options. That is consistent with differentiating supply chain approaches to match market and customer segmentation. Analyse a mix of offshore, nearshore and onshore for sourcing that reflects product life-cycle, product velocity and profitability. Consider a mix of different types of facilities in your distribution network, depending on the type of company. The mix approach can be used for the international activities, for sourcing and manufacturing and sales.
- Use technology as a process enabler for visibility across the entire supply chain, collaboration, exception and event management and operational control. Supply chain applications and integration with supply chain management are important reasons for company technology.

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Supply chain change and redesign is needed for many firms to break the cycle of inefficiency that limits profits, growth and return. Change is difficult, but not impossible. Opportunities will come from the new economy.

“Misfortune is the root of good fortune” - Lao Tze

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